

# **Poverty and Inequality in Lao PDR: Towards Meeting the United Nations' Sustainable Development Goals**

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*Abstract:* As one of the late-developing countries, the Lao Government must integrate into the global market and attract foreign investment to drive economic growth, aiming to raise the average national income per capita tenfold and gradually reduce the poverty rate to below 20 percent. However, this study found that Laos' economic growth has not been as inclusive as it should be, particularly in terms of income inequality, despite the government's significant efforts toward poverty reduction through pro-poor policies, such as funding rural development and poverty alleviation in poor districts. Looking ahead, if the current growth model continues, the poverty rate may decline only slowly, while income inequality could worsen significantly—undermining the achievement of the SDGs by 2030. Therefore, Laos needs a more inclusive growth model and climate resilience to accelerate poverty reduction and reverse income inequality trends. To achieve this, additional pro-poor policies are essential, such as diversifying into non-resource industries, reforming tax mechanisms, and prioritizing investments in education, healthcare, digitalization, and infrastructure in impoverished areas.

**Keywords:** Lao PDR, Poverty, Income Inequality, and Sustainable Development

## **1. Introduction**

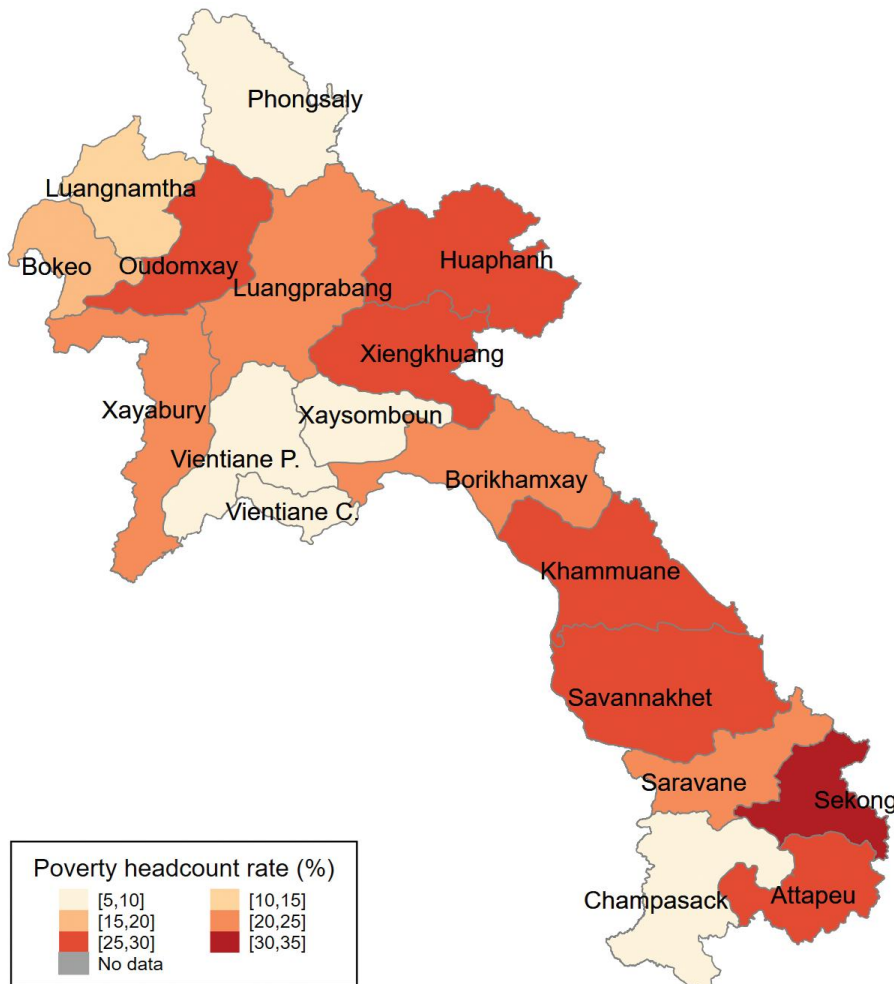
Since the establishment of the Lao People's Democratic Republic in 1975, the Lao PDR has made significant progress in development and improving livelihoods. Its economic growth has been relatively strong compared to other Asian nations, and the poverty rate has steadily declined. Despite these achievements, Laos remains one of Asia's poorest countries. According to the latest

Lao Economic and Consumption Survey VI or LECS 6 in 2018, the poverty rate fell to 18.3 percent—a dramatic drop from 46 percent in 1992 (Lao Statistics Bureau & World Bank, 2020). However, the COVID-19 pandemic, coupled with containment measures and high energy prices, has likely reversed some of this progress post-2020 as over 700,000 workers (13.2 percent of the workforce), particularly low-skilled urban laborers, lost incomes totaling 9.1 billion Kip (US\$ 0.63 billion<sup>1</sup>) or US\$ 895 per person (Lao Statistics Bureau, 2023, pp. 48–52). Moreover, poverty rates vary sharply across regions and groups. For example, mountainous northern provinces like Bokeo, Huaphanh, Xiengkhouang, Oudomxay, and Luang Prabang face disproportionately high poverty levels (Figure 1). Notably, Laos is one of only three Asia-Pacific economies where over 40 percent of the employed population lives in poverty alongside Afghanistan (83.4 percent) and Bangladesh (41.5 percent), which is a rate far exceeding other ASEAN nations (ADB, 2018).

Figure 1: Map of Poverty Incidence in 2018 by Province in Lao PDR

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<sup>1</sup> Based on the exchange rate of 14,327 Kip/US\$ in 2022.



Source: edited Lao Statistics Bureau & World Bank (2020, p.8)

Since the introduction of market economy mechanisms in 1986, Laos has maintained strong economic growth averaging 7-8 percent annually from 1990 to 2023. This growth has been driven particularly by trade and private investment, leading to rising per capita income and declining poverty rates. Foreign direct investment (FDI) has played a crucial role, especially in resource and capital-intensive sectors like power generation, mining, and infrastructure development, including economic corridor roads, bridges, and the Lao-China railway. These resource-based and capital-intensive industries alone have contributed 4-5 percentage points to annual GDP growth. However, this growth model has created significant challenges, particularly regarding inequality. The benefits of economic expansion have not been evenly distributed across regions or socioeconomic

groups. A pronounced urban-rural divide persists, with urban areas benefiting disproportionately from better infrastructure, education, and healthcare access. Consequently, poverty rates remain markedly higher in rural regions, and the gap continues to widen. Thus, Laos' reliance on capital-intensive industries (mining, hydropower, timber, and construction) has proven unsustainable for equitable development. The concentration of economic gains in these sectors has exacerbated income inequality, creating growing disparities between wealthy and poor populations across different regions of the country.

The Lao Government has recognized these market failures and related challenges, responding with periodic policy interventions to mitigate the risk. Key measures include formulating the National Growth and Poverty Eradication Strategy (NGPES), adopting the Millennium Development Goals (MDGs) in 2000 and subsequent Sustainable Development Goals (SDGs) in 2015, establishing a poverty reduction fund, gradually increasing minimum wage levels, implementing progressive taxation (higher rates<sup>2</sup> for wealthier individuals), and introducing various social welfare policies. According to Sachs et al. (2024), Laos ranks 119th out of 166 countries in SDG implementation. While moderate improvements have been made in SDG 1 (No Poverty) and SDG 10 (Reduced Inequalities), current trajectories remain insufficient to meet targets. For example, the poverty headcount ratio at US\$3.56/day stood at 28.2 percent in 2024 and the Gini Index was 38.8 in 2018. Both figures remain far from their respective targets (0 percent and 27.5). SDG 2 (Zero Hunger) presents additional concerns, particularly regarding high rates of stunting and wasting among children under five years old. These persistent challenges highlight the need for more effective

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<sup>2</sup> According to the National Assembly of Lao PDR (2019), for low-income earners between 0 - 1,300,000 kip per month, there is no income tax or an income tax rate of 0 percent. For those earning between 1,300,001 - 5,000,000 kip per month, there is an income tax rate of 5 percent. For high-income earners from 65,000,001 kip per month and above, there is an income tax rate of 25 percent.

policy interventions to accelerate progress toward Laos' sustainable development objectives.

This chapter therefore examines Laos' economic development trajectory, poverty reduction efforts, and social equality outcomes to extract policy lessons for other developing nations. The analysis is structured as follows: Section 2 evaluates government poverty alleviation policies. Section 3 analyzes poverty and inequality trends in recent decades, identifying key contributing factors. Section 4 develops analytical frameworks to explore the relationship between per capita GDP growth, poverty incidence, and income inequality. The chapter concludes with final observations and policy implications in Section 5.

## **2. Government Policies on Poverty**

The Lao government has prioritized poverty reduction through targeted policy measures since 2001. This commitment was first formalized in the 5th Five-Year National Socio-Economic Development Plan (2001-2005), which set an explicit target to halve the 2000 poverty rate by 2005. Subsequent policies have further addressed poverty alleviation and inequality, with particular emphasis on narrowing the urban-rural development gap. This section systematically reviews these poverty reduction policies by examining three distinct implementation periods, providing a comprehensive understanding of Laos' evolving approach to poverty alleviation.

### **2.1. During 2001-2010**

During this period, the Lao government implemented two key poverty reduction frameworks: the National Growth and Poverty Eradication Strategy (NGPES) as its domestic policy guide, and the Millennium Development Goals (MDGs) as its international commitment. Specifically for MDG Goal 1 (poverty reduction), Laos set a target to halve its 2000 poverty rate from 39.1 percent to

19.55 percent by 2015. To operationalize this target, the government introduced several policy instruments:

**Policy Framework:** Issued Decree No. 285 on Poverty Criteria and Development to standardize poverty measurement and establish district-level reduction targets.

**Targeted Interventions:** Identified 72 poor districts (including 47 classified as the poorest) as priority areas for poverty alleviation (Figure 2).

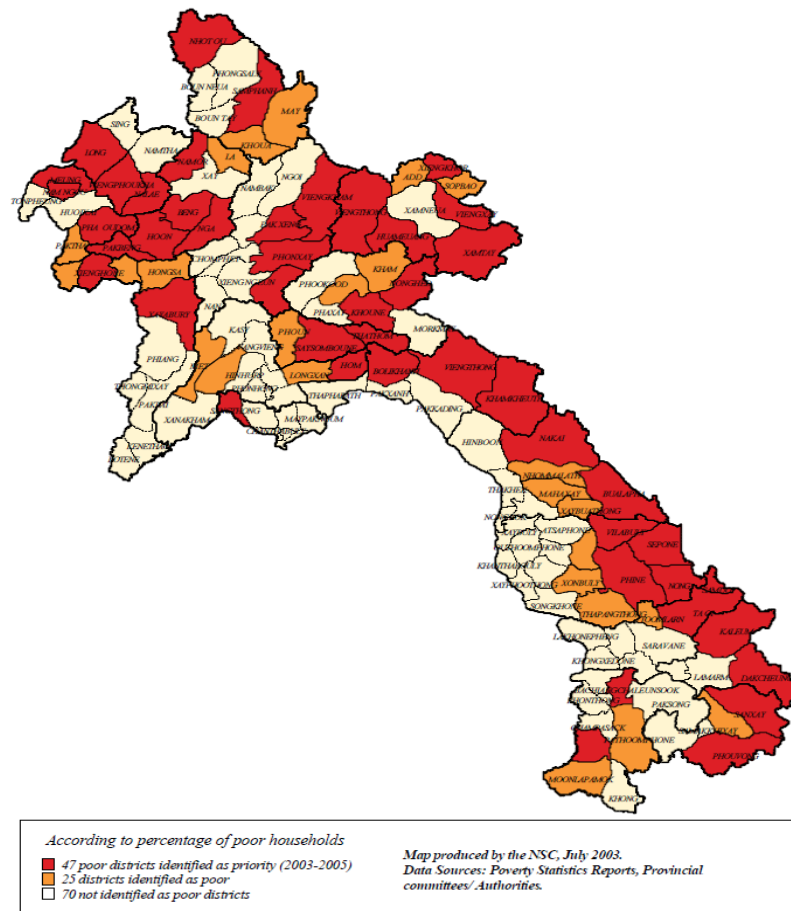
**Implementation Mechanisms:**

- Implemented a three-tier administrative support system:
  - (i) Central government officials deployed to provincial levels.
  - (ii) Provincial staff assigned to district levels.
  - (iii) District personnel stationed at village levels.
- Established the National Steering Committee for Rural Development and Poverty Eradication (NSRD).
- Allocated dedicated funding:
  - Village development funds (500 million kip/US\$52.9 thousand per district) in the 47 poorest districts.
  - Created a national poverty reduction fund in 2003.
- Founded a policy bank in 2007 to provide low-interest loans to impoverished households.

This comprehensive approach reflected the government's multi-pronged strategy to combat poverty through administrative restructuring, targeted funding, and financial inclusion measures.

Figure 2: A Map of 72 Poor Districts in Laos

**LAO PDR: 72 DISTRICTS IDENTIFIED AS POOR**



Source: Epprecht & Swiss National Centre of Competence in Research North South (2008, p. 51)

## 2.2. During 2011 – 2015

This period focused on implementing the 7th Five-Year National Socio-Economic Development Plan (2011-2015) and finalizing Millennium Development Goals (MDGs) commitments. Key policy developments included:

### Revised Poverty Measurement Framework:

- Issued Decree No. 309, introducing new poverty criteria.
- Transitioned from "target districts" to "development focus areas" classification.
- Identified 64 rural development focus areas (10 central, 54 local).

- Established 167 settlement and income generation points (4 central, 163 local).

#### **New Policy Initiatives:**

- Adopted Government Resolution No. 03 in 2012 on administrative development:
  - Provinces as strategic units<sup>3</sup>.
  - Districts as comprehensive strong units<sup>4</sup>.
  - Villages as development units<sup>5</sup>.
- Enhanced the National Rural Development and Poverty Eradication Committee by:
  - Strengthening its Secretariat.
  - Incorporating unexploded ordnance (UXO) clearance programs given Laos' status as one of the world's most UXO-affected countries from the 1964-1973 Indochina War.

#### **Increased Funding:**

- Rural development funding rose from US\$43 million during 2003–2011 to US\$83 million during 2012-2016.
- Funds primarily allocated for rural infrastructure development.

### **2.3. During 2016 – present**

Besides continuing the implementation of government policies on poverty alleviation and plans set out in the 7<sup>th</sup> Five-Year Social and Economic Development Plan, the Lao government issued a new Decree No. 348/PM in 2017 on Poverty Alleviation and Development Criteria or

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<sup>3</sup> There were 7 strategies: (1) Human resource capacity building strategy, (2) State administration management strategy, (3) Economic strategy, (4) Natural resource management strategy, (5) Infrastructure development strategy, (6) Socio-cultural development strategy, and (7) National defense-security strategy.

<sup>4</sup> There were 5 strategies: (1) Human resource capacity building strategy, (2) State administration management strategy, (3) Economic strategy, (4) Socio-cultural development strategy, and (5) National defense-security strategy.

<sup>5</sup> There were 4 strategies: (1) Organizational Strategy, (2) Commercial production strategy, (3) local traditional conservation strategy, (4) defense-security strategy.



measurement, which defined the poverty by household, village, and district in multidimensional aspects summarized in Table 1. It outlines the criteria for poverty alleviation and development in Laos at three levels: family, village, and district. For families to be considered free from poverty, they must meet six conditions, including safe housing, necessary livelihood assets, stable income or employment, education for school-age children, access to clean water and energy, and primary healthcare. Villages must fulfill eight criteria, such as access to schools, healthcare, clean water, year-round roads, communication services, markets, electricity, and having over 70 percent of households poverty-free. Districts must satisfy nine criteria, including having secondary schools, hospitals, urban water systems, implemented urban plans, reliable road networks, telecommunications, markets, sustainable natural resource management, and over 70 percent of villages poverty-free. These criteria collectively aim to ensure basic needs, infrastructure, and services are met for sustainable development.

Since 2016, the Lao government has undertaken significant institutional reforms to strengthen rural development efforts:

**Organizational Restructuring:**

- Transferred rural development and poverty eradication responsibilities from the Prime Minister's Office to the Ministry of Agriculture and Forestry.
- Established the new Department of Rural Development and Cooperatives as a dedicated technical body.

**Program Refinements:**

- Revised the classification of development zones:
  - Increased development focus areas to 91 from previous 64.

- Consolidated income generation points to 145 from previous 167.
- Implemented village consolidation measures by merging larger villages into district administrations.

Table 1: Definition of Poverty Alleviation and Development Criteria

No.	Criteria to be Free from Poverty
1	<p>Six Criteria for Family to be free from poverty:</p> <ul style="list-style-type: none"> <li>• Have safe and strong housing.</li> <li>• Have assets and equipment necessary for their livelihoods and income generation.</li> <li>• Have labor, stable income or employment.</li> <li>• School age family members receive lower secondary education.</li> <li>• Have access to clean water and stable sources of energy.</li> <li>• Have access to primary public health services.</li> </ul>
2	<p>Eight Criteria for Village to be free from poverty:</p> <ul style="list-style-type: none"> <li>• Own or have access to primary or lower secondary school.</li> <li>• Own or have access to health center or primary health care services.</li> <li>• Own or have access to clean water source.</li> <li>• Have roads that can be used all year round.</li> <li>• Have access to communications and transportation services.</li> <li>• Have access to markets to buy/sell/exchange products.</li> <li>• Have access to electricity from the national grid.</li> <li>• Over 70 percent of the total families in the village are free from the poverty.</li> </ul>
3	<p>Nine Criteria for District to be free from poverty:</p> <ul style="list-style-type: none"> <li>• Own secondary school.</li> <li>• Own district hospital or access to provincial or central hospital services.</li> <li>• District urban center has community running water or piped water system.</li> <li>• District urban center has implemented the urban plan.</li> <li>• Has road access all year round and connects all villages in the district.</li> <li>• Own telecommunications, transportation, and information system.</li> <li>• Own market to sell and buy products regularly.</li> <li>• Natural resources and the environment are managed, protected, and used effectively.</li> <li>• Over 70 percent of the total villages in the district are free from poverty.</li> </ul>

Source: Government of Lao PDR (2017)

### **3. Tendency of Poverty and Inequality**

#### **3.1. Poverty Rate**

Poverty rates in Lao PDR have been declining steadily over the past three decades. Table 2 shows the trend of urban and rural poverty rates that have gradually declined, resulting in the national poverty rate decreasing from 46.0 percent to 18.3 percent between 1992/93 and 2018/19, equivalent to about 1,322,630 poor people. This indicates that two out of five people are classified as poor or have an income below the poverty line of 9,364 Kip per day or 280,980 Kip per month (approximately US\$1 per person per day or US\$30 per person per month), equivalent to the minimum required consumption of 2,100 Kcal per day, basic education, and health that are necessary for living. This poverty measurement is based on food and nonfood consumption (Lao Statistics Bureau & World Bank, 2020, pp. 59–63). In particular, the poverty rate in urban areas has tended to decline at a faster pace than in rural areas, leading to a widening gap between the two areas rather than a narrowing gap. Although the current poverty rate in the northern provinces of the Lao PDR is on average higher than in the central and southern provinces, poverty has decreased significantly compared to the past, especially in Houaphanh, Bokeo, and Luang Namtha provinces due to rapid growth of local economies, trade, investment and infrastructure development that connect to neighboring countries in the region, such as China, Thailand, and Vietnam. For example, between 2012/13 and 2018/19, the poverty rate in Bokeo province dropped sharply from 51.8 percent to 19.4 percent, while the poverty rate in Huaphanh province also had a big decline from 45.4 percent to 26.6 percent, respectively. In contrast, the poverty rate in Attapeu province, located in the South of Laos, increased from 9.1 percent to 27.8 percent in 2018/19, possibly due to the impact of natural disasters or climate change. As a result, more than 7,000 people in 19 villages in the province were severely affected by flooding caused by the collapse of

the Xe Pian-Xe Nam Noy hydroelectric dam in 2018, affecting property, livelihoods, agricultural products, infrastructure, and others in surrounding areas, adding up to totaling billions of kip in damage (International River et al., 2018). From 2016 to 2022, Laos experienced 369 natural disasters nationwide, primarily floods, forest fires, storms, and earthquakes, resulting in damages totaling US\$748.2 million—approximately 0.6 percent of the country's GDP (Lao Disaster Management Committee, 2021; Lao Statistics Bureau, 2022). Flooding remains a major concern, as farms across Laos suffer severe inundation annually during the wet season due to unpredictable heavy rainfall, leading to significant losses in output and efficiency (Sayavong, 2016, 2018).

Beyond the declining individual poverty rate, household-level poverty has shown significant improvement according to Decree No. 348/PM criteria. The number of poor households decreased substantially from 198,678 households in 2011 to 76,604 households in 2015, and 65,127 households or 5.47 percent of the total households in 2017. This indicates that many households are better off as more households have better access to housing and sanitation, more property ownership, and better access to basic services, which have contributed to the implementation of MDG targets. Such progress in individual and household poverty reduction has also led to the progressive poverty reduction in the number of poor villages and districts. As a result, the number of poor villages has dropped from 3,175 villages in 2011 to 1,433 villages by the end of 2017, equivalent to 16.92 percent of the total number of villages in Lao PDR. At the same time, the number of poor districts has also reduced from 72 districts in 2013 to 23 districts, or about 15.54 percent of the total number of districts in 2017.

Despite significant progress in poverty reduction, Laos continues to face substantial challenges, with rural poverty remaining particularly persistent (24 percent). The poverty burden disproportionately affects ethnic minority households in remote inland areas, households with low

educational attainment, and self-employed farming households (Lao Statistics Bureau & World Bank, 2020). Moreover, many Lao households face severe food poverty, consuming less than the recommended 2,100 calories per day. This situation disproportionately affects children, with over 21 percent of children under five suffering from undernutrition, making them the most vulnerable demographic group, according to Lao Statistics Bureau & UNICEF Lao PDR (2018). The most alarming nutrition indicator is stunting, affecting 33 percent of children under five in Laos. This prevalence is significantly higher among two vulnerable groups of rural households living in poverty and ethnic minority communities. Within ASEAN, Laos maintains one of the region's highest malnutrition rates, comparable to the Philippines (33.4 percent), Cambodia (32.4 percent), and Myanmar (29.2 percent) (The ASEAN Secretariat, 2020). Consequently, widespread malnutrition among Lao households - particularly affecting children - creates a dual burden of immediate health consequences and long-term impairment of income-generating capacity. This nutritional deficit threatens to constrain human capital development at the community level as well as limit Laos' future economic growth potential.

Table 2: National Poverty Headcount (%) by Region in Laos

Year	1992/93	1997/98	2002/03	2007/08	2012/13	2018/19
<b>Lao PDR</b>	<b>46.00</b>	<b>39.10</b>	<b>33.50</b>	<b>27.60</b>	<b>24.60</b>	<b>18.30</b>
Vientiane Capital	33.60	13.50	16.70	15.20	2.50	5.00
<b>North Region</b>	<b>51.60</b>	<b>47.30</b>	<b>37.90</b>	<b>32.50</b>	<b>31.00</b>	<b>20.70</b>
Phongsaly	72.00	57.90	50.80	46.00	19.00	8.10
Luangnamtha	40.50	51.10	22.80	30.50	25.00	10.50
Oudomxay	45.80	66.10	45.10	33.70	36.60	29.20
Bokeo	42.40	38.90	21.10	32.60	51.80	19.40
Luangprabang	58.50	40.80	39.50	27.20	30.00	20.40
Huaphanh	71.30	71.30	51.50	50.50	45.40	26.60
Xayabury	22.40	17.70	25.00	15.70	15.70	21.10
<b>Central Region</b>	<b>45.00</b>	<b>39.40</b>	<b>35.40</b>	<b>29.80</b>	<b>23.50</b>	<b>21.50</b>
Xiengkhuang	63.00	42.90	41.60	42.00	34.40	26.00
Vientiane	30.70	27.80	19.00	27.80	10.90	5.30
Borikhamxay	16.60	27.90	28.70	21.50	14.70	20.60

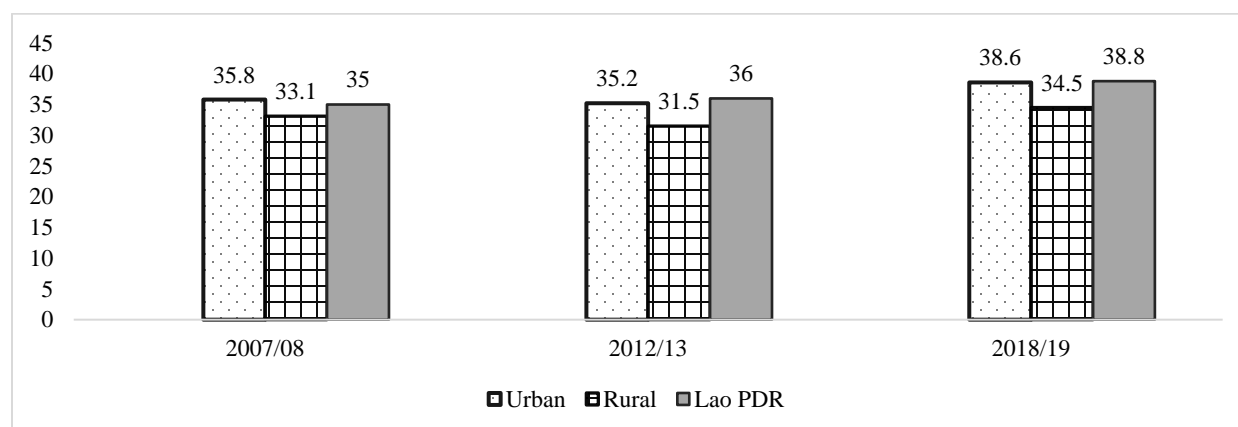
Khammuane	47.10	44.50	33.70	31.40	25.20	25.50
Savannakhet	53.10	41.90	43.10	28.50	29.10	27.50
Xaysomboun	-	62.80	30.60	46.10	-	-
<b>South Region</b>	<b>45.70</b>	<b>39.80</b>	<b>32.60</b>	<b>22.80</b>	<b>29.90</b>	<b>17.70</b>
Saravane	43.60	39.20	54.30	36.30	52.10	24.90
Sekong	67.00	49.70	41.80	51.80	44.40	30.60
Champasack	41.40	37.40	18.40	10.00	19.60	8.70
Attapeu	60.50	48.00	44.00	24.60	9.10	27.80

Source: Author's combination, based on LECS 1-6 (Lao Statistics Bureau, 1994, 1999, 2004, 2009, 2014, 2020a)

### 3.2. Inequality

While Laos has achieved consistent economic growth and rising per capita income in recent years, this progress has been accompanied by widening income inequality across different socioeconomic groups. The Gini coefficient, a key measure of income inequality, demonstrates this trend through its steady increase from 35 in 2007 to 36 in 2012 and 38.8 in 2018 (Figure 3). Income inequality, as measured by the Gini Index, is particularly acute in urban areas compared to rural regions. This disparity is most evident in the substantial income gap between wealth groups - the richest households earn seven times more per capita than the poorest. Geographically, inequality is most pronounced in northern provinces, including Oudomxay, Luang Namtha, Bokeo, and Xieng Khouang. Within the regional context, Laos exhibits moderate income inequality levels that are comparable to Indonesia but significantly higher than Vietnam and Thailand (ADB, 2024).

Figure 3: Income Inequality (Gini Index) in Lao PDR



Source: LECS 4-6 (Lao Statistics Bureau, 2009, 2014, 2020a)

When analyzing income distribution by population quintiles (dividing the population into five equal 20 percent groups), the data reveal striking disparities as the wealthiest quintile (Group 5) commands nearly 50 percent of total national income and earns an average of US\$186.3 monthly per capita. This represents approximately 7 times the income of the poorest quintile (Group 1) (Table 3). In contrast, the lowest income groups (Groups 1 and 2) account for only 17 percent of total national income combined (7 percent and 10 percent respectively), with average monthly incomes of just US\$26 and US\$40.1. This disparity demonstrates that the benefits of economic growth have disproportionately favored wealthier segments of the population. Several key factors contribute to this concentration of wealth among high-income households, including urban concentration, educational advantage, and occupational profile. For instance, over 50 percent of them reside in urban areas with superior infrastructure and institutions, including reliable road access, stable electricity, clean water systems, quality education, and healthcare services. Their significantly higher education levels enable priority access to business opportunities and greater employment prospects, particularly in non-agricultural sectors. Therefore, wealthier households are predominantly business owners, self-employed professionals, employees in non-farm sectors such as wholesale, retail, hospitality, and export manufacturing. As Table 4 illustrates, these advantages translate into substantial income gaps since well-educated workers earn 100-200 percent more than less-educated counterparts. Similarly, male workers receive 30 percent higher wages than female workers, while urban wages consistently exceed rural wages. These disparities highlight persistent inequalities across education, gender, and geographic dimensions in Laos' labor market.

Table 3: Income Distribution and Income per Capita by Income Group

No.	Group	Share (%)	Average Income per Month (US\$*)
1	Group 1 (Poorest)	7%	26.0

2	Group 2	10%	40.1
3	Group 3	14%	54.8
4	Group 4	20%	77.5
5	Group 5 (Richest)	48%	186.3
	Total	100%	76.9

Source: Calculated by the author based on data from the Household Survey of LECS 6 (Lao Statistics Bureau, 2020a). Note: (\*) Based on the average exchange rate of 8,884 kip/USD in 2019.

In contrast, poor households remain predominantly engaged in agricultural activities characterized by low profitability due to low productivity and high production costs, particularly for fertilizers, fuel, and animal feed, as the prices for these inputs have shown consistent upward trends in recent years. This economic reality contributes significantly to higher poverty rates among farm households and increased national income inequality because, notably, over 60 percent of Laos' workforce is employed in agriculture. The primary agricultural outputs include staple crops (paddy rice - two annual harvests, maize, and cassava), cash crops (coffee, tea, and rubber), livestock (chickens, ducks, turkeys, cattle, buffalo, pigs, and goats), and fisheries. Despite employing the majority of workers, the agricultural sector contributed only 15.2 percent to GDP in 2019 and primarily exported to neighboring countries, especially China, Vietnam, and Thailand (Lao Statistics Bureau, 2019, p. 84; Insisienmay et al., 2019, p.8).

Table 4: Average Wage/Salary for a Worker by Education Level (US\$\* per Month)

No.	Education Level	2017
1	Higher Education	413.2
2	Vocational Education	331.4
3	Secondary School Education	295.7
4	Primary School Education	256.9
5	No Education	183.6
6	Male	321.7
7	Female	248.7
8	Urban	325.7
9	Rural	251.6
10	Lao PDR	291.9

Source: Labor Survey II and III in Lao PDR (Lao Statistics Bureau, 2018). Note: (\*) Based on the average exchange rate of 8,246.9 kip/US\$ in 2017.



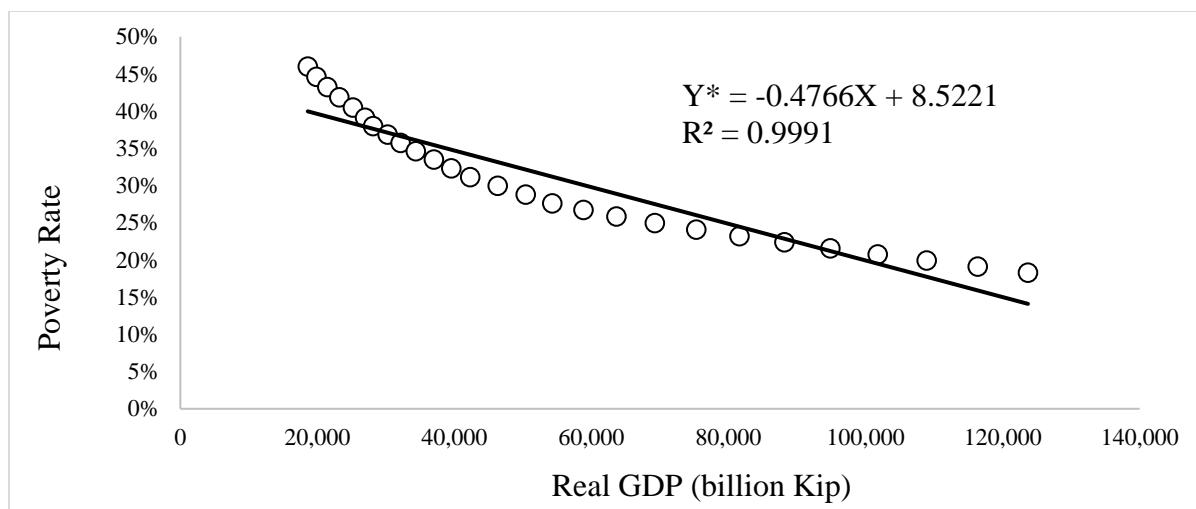
#### **4. Economic Growth, Poverty and Inequality**

Since 2000, Laos has maintained robust economic growth, averaging 7-8 percent annually—a rate considered high relative to other ASEAN economies. However, this growth has been accompanied by widening income inequality across socioeconomic groups and slower poverty reduction compared to regional peers (Thailand, Vietnam, and Cambodia). These trends suggest that Laos' economic expansion has lacked inclusiveness. To investigate this paradox of high growth coupled with persistent inequality and poverty, this section analyzes two key relationships through regression analysis of the economic growth-poverty reduction nexus and economic growth-income inequality dynamics. The analysis employs simple graphical correlation methods at the national level to elucidate these connections.

Regarding the first issue, it could be seen that economic growth in Laos has contributed to a certain level of poverty reduction, as can be seen from the negative relationship between economic growth and poverty rate (Figure 4), meaning that if the Lao economy grows by 1 percent, the poverty rate will decrease by about 0.47 percent. However, this poverty reduction effect remains substantially weaker than in comparable regional economies such as Vietnam with an elasticity of 1.33, Indonesia (1.76), and the Philippines (1.52), respectively. These comparative figures suggest that neighboring countries have achieved more inclusive growth patterns. The effectiveness of poverty reduction ultimately depends on multiple factors that enable households to surpass the poverty threshold. Among them, access to public services and infrastructure is an important area because provinces or regions with high poverty rates are found to have limitations or difficulty in accessing public services and infrastructure (Bannalath, 2018). Sayasenh (2018) highlights that poverty in Laos disproportionately affects ethnic minority populations who face limited educational attainment and restricted access to essential health services. Consequently, the impoverished

workforce is characterized by low educational qualifications (primary school completion at best) and predominant employment in low-productivity agricultural sectors, and some are working in low-skilled jobs in other industries as security guards, cleaners, basic workers, and low-wage or low-wage workers. Research by Songvilay & Sayavong (2018) demonstrates significant disparities in living conditions between poor and non-poor households, particularly regarding housing quality, economic opportunities, and access to infrastructure and essential services such as education and healthcare. In addition, Sayavong (2022) stimulates the impact of transport infrastructure development under the Belt and Road Initiative (BRI), including the Laos-China railway, showing that it would help to reduce the poverty rate by 1.3 percent or enable around 16,386 households to escape from poverty. If so, to reduce poverty, it is important to focus on improving access to education, health, infrastructure, trade, and investment opportunities for the poor, especially in rural areas. Yet, mitigating the impact of climate change or natural disasters on poverty shouldn't be ignored and needs to be addressed like the case in Attapeu province in the Southern region of Laos, which was severely hit by natural disasters in 2018, resulting in a higher poverty rate. After all, the group of people who have just escaped poverty and the poor living in rural areas are still at risk of falling back into poverty because their economies are very fragile, especially when affected by shocks such as disasters, a fall in agricultural prices, an increase in import prices such as oil prices, fluctuation of the exchange rate, the end of poverty support programs, and the impact of large-scale development projects that require resettlement.

Figure 4: Economic Growth and Poverty Rate

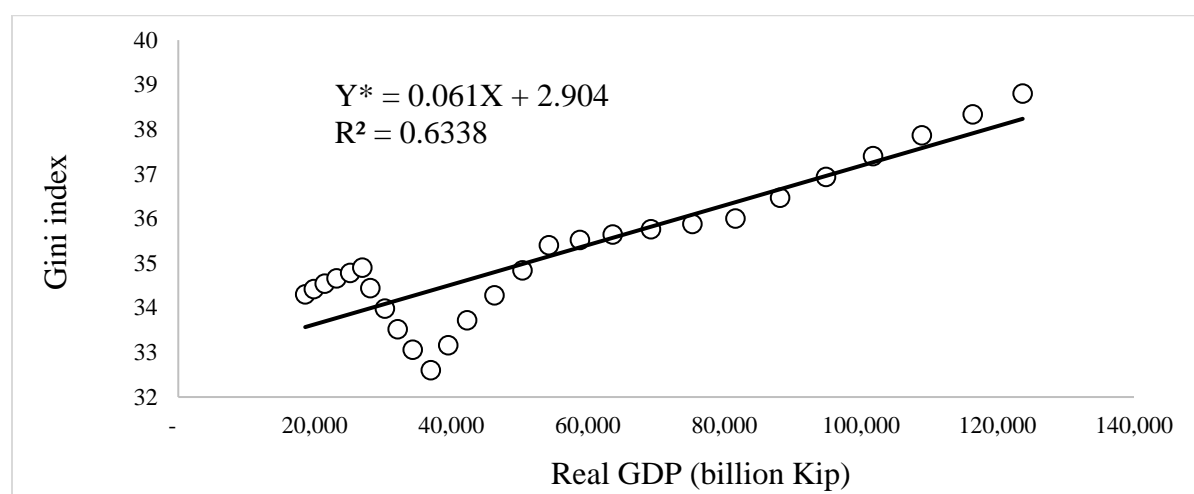


Source: Author based on the data from Lao Statistics Bureau (2020, 2024). Note that (\*) this result of linear regression is based on the log form.

Regarding income inequality, Figure 5 illustrates the inverse relationship between economic growth (GDP) and income inequality (Gini Index), indicating that a 1 percent increase in economic growth corresponds to a 0.061 percent rise in the income inequality index. At the macro level, the sectors historically driving economic growth in Laos have primarily been export-oriented natural resource- and capital-intensive industries, such as mining, timber, hydroelectric power generation, construction, and coal. These sectors rely heavily on foreign direct investment (FDI), which has largely funded medium- and large-scale projects concentrated in specific regions, particularly urban and border areas with well-developed infrastructure linking neighboring countries like China, Thailand, and Vietnam. Consequently, the benefits of economic growth in Laos have been unevenly distributed, favoring certain regions while failing to reach all societal groups equally. This reflects an imbalance between economic development and income equality. Moreover, higher export shares in previous years have not automatically translated into higher real wages, as the export sector is dominated by capital-intensive and low-skilled industries, such as garment manufacturing. By contrast, Vietnam and Cambodia have experienced stronger linkages between export growth and real wages, thanks to labor-intensive manufacturing industries like electronics

and textiles. Given its smaller industrial base, Laos has not seen the same effect. Perhaps the tourism sector is the only relatively inclusive industry. However, its contribution to Laos' economic growth remains limited, accounting for only around 5 percent of GDP and employing approximately 60,000 people or 12 percent of total employment (Lao Statistics Bureau, 2019, 2020b; Tourism Development Department, 2019).

Figure 5: Economic Growth and Income Inequality (Gini Index)



Source: Author based on the data from Lao Statistics Bureau (2020, 2024). Note that (\*) this result of linear regression is based on the log form.

Based on the relationship between economic growth, poverty, and income inequality discussed earlier, if Laos' economic development pattern—including its social policies—remains unchanged in the future, we can project a baseline scenario assuming an average annual economic growth rate of 4.1 percent until 2050. Under this scenario, the poverty rate is expected to decline gradually to 13.5 percent by 2030 and 8.5 percent by 2050, while income inequality (measured by the Gini Index) is projected to rise to 42.4 by 2030 and 49.1 by 2050 (Table 5). This suggests that the wealth gap in Lao society will widen significantly by 2050. Given these trends, Laos is unlikely to achieve the SDG targets for Goal 1 (no poverty, or a 0 percent poverty rate) and Goal 10 (reduced inequality, with a Gini Index of 27.5). To foster more inclusive economic development and meet

these SDGs by 2030, the Lao government must implement additional policy interventions alongside existing measures to tackle poverty and income inequality. Potential strategies include, but are not limited to, restructuring the economic growth model by promoting technology, digitalization, and skills development in non-resource sectors as future drivers of growth, while also addressing climate change impacts. Introducing progressive tax policies to redistribute income from high- to low-income groups and expanding social welfare policies targeting poor and vulnerable communities through targeted investments in education, healthcare, and infrastructure in underserved areas are also crucial. Regarding climate change, it is crucial to empower local communities to improve disaster preparedness, significantly reduce risks, and build a more resilient future for Laos. Therefore, leveraging digitalization for climate resilience—particularly in data collection, monitoring, early warning systems, and digital agriculture—is essential for addressing climate change and its impacts in Laos.

Table 5: Baseline Scenario

No.	Indicator	Actual	Projection		
		2023	2030	2040	2050
1	Economic Growth	4.2%	4.1%	4.1%	4.1%
2	Income per Capita (US\$)	1,879	2,267	3,758	6,196
3	Poverty Rate	15.8%	13.7%	10.8%	8.5%
4	Income Inequality (Gini Index)	40.3	42.4	45.6	49.1

Source: Actual data for 2023 are sourced from Lao Statistics Bureau (2024), except for the poverty rate and income inequality, which are author estimates. The projections are derived by the author using a Cobb-Douglas production function and growth accounting framework with three factors of production: capital, labor, and technology (total factor productivity, or TFP). The model assumes an average annual increase of 5% in capital input, 2.5% in labor, and 1% in productivity, based on historical trends. Data for capital, labor, and TFP are obtained from Feenstra et al. (2015). Additional assumptions include a GDP deflator of 2 percent per year, a constant kip/US\$ exchange rate (0 percent annual change), an elasticity of economic growth to poverty reduction of -0.55, and an elasticity of economic growth to income inequality (Gini index) of 0.18. These elasticities are based on their observed relationships from 2012 to 2018.

## 5. Conclusions

This chapter provides a comprehensive analysis of poverty and inequality in the Lao People's Democratic Republic (Lao PDR), highlighting both progress and persistent challenges. It concludes that Lao PDR has made significant strides in reducing poverty over the past three decades, with the national poverty rate declining from 46 percent in 1992 to 18.3 percent in 2018. This progress is attributed to economic growth, infrastructure development, and government policies aimed at poverty alleviation. However, poverty remains a significant challenge, particularly in rural and mountainous regions, where poverty rates are higher. The COVID-19 pandemic and natural disasters, such as the 2018 dam collapse in Attapeu province, have further exacerbated poverty in some areas. Despite economic growth, income inequality has widened, with the Gini Index increasing from 35 in 2007 to 38.8 in 2018. Urban areas experience higher inequality compared to rural areas, and the richest 20 percent of the population controls nearly half of the total income. The benefits of economic growth have been unevenly distributed, with capital-intensive industries like mining, hydropower, and construction driving growth but failing to create inclusive opportunities for all segments of society. The Lao government has implemented various policies to address poverty and inequality, including the National Growth and Poverty Eradication Strategy (NGPES), Millennium Development Goals (MDGs), and Sustainable Development Goals (SDGs). These policies have focused on rural development, infrastructure, education, and health services. Despite these efforts, achieving SDG targets by 2030 remains challenging, particularly for goals related to poverty (SDG 1) and inequality (SDG 10) as the main focus areas of this chapter.

Economic growth has contributed to poverty reduction, but the relationship is weaker compared to neighboring countries like Vietnam and Indonesia. The elasticity of poverty reduction to

economic growth in Laos is lower, indicating that growth has not been as inclusive. If current economic trends continue, poverty is expected to slowly decline, but income inequality (Gini Index) is projected to rise, indicating a widening gap between the rich and poor and SDG Goal 1 (no poverty) and Goal 2 (reduced inequality) are unlikely to reach the targets by 2030. To make economic growth more inclusive, the government needs to focus on structural reforms, such as promoting technology and skills development in non-resource industries, implementing progressive tax policies, and investing in social welfare programs for vulnerable groups. Nonetheless, persistent challenges include high poverty rates among ethnic minorities, low educational attainment, and vulnerability to external shocks like natural disasters and economic fluctuations. Addressing these issues will require targeted interventions, improved access to basic services, climate resilience, and sustainable development practices to ensure that economic growth benefits all segments of society. Typically, access to education, health, and infrastructure remains critical for further poverty reduction, especially in rural areas and among ethnic minorities while leveraging digitalization for climate resilience—particularly in data collection, monitoring, early warning systems, and digital agriculture—is essential for addressing climate change and its impacts on poverty and inequality in Laos.

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