

# Post-Covid-19 Economic and Health Recovery in Laos

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JANUARY 2022

## THE ISSUE

- The Lao economy was hit especially hard by the Covid-19 pandemic and is likely to see slower GDP growth rates for 2022. The informal sector and small businesses have fared the worst and will require greater capital to recover financially.
- While the Lao government was able to vaccinate 50 percent of the population by the end of 2021, it will need to address pervasive healthcare infrastructure issues and improve access to rural areas to inoculate the rest of the population and prevent further disease outbreaks.
- Opportunities have emerged for greater digitization in the economic and education sectors, which could help propel recovery efforts further and generate more sustained economic growth for Laos going forward.

The Covid-19 pandemic has disrupted people's livelihoods and tested healthcare systems around the world, and Laos is no exception. Its economy was hit particularly hard given its reliance on tourism, trade, and services. The country's GDP growth is unlikely to reach pre-Covid-19 levels soon: while the World Bank predicts a **4.5 percent GDP** growth rate for 2022, this remains well below pre-pandemic rates, which ranged from 6 to 8 percent for most of the past decade. The pandemic has also exacerbated structural problems in the Lao healthcare sector, which warrants investment and reform. As the Lao government shifts from a "zero Covid-19" policy to "living with Covid-19," the United States and other donors can accompany these efforts by supporting small businesses and investing in long-term resilience in the healthcare sector.

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## ECONOMIC AND HEALTH IMPACTS OF COVID-19

As the Covid-19 pandemic unfolded, the Lao government **implemented** the country's first national lockdown on April 1, 2020 (after its first Covid-19 case was detected on **March 24, 2020**), followed by a second lockdown on April 22, 2021. The government established the National Taskforce Committee for Covid-19 Prevention and Control to coordinate response efforts, including implementing social distancing, providing testing, conducting surveillance, and imposing restrictions. The Ministry of Health built **Emergency Operations Centers** in each

province to provide hospital, surveillance, and testing services. In the long term, to prevent future outbreaks and buttress the health sector, the government also **endorsed** the National Covid-19 Preparedness and Response Strategic Plan 2020–2025. As a result of these efforts, in 2020 Laos had the **lowest** number of all Covid-19 cases in the Association of Southeast Asian Nations (ASEAN) and one of the lowest in Asia. As of January 12, 2022, there have been just over **122,241 confirmed Covid-19 cases and 471 deaths** in Laos since the start of the pandemic, according to the World Health Organization (WHO)—most of which are part of the country’s most recent outbreak.

Successive lockdowns **impacted** the population’s ability to make a living and access healthcare services. As a result, many households experienced a loss of income and increased food insecurity. A WHO-administered study revealed that **nearly 50 percent** of families surveyed reduced their spending on food or their food consumption.

Economically, Laos had its **slowest GDP growth rate in 30 years** as a result of the pandemic. Tax revenue fell by **37.6 percent** by November 2020, while public debt increased to **69 percent** of GDP, mainly due to infrastructure projects. Both Moody’s and Fitch Ratings **downgraded** the country’s sovereign credit rating in August 2020, constraining its financing opportunities. The country’s dominant sectors—tourism, handicrafts, and manufacturing—witnessed significant loss in revenue, **exacerbated** by the fact that Laos is a landlocked country. Some tourist destinations lost **over 70 percent** of revenue between March and June 2020; the handicrafts sector is expected to contract by 60 percent; and the manufacturing industry had a growth decline from 6.7 percent in 2019 to 5.8 percent in 2020. These sectors are **predominantly female**, and thus the pandemic has had a disproportionately negative impact on Lao women. In addition, a significant share of the Lao workforce is engaged in informal work, making them more vulnerable to economic shocks. A **2017 survey** of the Lao labor force found that, out of 1.8 million employed individuals, about 1.5 million (83 percent) were in an informal working situation.

At the same time, over **half** of all micro, small, and medium-sized enterprises (MSMEs)—which provide roughly a third of Lao households’ income—experienced a fall in revenue. The United Nations predicts that over 70 percent of Lao MSMEs will not survive without economic improvement in the next six months. Furthermore, the unemployment rate increased to **25 percent** in July 2020, and **over 200,000** migrant workers (the majority of whom are female) returned to Laos, leading to a loss of between

\$125 and \$136 million in remittances. The Lao National Chamber of Commerce and Industry (LNCCI) **estimates** that businesses in Laos will need one and a half years to recover from the 2020 lockdown—and two more years from the 2021 one.

Covid-19 also impacted the Lao government’s ability to provide basic services such as education and healthcare. Even before the pandemic, the health system struggled with limited government funding, outdated infrastructure, and a lack of qualified medical personnel. The pandemic strained the already weakened system and derailed progress of other vaccinations, such as for measles, diphtheria, and polio.

Today, many Lao citizens are weary of extended lockdowns, and the government is struggling to balance public health priorities against the need to allow economic activities to resume unfettered. At the same time, the government of Laos has limited fiscal space to offer citizens and businesses relief from the economic effects of the pandemic. The government primarily relied on **deferrals on tax obligations**, which unfortunately further reduces its ability to raise revenue and provide public services. The Ministry of Labor and Social Welfare also provided supplies to **4,500** returned migrant workers to offset their families’ loss of remittances, made possible by a grant from the International Labor Organization (ILO).

## THE ROAD TO RECOVERY

While significant obstacles to economic recovery remain, there have been positive developments in recent months. The government has **announced** that creating “quality and productive” jobs is at the top of its agenda, particularly in the agriculture and tourism sectors. Laos also released its 9th National Socio-Economic Development Plan (2021–2025) and a new Agricultural Development Strategy (ADS 2025), which aims to **boost** food security, economic growth, industrialization, and modernization through sustainable agriculture. The ADS 2025 has **four** main targets: increasing agricultural production, improving quality to enhance agricultural competitiveness, enforcing standards and regulations, and guaranteeing food security. The strategy also includes a **plan** to encourage domestic and foreign investment in large-scale projects.

Agriculture was one of the industries least hurt by the pandemic—in fact, the sector absorbed 10 percent of workers who had been laid off in manufacturing and trade—and will be a key driver of Laos’s economic recovery. **Electricity, mining, and manufacturing exports** have also

begun to rebound since the trade slowdown last year, and new mining licenses and earnings from electricity exports are expected to **facilitate** recovery. The Lao economy is expected to grow **3.6 percent** in 2021, which is lower than in previous years but still an increase from earlier estimates.

Bilateral and multilateral partners have accompanied the government of Laos on its path to recovery. The U.S. Agency for International Development (USAID) announced a **\$2 million grant** to support vaccine rollout in September 2021, provided **\$600,000** in medical equipment in March 2021, and has donated over **1 million Johnson & Johnson vaccines** through the Covid-19 Vaccines Global Access (COVAX) initiative (see textbox). USAID has particularly **focused** on helping Laos achieve universal healthcare access, focusing on vulnerable populations.

In addition to healthcare support, USAID has implemented **long-term programs** to encourage economic reform, strengthen the rule of law, promote environmental and biodiversity conservation, and expand access to health and education. During the Indo-Pacific Business Forum in October 2021, the United States also held a Laos-specific **forum** with the LNCCI and the Ministry of Industry and Commerce on how increased digitization could support recovery from Covid-19, especially among MSMEs.

Multilateral institutions are also very active in the health and economic space in Laos. The United Nations provides support to Laos via its **Covid-19 Response and Recovery Fund**. The Asian Development Bank approved a **\$20 million loan** in May 2020 for the Lao health sector to purchase personal protective equipment (PPE), lab equipment, and testing kits, and \$9 billion **via the Asia Pacific Vaccine Access (APVAX) facility**, although the government of Laos has yet to access it. Laos received significant aid to address recent measles, diphtheria, and polio **outbreaks**, as well as **endemic** tuberculosis, malaria, and HIV. In November 2020, the Global Fund to Fight AIDS, Tuberculosis, and Malaria announced a **co-financing agreement** with the World Bank to invest \$36 million toward achieving universal health coverage in Laos by 2025. Prior to the Covid-19 pandemic, the WHO partnered with the Lao Ministry of Health to launch a **cholera vaccination campaign** after major floods in 2018.

Development partners have also provided **economic and legal support** for agriculture, green tourism, e-commerce, and human-trafficking prevention initiatives. The World Bank and the Lao government agreed to **scale up** a USAID-backed Competitiveness and Trade Project in October 2021 to help businesses recover from the effects of the

pandemic; the World Bank will provide an additional **\$6.5 million grant** to complement the government's provision of relief to vulnerable firms. The World Bank and ILO also initiated business-loan options and encouraged the Lao government to expand tax exemptions to support the economic recovery.

## LAOS'S VACCINATION PROGRESS

Laos does not produce Covid-19 vaccines domestically and has mainly relied on donations to vaccinate its population. The country receives vaccine shipments both through bilateral partners (such as **China** and **Russia**) and through the **COVAX facility**, which began operations on March 20, 2021. Among the brands of vaccines distributed are Pfizer–BioNTech, Johnson & Johnson, Oxford–AstraZeneca, Sinopharm, and Sputnik. Since the beginning of the pandemic, USAID and the U.S. Centers for Disease Control and Prevention have together provided Laos nearly **\$10 million** in vaccines and cold-chain storage supplies to support the fight against Covid-19.

As of January 2022, **51 percent** of the population is fully vaccinated and 63 percent of the population has received at least one dose. While 87 percent of Lao have indicated their willingness to be vaccinated, there is still some **lingering distrust** of Covid-19 vaccines. New social media campaigns have **sprung up** to counter misinformation and promote vaccination, particularly among Lao youth.

## COVID-19 RECOVERY: OPPORTUNITIES FOR U.S. ENGAGEMENT

As the Lao government, multilateral stakeholders, and the international donor community work together to reach vaccine targets, there are several areas where the United States can engage to help the country recover from the pandemic. On the health front, because Laos is a small country of 7 million, it would be relatively easy for the United States to ramp up donations of quality Covid-19 vaccines in the coming year. This would result in a quick win for the United States and help build trust among the Lao population. In the medium term, the “living with Covid-19” policy will give the United States the opportunity to support the healthcare system through increased testing, booster shots, and greater human resources.

On the economic front, there is an opportunity **to help the economy and businesses become more resilient**, including by developing new agricultural value chains, diversifying the energy mix, and building MSME capacity in digitalization. Similarly, the World Bank has **recommended** that Laos move forward with business reforms and trade facilitation, including by “increasing the ease of doing business, lowering transport and logistics costs, and supporting improved product quality.”

### ***U.S.-LED VACCINE DIPLOMACY***

U.S. assistance with vaccinations, which has garnered a positive reception, can serve as a building block for future bilateral engagement with Laos. The United States should continue to help the Lao government with vaccine delivery, targeting the most vulnerable groups who have yet to receive a dose. The country’s urban areas have higher vaccination rates compared to rural areas, which are less accessible and less interconnected. To bridge this urban-rural vaccine divide, USAID could work with local partners to support mobile vaccination teams in rural areas. USAID could also work with local partners to combat disinformation and vaccine hesitancy, which will continue to be important as the government works to achieve its 2021 vaccination target.

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Laos is also behind in its routine healthcare and is not likely to meet its vaccination targets of 90–95 percent for many of the most common communicable diseases. Covid-19 responses clearly crowded out the sector’s already limited financial and human resources, while society-wide containment measures added to the challenge of accessing or providing healthcare. USAID should use its comparative advantage in this field to help the Lao government fully resume routine vaccinations.

### ***SUPPORTING HEALTHCARE INFRASTRUCTURE***

The Lao healthcare sector, already lacking many services and depending strongly on assistance, has been very reliant on donations of vaccines and equipment. While Laos has been able to distribute these donations, there is still a gap in testing capacity, medical supplies, and human resources—as well as the absence of a solid coordination

mechanism among ministries and levels of government. These critical constraints are further exacerbated by the weaker capacities at the sub-national level.

Improvements to Laos’s healthcare infrastructure will make it easier to properly store and distribute Covid-19 vaccines. USAID **should continue** to support efforts to strengthen the country’s cold-chain system and logistics capacity so the country is more prepared for vaccine delivery in the future. These investments will allow the health system to administer the vaccines in a highly efficient manner. Mobile clinics could serve as pop-up vaccination sites in less accessible areas and as future points of healthcare for rural and low-income communities. In the longer term, as the pandemic becomes a part of life and the Lao government adopts a “living with Covid-19” policy, the government will need to plan for vaccine costs (and associated recurring costs) in a more sustainable way.

### ***FINANCING MSMEs***

To recover from the pandemic, people also need jobs to support their livelihoods. MSMEs, the backbone of economic activity in Laos, were the worst hit by Covid-19. Many of these **MSMEs** are in the tourism sector, which is likely to revive as the rate of vaccination improves and the country begins to open, presenting an opportunity to bolster economic output. Yet additional financing is necessary to support the economic recovery of MSMEs.

The Lao banking sector is currently not providing much capital to small businesses, impeding their ability to grow and pay off debt. Similarly, aid from the government is both very low in volume and tends to target larger businesses. MSMEs will need greater access to finance and debt-relief mechanisms to help promote a sustainable economic recovery. Moreover, there should be more credit facilities offering de-risked lending to non-traditional businesses that might not have the full capital to guarantee their loans. USAID’s comparative advantage in working with the private sector and supplying loan-portfolio guarantees through its Development Finance Corporation could help secure funding and investment for MSME recovery efforts in Laos.

### ***EXPANDING DIGITAL CONNECTIVITY***

At the same time, the pandemic has highlighted the need for the government, individuals, and firms to digitize. Currently, only **39 percent of the population of Laos** has access to the internet. Furthermore, MSMEs in Laos are

largely “offline,” with only about 4 percent of businesses reporting use of information technology, and only 9 percent having access to loans and other sources of financing. Costs remain comparatively high, which has **discouraged** new mobile and broadband-internet subscriptions.

*“COVID has had an enormous impact on the Lao economy and Small and Medium Enterprises. It has accelerated efforts by businesses to digitize. Banks have launched digital services to enable flexible payment arrangements for their customers.”*

*– President of LNCCEI, Mr. Oudet Souvannavong*

This lack of digital access has disproportionately hurt students in remote areas, as well as students with disabilities. There is also a severe lack of teachers and limited capacity to adapt to online learning. USAID’s first-ever **digital strategy**, launched in 2020, presents an opportunity to expand digital capacity for Lao MSMEs, make e-commerce more inclusive, and make broadband access cheaper and more widespread. This strategy lays out how the agency will adapt its operations to the digital age, focusing on promoting the responsible use of digital technology abroad and providing technical assistance to strengthen open, interoperable, reliable, and secure digital infrastructure. **USAID’s** efforts also aim to advance and reinforce democratic norms, principles, and forms of governance in the digital ecosystem. This makes the agency well positioned to support the construction of digital platforms and the further digitization of existing economic sectors in Laos. ■

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*This brief is made possible by the support of the American people through the United States Agency for International Development (USAID). The contents of this report are the sole responsibility of CSIS and do not necessarily reflect the views of USAID or the United States government.*

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