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South-South cooperation and triangular cooperation as fundamental catalysts for development in landlocked developing countries:

A case study on the transformation of the Lao People's Democratic Republic through regional cooperation and integration into the Association of Southeast Asian Nations

South-South cooperation and triangular cooperation as fundamental catalysts for development in landlocked developing countries: A case study on the transformation of the Lao People's Democratic Republic through regional cooperation and integration into the Association of Southeast Asian Nations¹

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I. Introduction

Critical challenges that hampered the full implementation of the Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014–2024 (VPoA) include the persisting insufficiency and inadequacy of means of implementation, a lack of capacity in formulating financially viable infrastructure projects, low flows of official development assistance (ODA), the concentration of investment inflows towards natural resources, high debt vulnerabilities, and multiple international crises including the coronavirus disease (COVID-19) pandemic, which have had a disproportionately severe impact on the landlocked developing countries (LLDCs).² The VPoA³ highlights several means of implementation that are considered to be important to achieve its priorities. These include domestic and external resource mobilization, aid for trade, South-South and triangular cooperation, support from international partners, ODA and multilateral organizations, and partnerships with the private sector, including through foreign direct investment (FDI). It also stresses the importance of regional integration and strengthened partnerships within the context of South-South and triangular cooperation, including with the relevant international and regional organizations, to foster structural change and economic growth in LLDCs.

2. Draft Programme of Action for the Landlocked Developing Countries for the Decade 2024–2034, informal paper, 30 May 2024.

3. United Nations, Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014–2024.

The **Draft Programme of Action for the Landlocked Developing Countries for the Decade 2024–2034** states that the programme “will be achieved through a reinvigorated global partnership for sustainable development based on scaled-up and ambitious means of implementation and diverse support for the LLDCs through forging the widest possible coalition of multi-stakeholder partnerships”.⁴ It also emphasizes some critical means of implementation, particularly “substantially increasing resources from all sources” through domestic resource mobilization, ODA and external finance, FDI, remittances, debt relief and concessional financing to realize the full implementation of the Programme of Action. The Draft Programme of Action also highlights the important role of international development cooperation and South-South and triangular cooperation as well as regional and subregional cooperation in successfully addressing the specific problems of LLDCs.

The present case study explores the transformative journey of the Lao People's Democratic Republic within the framework of the Association of Southeast Asian Nations (ASEAN), the Initiative for ASEAN Integration) and the role of South-South cooperation and triangular cooperation as enablers in strengthening the means of implementation crucial to achieving VPoA priorities. It suggests that South-South cooperation, which has been the foundation of regional integration into ASEAN, has significantly benefited the Lao People's Democratic Republic. The analysis suggests that regional

integration into ASEAN and collaborative initiatives, spurred by South-South cooperation, has had a positive impact in boosting FDI and remittances, mobilizing concessional financing and domestic revenues, and narrowing development gaps in the Lao People's Democratic Republic. The case study provides conclusions on ways to further enhance these external and domestic resources to enable the Lao People's Democratic Republic to accelerate its development through South-South and triangular cooperation. By showcasing the example of the Lao People's Democratic Republic, it aims to recommend solutions to address challenges in leveraging means of implementation in other LLDCs through deepening South-South and triangular cooperation and regional and subregional integration.

Socioeconomic situation in the Lao People's Democratic Republic

The Lao People's Democratic Republic is a vibrant, ethnically and geographically diverse country situated in the centre of Southeast Asia. It is the smallest in terms of population size and internal market potential, the only landlocked country located in the Mekong River Basin region, and is thus reliant on maintaining good relations and infrastructure linkages with its neighbours for regional and international trade. It is a member of the Greater Mekong Subregion (GMS), ASEAN, the World Trade Organization and the recently established Regional Comprehensive Economic Partnership (RCEP).

4. Draft Programme of Action for the Landlocked Developing Countries for the Decade 2024–2034, informal paper, 30 May 2024.

Figure 1. Lao Peoples Democratic Republic

Source: Economist Intelligence Unit, "Laos: Summary, Politics, Economy". Available at <https://country.eiu.com/laos>

ASEAN, GMS and RCEP bring together a range of economies at different stages of development and economic dynamism, with attendant opportunities and challenges for the Lao People's Democratic Republic. The country still lags behind ASEAN partners and other least-developed-country (LDC) members of ASEAN on a range of key indicators concerning competitiveness and productive capacities. The high cost of logistics and trade facilitation and the low quality of human capital, as key components of productive capacities, inhibit the future development prospects of the economy.⁵

In the past 30 years, the Lao People's Democratic Republic has made tremendous development progress, halving poverty, reducing malnutrition, and improving access

5. United Nations Conference on Trade and Development (UNCTAD), Vulnerability Profile: Lao People's Democratic Republic (UNCTAD/ALDC/2021/2) (Geneva, UNCTAD, 2022).

to education and health. Over the past two decades, it recorded one of the highest rates of economic growth in Southeast Asia. Gross domestic product (GDP) per capita at current prices increased from \$1,949.50 in 2014 to \$2,693.30 in 2021.⁶ That growth was driven largely by trade and investment in natural resources (mining and power). Between 2000 and 2018, real GDP growth of the Lao People's Democratic Republic averaged 7.5 per cent a year, with trade growing at an average annual rate of 17 per cent.⁷ Recent evidence suggests improvements in socioeconomic outcomes, such as rising average income levels and poverty reduction. The national poverty rate declined by 6.3 percentage points from 24 per cent in 2015 to 18.3 per cent in 2018⁸ but remains high compared to the rates of regional peers. The rural-urban gap declined owing to a significant decline in rural poverty, while urban poverty reduction stagnated. The country has also been undergoing one of the fastest urbanization processes in its region. Its population is expected to grow from 7.42 million currently to 8.1 million by 2030. Almost one third of the population is between 10 and 24 years of age, making it one of the youngest countries in Southeast Asia.⁹ The standard of living has also improved, with notable gains in access to basic services, education and health outcomes. However, there remain significant constraints to inclusive, resilient and sustainable development.¹⁰

6. ASEAN, ASEAN Statistical Yearbook 2022 (Jakarta, ASEAN Secretariat, December 2022).

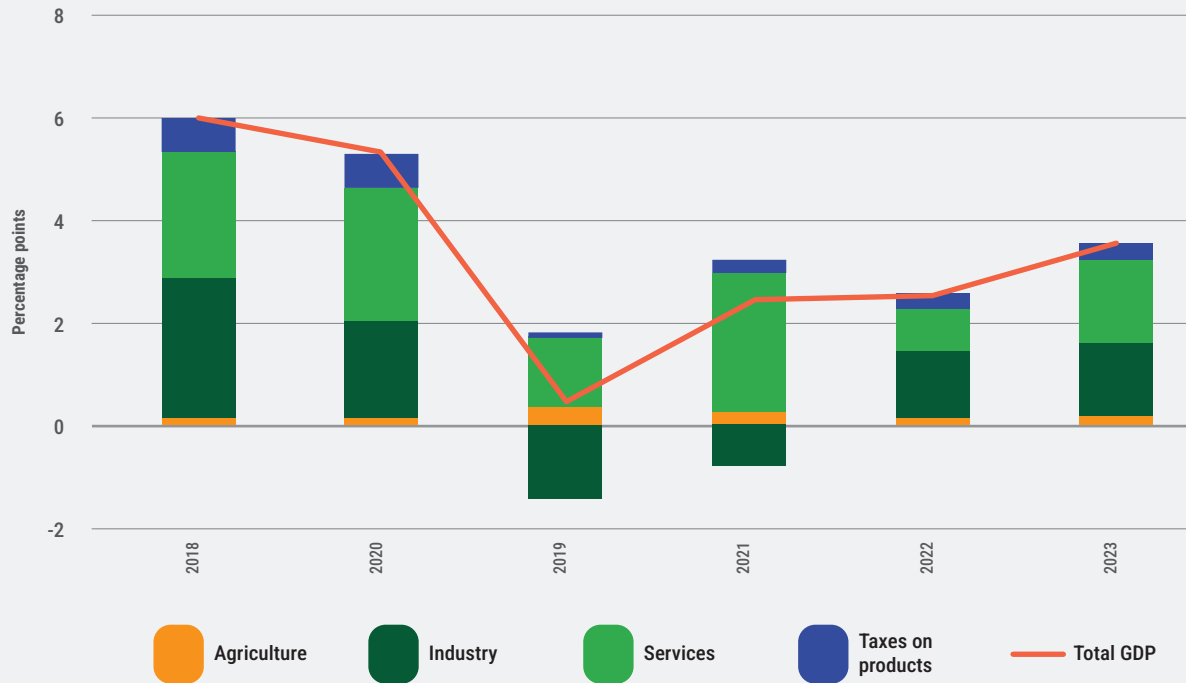
7. World Bank, Lao People's Democratic Republic Economic Monitor: October 2022 (Washington, D.C., World Bank).

8. ASEAN, ASEAN Statistical Yearbook 2022.

9. Lao People's Democratic Republic, Ministry of Planning and Investment, and UNDP, National Human Development Report: Lao People's Democratic Republic 2022 – Youth as Drivers for Sustainable Development.

10. World Bank, Lao People's Democratic Republic Systematic Country Diagnostic 2021: Tackling Microeconomic Vulnerabilities (Washington, D.C., World Bank).

Figure 2. Impact of a steady recovery of the services sector on growth, 2018-2023



Source: Lao Statistics Bureau and World Bank staff estimates.

In 2022, economic activity in the Lao People's Democratic Republic was driven by the services sector, which contributed 40.28 per cent of GDP, followed by industry (including construction and mining) at 34.11 per cent, and agriculture, forestry and fishing at 14.87 per cent.¹¹

The contribution of agriculture, forestry and fishing value added as a percentage of GDP decreased from 17.85 per cent in 2014 to 14.87 per cent in 2022¹² as the economy diversified and industrialized. The share of industry, including manufacturing, construction and small-scale industries, as a percentage of GDP rose between 2014 and

2022 from 28.82 per cent to 34.11 per cent,¹³ driven by efforts to attract FDI and promote industrialization. Efforts to improve the energy infrastructure in the Lao People's Democratic Republic and neighbouring countries, driven by the development of hydropower and other renewable energy sources, are making the energy sector a crucial contributor to the economy. Overall, while some sectors such as industry and energy are experiencing increasing contributions to the economy, others such as agriculture reflect decreasing shares of GDP. These trends are influenced by various factors, including government policies, regional integration, South-South and triangular cooperation, FDI, global market conditions, and sector-specific challenges and opportunities.

11. World Bank, DataBank: World Development Indicators. Available at databank.worldbank.org/source/world-development-indicators#.

12. Ibid.

13. Ibid.

As part of a region with nearly 680 million people and a collective economy that ranks as the fifth largest in the world, the Lao People's Democratic Republic is integrated into ASEAN, a major destination for FDI. FDI surged from \$913 million to \$1.07 billion between 2014 and 2021 and has been a major contributor to the capital-intensive growth of the Lao People's Democratic Republic, flowing mostly to large infrastructure projects, hydropower and mining. The country benefits from increasing intra-ASEAN investment, which is expanding faster than FDI inflows into the region. Intra-ASEAN FDI as a percentage of net FDI inflows grew from 15 per cent to 42 per cent in that period. China, Japan, Thailand and Viet Nam are the largest sources of FDI, with China accounting for a significant share with a total investment of around \$12 billion.¹⁴ The Lao People's Democratic Republic-China railway represents an important investment in regional connective infrastructure, although there are others linking the domestic market to Thailand (power transmission) and Viet Nam (Vientiane-Hanoi Expressway and Vung Ang Port). A significant portion of these investments has been backed by large loans, particularly from Chinese banks.

The Lao People's Democratic Republic has seen positive trends in revenue collection, net ODA, remittances and concessional finance in recent years. Revenues increased from 5.4 per cent of GDP in 2021 to 5.8 per cent in the first half of 2022, owing to the higher collection of excise and profit taxes, hydro and natural resource taxes, and import duties.¹⁵

14. Open Development Laos, "Foreign Direct Investment in Laos", 28 May 2024. Available at <https://laos.opendevdevelopmentmekong.net/topics/foreign-direct-investment-in-laos/>.

15. World Bank, "Lao Economic Monitor, October 2022: Tackling Microeconomic Vulnerabilities – Key Findings", 22 November 2022.

Remittances from migrants became a source of income for nearly 15 per cent of households¹⁶ between 2013 and 2019 and increased from \$188 million in 2014 to \$198 million in 2022.

Around 65 per cent of external debt is concessional.¹⁷ Between 2014 and 2022, the Lao People's Democratic Republic loans from the International Bank for Reconstruction and Development (IBRD) and credits from the International Development Association (IDA) increased from \$555 million to \$756 million. To date, the Asian Development Bank (ADB) has committed 365 public-sector loans, grants and technical assistance totalling \$2.7 billion to the Lao People's Democratic Republic¹⁸ mainly in the areas of agriculture, natural resource management, rural development, energy and transport. In addition, development cooperation assistance to the Lao People's Democratic Republic from countries in the Asia and the Pacific region, especially from the leading investors and development cooperation partners such as China, India, Japan, the Republic of Korea, Singapore and Thailand, has increased significantly. The ASEAN collective engagement with Northern partners such as Canada, Germany, Japan, the United States of America and the European Union also enhances the influence of the region, benefiting its members, including the Lao People's Democratic Republic. Net ODA received by the Lao People's Democratic Republic increased from \$399.5 million in 2016 to \$569.2 million in 2021. South-South cooperation and triangular cooperation have

16. Ibid.

17. World Bank and International Monetary Fund (IMF), Lao People's Democratic Republic: Joint World Bank-IMF Debt Sustainability Analysis (Washington, D.C., World Bank, 2019).

Available at <http://hdl.handle.net/10986/32557>.

18. Asian Development Bank and Lao PDR: Fact Sheet, 25 April 2024. Available at <https://www.adb.org/publications/series/fact-sheets?page=4>.

played a major role in bridging the development divide through subregional programmes and many triangular cooperation projects.

III. Development challenges and opportunities in the means of implementation

A. Challenges

COVID-19, coupled with structural challenges, macroeconomic instability and a deteriorating external debt, has had a negative impact on economic activity in the Lao People's Democratic Republic since 2022. Risks of external and overall debt distress continue to be assessed as high.¹⁹ Between 2017 and 2022, the volume of public and publicly guaranteed debt in the country rose to 112 per cent of GDP from 52 per cent. Accelerating

that increase was a confluence of shocks, including COVID-19, natural disasters, surging global inflation and a steep depreciation of the Lao kip against the dollar.²⁰ The challenges of weakening FDI, decreasing remittances and servicing of large debts post-COVID-19 have had an impact on several aspects of the growth of the Lao People's Democratic Republic as an LLDC. For example, of the approximately 500,000 labourers from that country reported to be working in Thailand, nearly 200,000 returned home following the implementation of lockdown measures by the Government of Thailand, causing a reduction in remittances inflows.²¹

Notably, the gap between the Lao People's Democratic Republic and other lower and lower-middle-income members of ASEAN such as Cambodia and Viet Nam is

Table 1. FDI inward flows to ASEAN by host country, 2013–2022 (in millions of \$)

Host Country	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022*
Brunei Darussalam	725.5	568.2	171.3	-150.4	460.1	517.3	374.6	577.4	204.8	-284.4
Cambodia	1,274.9	1,726.5	1,701.0	2,475.9	2,788.1	3,212.6	3,663.0	3,624.6	3,483.5	3,578.8
Indonesia	18,443.8	21,810.4	16,642.1	3,920.7	20,579.2	20,563.5	23,883.3	18,591.0	21,131.1	22,115.9
Lao PDR	426.7	913.2	1,079.2	1,075.7	1,695.4	1,358.0	755.5	967.7	1,071.9	635.8
Malaysia	12,107.1	10,875.3	10,180.0	11,290.3	9,295.8	7,611.3	7,859.7	3,185.3	12,144.2	17,095.8
Myanmar	2,620.9	946.2	2,824.5	2,989.5	4,002.4	1,609.8	1,729.9	2,205.6	1,005.0	2,980.9
Philippines	3,859.8	5,814.6	5,639.2	8,279.5	10,256.4	9,948.6	8,671.4	6,822.1	11,983.4	9,366.0
Singapore	56,670.9	73,284.5	59,702.3	67,504.5	85,383.1	73,546.7	97,480.4	72,931.6	131,100.9	141,187.2
Thailand	15,936.0	4,975.5	8,927.7	3,486.3	8,285.2	13,751.8	5,518.7	(4,951.0)	15,158.8	11,218.0
Viet Nam	8,900.0	9,200.1	11,800.0	12,600.0	14,100.0	15,500.0	16,120.0	15,800.0	15,660.0	17,899.9
ASEAN	120,965.5	130,114.5	118,667.2	113,471.9	156,845.7	147,619.5	166,056.5	119,754.3	212,943.5	225,794.0

Source: ASEAN Secretariat, ASEAN Statistical Yearbook 2023.

*NB: Data for 2022 are preliminary.

19. World Bank and IMF, ...Debt Sustainability Analysis.

20. Soulivath Souvannachoumklam and Emma Veve, "Laos is getting a handle on its debt", Nikkei Asia, 15 January 2024.

21. UNCTAD, Vulnerability Profile: Lao People's Democratic Republic (Geneva, 2022).

significant. For example, net FDI inflows in 2022 were much lower in the Lao People's Democratic Republic at \$635.8 million compared to \$3.6 billion in Cambodia and \$17.9 billion in Viet Nam, indicating a huge potential for growth in FDI.

In 2022, remittances were also significantly lower in the Lao People's Democratic Republic at \$198 million compared to \$2.6 billion in Cambodia and \$13 billion in Viet Nam. Also in 2022, the Lao People's Democratic Republic IBRD loans and IDA credits stood at \$756 million compared to \$936 million for Cambodia. There is thus potential for the Lao People's Democratic Republic to learn through sharing of experiences and South-South cooperation with Cambodia and Viet Nam, particularly on ways to enhance FDI, remittances, concessional financing and mobilizing other external revenue sources.

The COVID-19 pandemic has highlighted the importance of risk management and resilience-building as critical areas for policy attention in the Lao People's Democratic Republic and the need for investment to enhance disaster preparedness. It also underscores that inherent climate risks are a critical challenge for that country and the Mekong subregion in terms of the impacts of extreme weather events on livelihoods, stability of food systems and preservation of physical assets, infrastructure services, and natural capital that could derail progress towards sustainable development. A major geopolitical risk for the Lao People's Democratic Republic relates to its positioning as a preferred supplier of electricity in Asia and a development strategy centred on the exploitation and export of hydropower in the region. Since the Mekong River is shared by six countries in Southeast

Asia, hydropower development in any one country and overloading of the river system with dams raise concerns about the alteration of the ecosystem that could have a detrimental impact on the economies and livelihoods of the communities that depend on the natural resources provided by the Mekong Basin, including beyond the borders of the country. This presents a challenge to develop hydropower sustainably and equitably. Notwithstanding a shared recognition that enhanced energy solutions are vital for accelerating industrialization in the Greater Mekong Subregion, tensions remain between Mekong Basin countries that wish to leverage hydropower exports (e.g. Cambodia, the Lao People's Democratic Republic and Myanmar).²² The Republic of Korea and the United Nations Office for South-South Cooperation (UNOSSC) triangular cooperation project on sustainable development are playing an important role by strengthening access to water, food and energy for vulnerable communities living in the Lower Mekong Basin (Cambodia, the Lao People's Democratic Republic, Thailand and Viet Nam) through multisectoral approaches in the application of technologies in high demand to improve the livelihoods of the people based on South-South cooperation and triangular cooperation modalities.²³

22. Ibid.

23. The project (Sustainable Development in the Lower Mekong Basin: Building Forward Better toward COVID-19 Recovery with Water-Energy-Food (WEF) Nexus Approach through South-South and Triangular Cooperation) is supported by the Ministry of Science and ICT of the Republic of Korea, while UNOSSC leads the project in partnership with other institutions including the Mekong River Commission Secretariat, the Mekong Institute and the Science and Technology Policy Institute. Additional project information is available at <https://unsouthsouth.org/2023/11/21/sustainable-development-in-the-lower-mekong-basin-building-forward-better-toward-covid-19-recovery-with-water-energy-food-wef-nexus-approach-through-south-south-and-triangular-cooperation-2023/>.

Regional proximity – both geographical and through trade agreements – to major Asian economies represents an opportunity and a challenge. In the context of human capital development, an abundance of low-skilled labour creates a degree of lock-in for the Lao People's Democratic Republic, given shortages of unskilled labour in neighbouring Thailand and Viet Nam.²⁴ Addressing this will require strategic focus and investments in institutional capacity, education and skills development to boost economic growth in the Lao People's Democratic Republic.

B. Opportunities

To restore macroeconomic stability and enhance the resources available to finance the development priorities of the Lao People's Democratic Republic, reforms are needed in policy areas including raising public revenues, expediting debt negotiations, improving the business environment and investment climate reforms. Improving debt management and debt sustainability are immediate priorities. Increasing FDI in hydropower but also diversifying the energy export base to include other renewable energy sources can, in turn, further enhance the share of electricity export earnings and help in keeping the debt outlook sustainable. Assessing and targeting infrastructure projects with high growth and social returns and financing these with concessional financing would also benefit debt sustainability.²⁵

Other areas of potential opportunity are domestic resource mobilization through international cooperation and the leveraging of concessional finance, particularly from

Southern and regional development banks. There is tremendous opportunity for South-South and triangular cooperation, exchanges of experiences with other countries, and interregional learning in areas such as renewable energy, skills development and education, enhancing FDI, concessional financing and leveraging remittances.

IV. Ongoing initiatives

The Lao People's Democratic Republic, a landlocked country in Southeast Asia, has undergone a remarkable socioeconomic evolution since becoming an ASEAN member in 1997. The ASEAN integration process, along with South-South and triangular cooperation, has played a pivotal role in catalysing unprecedented growth and elevating the status of the country in the global arena. The efforts of ASEAN to create a single market and production base opened new avenues for trade, investment and technological cooperation.

The **Initiative for ASEAN Integration (IAI)**, launched in 2000, aims to narrow the divide within ASEAN and enhance ASEAN competitiveness. Under the 2001 Ha Noi Declaration on the ASEAN Community's Post-2025 Vision, the Foreign Ministers of ASEAN called for special assistance to Cambodia, the Lao People's Democratic Republic, Myanmar and Viet Nam to further regional integration and to narrow the development gap within ASEAN and between ASEAN and the rest of the world for the sake of dynamic and sustained growth of the region and the prosperity of ASEAN. Under IAI, the Lao People's Democratic Republic has benefited from targeted support and investments in areas such as infrastructure development,

24. Ibid.

25. World Bank and IMF. Debt Sustainability Analysis.

human resource capacity-building including on tax collection, and the adoption of best practices in governance. More recently, through the negotiation and ratification of RCEP, the largest free trade agreement in the world covering the 10 ASEAN countries together with Australia, China, Japan, New Zealand and the Republic of Korea, ASEAN has facilitated the access of the Lao People's Democratic Republic to that free trade agreement. This has not only expanded market opportunities for Lao products but will also attract FDI and foster industrial development and job creation.

The **ASEAN Free Trade Area (AFTA)** targets the “achievement of a highly integrated and cohesive economy”, and the **ASEAN Comprehensive Investment Agreement (ACIA)** accords preferential treatment as well as other flexibilities to member States depending on their level of development.²⁶

The **ASEAN Guidelines for Special Economic Zone (SEZ) Development and Collaboration** are an excellent example of regional cooperation to promote and facilitate investments through a framework for the establishment of SEZs, designing SEZ strategies and improving the operations of existing SEZs through a favourable regulatory regime, a compelling master plan and excellent infrastructure. Some economic zones in ASEAN have acted as catalysts for the development of industrial clusters. Examples include automotive clusters in Indonesia and Thailand and electronics clusters in Malaysia, the Philippines, Singapore and Viet Nam. Although economic zone development in

Cambodia, the Lao People's Democratic Republic, Myanmar and Viet Nam is relatively recent, these SEZs are beginning to attract a wide range of FDI.²⁷

The **ASEAN Smart Cities Network** is also an excellent example of regional cooperation since it brings member States and multiple stakeholders together to cooperate based on solidarity, tailor-made approaches and knowledge-sharing. The Network facilitates cooperation on the development of smart cities, catalyses bankable projects with the private sector and helps to secure concessional financing from partners such as the World Bank, the International Finance Corporation (part of the World Bank Group), ADB and the Asian Infrastructure Investment Bank (AIIB).²⁸

Under the **Greater Mekong Subregion Economic Cooperation Programme (GMS Programme)**, supported by ADB and other donors, six countries (Cambodia, China, the Lao People's Democratic Republic, Myanmar, Thailand and Viet Nam) entered into a programme of subregional economic cooperation to enhance connectivity, promote trade and investment, ensure health security and encourage policy dialogue for effective environmental management. Regional investments place an emphasis on developing economic corridors to open up landlocked Lao People's Democratic Republic and narrow development gaps in its poorer provinces.²⁹ As part of the GMS Programme, “the **GMS Transport and Trade Facilitation Action Programme** is working to overcome existing barriers in order to link the subregion to the ASEAN Economic Community's single market

26. Ministry of Foreign Affairs of the Kingdom of Thailand, Mapping of South-South Cooperation in ASEAN, September 2018

27. Ibid.

28. Ibid.

29. ADB Member Fact Sheet, April 2024. Available at <https://www.adgizb.org/publications/series/fact-sheets?page=4>.



Photo by Shutterstock.com

and production base as well as other regional cooperation initiatives. The Programme is helping to expand transport and traffic rights along the GMS Cross Border Transport Facilitation Agreement (CBTA) route network; simplify and modernize customs procedures and border management; and strengthen the capacity of sanitary and phytosanitary agencies in the subregion.³⁰ The Strategic Framework 2030 of the GMS Economic Cooperation Programme,³¹ adopted in 2021, promotes innovative approaches in key cross-cutting areas. These include (a) harnessing the digital revolution to transform important sectors of the economy towards greater efficiency and inclusiveness; (b) an enhanced spatial approach based on an integrated network of economic corridors, dynamic border areas, and clusters of competitive and smart cities that are well connected to rural areas; (c) deeper dialogue

on policies and regulations, underpinned by knowledge-based solutions and capacity-building; (d) embracing private-sector solutions to leverage expertise and financing; and (e) gearing the GMS Programme to be a more open platform and cooperate closely and tap synergies and complementarities with other regional cooperation and integration initiatives.

The **Thailand Neighbouring Countries Economic Development Cooperation Agency (NEDA)** extends financial and technical assistance to neighbouring countries including Cambodia, the Lao People's Democratic Republic, Myanmar, Viet Nam, Bhutan, Sri Lanka and Timor-Leste mainly to promote transport connectivity in the Greater Mekong Subregion; enhance economic growth, trade and investment growth; decrease the development gap in the region; and achieve regional sustainability.

The **German Agency for International Cooperation (GIZ)** is helping the Government

30. Greater Mekong Subregion, "Transport and trade facilitation". Available at <https://greatermekong.org/g/ssf>.

31. Greater Mekong Subregion, "About the Greater Mekong Subregion Programme". Available at <https://greatermekong.org/g/about>.

of the Lao People’s Democratic Republic to improve the regulatory and procedural framework for regional trade and investment through the development of “sector-specific, practice-oriented toolkits for Lao exports to the ASEAN market”, “training courses and workshops” to “help companies in Laos to meet standards for the ASEAN market, to integrate into regional value chains and to use e-commerce to access the ASEAN market”.³²

The **ASEAN-UN Complementarities Initiative** is an excellent example of triangular cooperation. Its Complementarities Roadmap (2020–2025), prepared jointly by the ASEAN member States led by Thailand, the Economic and Social Commission for Asia and the Pacific (ESCAP) and the ASEAN Secretariat in 2019, aims to advance complementarities between the ASEAN Community Vision 2025 and the United Nations 2030 Agenda for Sustainable Development. Among its many objectives, the roadmap aims to support ASEAN efforts to strengthen its intra-trade and investment, to deepen its sustainable participation in regional and global value chains, and to pursue further economic integration within the region and into the global economy.

The **New Development Bank and the Asian Infrastructure Investment Bank (AIIB)**, through “their models of multilateral development finance,” demonstrate “an Asian approach to South-South cooperation that relies on infrastructure development” as a means of promoting domestic and intraregional connectivity and competitiveness, fostering trade and investments, and helping

32. GIZ, “Regional economic integration of Laos into ASEAN, trade and entrepreneurship development (RELATED)”. Available at <https://www.giz.de/en/worldwide/17473.html>.

countries to achieve the Sustainable Development Goals (SDGs). AIIB also prioritizes financing and support to green infrastructure in Member countries.³³

The **China Belt and Road Initiative** has helped the Lao People’s Democratic Republic to build several infrastructure projects including the \$6 billion Lao People’s Democratic Republic-China high-speed railway along with other major Chinese investments in roads and hydropower.

V. Role of South-South cooperation and triangular cooperation

South-South cooperation and triangular cooperation are being increasingly acknowledged globally as important catalysts in helping developing countries to facilitate the implementation of SDGs through strengthened partnerships for development cooperation. Recent developments in South-South cooperation have taken the form of increased volumes of South-South trade, South-South flows of FDI, compensatory finance mechanisms, movements towards regional integration, technology transfers, sharing of development solutions and experts, and other forms of exchanges.

As a regional organization of Southeast Asian countries, ASEAN, recognized globally for its success in regional integration and in addressing development gaps, is also a living

33. Karin Costa Vazquez, “South-South Ideas: Catalyzing the contribution of the New Development Bank and the Asian Infrastructure Investment Bank (AIIB) to the SDGs”, *South-South Galaxy*, 14 December 2021. Available at <https://www.south-south-galaxy.org/publications/south-south-ideas-catalyzing-the-contribution-of-the-new-development-bank-and-the-asian-infrastructure-investment-bank-to-the-sdgs/>.



example of South-South cooperation. Mutually beneficial cooperation has been the backbone of ASEAN since its inception and laid the foundation for the advancement of ASEAN to regional integration and the development of an ASEAN Community. ASEAN and South-South cooperation share similar principles, including the manifestation of solidarity, respect for sovereignty, and the equality of all the voices of member States in decision-making. More recently, South-South cooperation and triangular cooperation also had a major influence in shaping the future direction of the Initiative for ASEAN Integration with a number of diverse forms of intra-ASEAN cooperation, such as bilateral assistance, subregional cooperation, technical assistance and capacity-building initiatives.

As evidenced through the examples presented earlier, the Lao People's Democratic Republic integration into ASEAN, spurred by

South-South cooperation, and the linkage between subregional and regional institutions such as the ADB Greater Mekong Subregion Programme, along with the support of development partners including the United Nations, has propelled growth, in particular in boosting FDI and remittances, mobilizing concessional financing, narrowing development gaps, and developing infrastructure, trade and connectivity.

While South-South cooperation and triangular cooperation, including subregional and regional cooperation, are already playing an important role as the countries in ASEAN have reached different levels of economic and human development, opportunities for South-South and triangular cooperation through capacity development, technical assistance and the sharing of knowledge, experiences and technology have increased. Further strengthening such cooperation has the potential to positively impact the

macroeconomic stability, growth and development of the Lao People's Democratic Republic. This is possible through the scaling up of investment cooperation, particularly in sustainable infrastructure, and concessional and compensatory finance mechanisms for vulnerable countries. South-South and triangular cooperation can also be strengthened through the sharing of experiences, knowledge and technology in areas such as sustainable debt management and debt relief negotiations, incentivizing and managing remittances, boosting domestic revenue mobilization and international tax cooperation. The role of regional development banks such as NDB and AIIB, ASEAN countries and middle-income countries such as China and India will be critical in scaling up regional cooperation and South-South cooperation.

As linkages with China and Thailand continue to be very important for the Lao People's Democratic Republic, an intensified effort to attract enhanced FDI to develop an integrated network of efficient transport linkages in the GMS area covering Cambodia, the Lao People's Democratic Republic, Myanmar, Southern China, Thailand and Viet Nam would be critical for economic development in the Lao People's Democratic Republic. Another important area for enhanced FDI and cooperation is green technologies, particularly considering the high rates of urbanization in the Lao People's Democratic Republic. Solutions based on good policies on greening, conservation and smart technology can help the region to achieve sustainable growth. ASEAN could look to fostering linkages and partnerships among the knowledge centres as an integral part of its sustainability efforts. An example of an

initiative that can be scaled up is the ASEAN Environmentally Sustainable Cities Model Cities Programme, which assists ASEAN cities to enhance environmental performance and progress towards a clean and green ASEAN through seed funding, technical assistance, city-to-city collaboration, and replication and scaling up of good practices and policies within and across countries.

RCEP, which became effective in January 2022, offers opportunities to provide further impetus to deeper integration of regional supply chains and economies in East and Southeast Asia; improve access to the funds of the China Belt and Road Initiative; increase the investment interest of industrialized countries in lower-cost production sectors in Cambodia, the Lao People's Democratic Republic and Myanmar; and generate economic gains through increased market access by strengthened intraregional connectivity. The Lao People's Democratic Republic already receives more than 90 per cent of its FDI from RCEP members; economic cooperation under RCEP could help the country to play a stronger role in global value chains by means of even greater investment in infrastructure and manufacturing projects, helped by strengthened economic linkages between its main trading partners – China, Thailand and Viet Nam – and large industrialized countries (Australia, Japan, New Zealand, the Republic of Korea and Singapore).³⁴

34. UNCTAD, *Vulnerability Profile: Lao People's Democratic Republic* (Geneva, 2022).

VI. Findings and conclusions

Under its ninth Five-Year National Socioeconomic Development Plan, 2021–2025, the Lao People's Democratic Republic aims to promote quality, sustainable, inclusive and green growth in the context of recovery from the COVID-19 pandemic and to graduate from LDC status in 2026. Recent forecasts predict that the real GDP of the Lao People's Democratic Republic will expand by 4.7 per cent in 2024. However, a prolonged El Niño event could keep water levels low in the Mekong River, suppressing output of hydropower, the Lao People's Democratic Republic key goods export,³⁵ indicating the need to invest more in economic diversification and resilience. Faced with a debt-repayment crisis, the Government is expected to maintain fiscal austerity measures, improving economic stability in the long run but hampering its ability to stimulate stronger economic growth and provide welfare aid to low-income households.³⁶ The Lao People's Democratic Republic position as Chair of the ASEAN Summit in 2024 will give international exposure in a year that will shape future priorities of the post-2025 vision for ASEAN. The priorities of the Lao People's Democratic Republic during its time as Chair will focus on enhancing connectivity, narrowing development gaps among ASEAN member States, promoting a green transition and carbon neutrality, and driving digital transformation in the region.³⁷

35. <https://country.eiu.com/laos>

36. <https://country.eiu.com/laos>

37. Sanchita Basu Das and Julia Tijaja, "Towards AEC 2025 and beyond: Making the most of Laos' 2024 ASEAN Chairmanship", Fulcrum, 8 January 2024.

South-South and triangular cooperation and regional and subregional cooperation can play a significant role in building economic resilience, promoting growth and strengthening the means of implementation, specifically through better access to external resources, such as concessional finance, FDI and remittances, and technology transfer on mutually agreed terms. Findings and conclusions in the following areas could help to harness the full potential of South-South and triangular cooperation to realize the ambitions of the Lao People's Democratic Republic and share its experiences with other countries:

A. economic diversification and investment promotion

For a small, landlocked country such as the Lao People's Democratic Republic, the ASEAN and RCEP market and production base offers great economic potential by opening up more opportunities to access regional and global markets and value chains. However, these opportunities call for regulatory and procedural changes in the Lao People's Democratic Republic to further align with these regional agreements. The Government plans to revisit the law on investment promotion to improve tax policy coordination while upgrading the regulatory environment for public-private partnerships through tabling a new law. South-South cooperation and triangular cooperation, through capacity-building and experience-sharing on strategies for promoting investment and improving investment climate and business environment, would further improve the investment outlook, help to diversify the economy and make growth more inclusive. More can also be done to leverage benefits from South-South and triangular cooperation,

Figure 3. The vital five reforms to secure macroeconomic stability



Source: World Bank, Lao People's Democratic Republic Economic Monitor, October 2022: Tackling macroeconomic vulnerabilities – Key findings”, 17 November 2022.

both international and regional, to escalate development progress, including measures to diversify the economy, boost trade, increase agricultural production, and harness the power of its cities to promote inclusive and equitable growth.³⁸

Economic diversification is needed to expand private-sector investment, generate employment in services and industry, and promote regional cooperation and integration. While increasing FDI to harness hydropower remains important considering the potential geopolitical and sustainability concerns in the

Mekong River Basin, FDI could be incentivized and promoted to diversify the energy base, including through South-South and triangular cooperation and the sharing of expertise and technology. Major investors such as China, Japan and Thailand could increase their FDI in renewable energy. Regional and Southern development banks could incentivize energy transition to other renewable energy sources through concessional financing in such areas. Models such as NDB and AIIB prioritization of sustainable infrastructure, including financing green infrastructure, could also be scaled up. Increasing linkages between subregional and regional institutions and enhanced investments by ADB and other partners in regional

38. ADB Member Fact Sheet, April, 2024. Available at <https://www.adb.org/publications/lao-pdr-fact-sheet>.

connectivity projects could further link the Lao People's Democratic Republic through the development of economic corridors and SEZs.

To attract FDI and develop the potential for technology transfer, the Lao People's Democratic Republic could leverage South-South and triangular cooperation through learning from countries such as Singapore to strengthen human capital with skills to compete effectively in the global economy.

B. digital economy

Within ASEAN, South-South and triangular cooperation can facilitate capacity-building and knowledge-sharing to develop digital infrastructure and policies to support digital transformation, e-commerce and the digital economy. The Lao People's Democratic Republic position as Chair of ASEAN in 2024 offers an opportunity to promote a comprehensive and coordinated approach to digital-economy cooperation, including data governance, digital connectivity, e-commerce, digitalization of micro, small and medium-sized industries, digitally enabled trade facilitation and payment connectivity. Countries such as China can play an important role in this regard.

C. debt sustainability

The Government of the Lao People's Democratic Republic is negotiating with bilateral and multilateral creditors to further defer and restructure its debt. The Group of 20 Common Framework aims to provide comprehensive debt relief for developing countries, while there are ongoing debt renegotiations with large bilateral creditors. About \$1.2 billion in debt payments that were

due to key creditors between 2020 and 2022 have been deferred, providing much-needed liquidity support.³⁹ Over half the public debt of \$18.7 billion by the end of 2022 is owed to China as part of its Belt and Road Initiative and other major Chinese investments in roads and hydropower. A successful conclusion of ongoing debt renegotiations with China is critical for placing the economy of the Lao People's Democratic Republic on a more sustainable path.⁴⁰ Some 8 per cent of the debt of the Lao People's Democratic Republic is owed to ADB, 7 per cent to the World Bank and 6 per cent to Thai institutions, according to the World Bank, and the Government of the Lao People's Democratic Republic has begun renegotiations with them. Debt negotiations could also adopt a climate-centric approach such as debt-for-climate swaps, which would entail commitment by the Lao People's Democratic Republic to environmental policies in return for debt relief.

South-South cooperation can play an important role in long-term debt sustainability through debt negotiations and coordinated policies aimed at fostering debt financing, debt relief, debt restructuring and sound debt management. Other initiatives include working collectively with development partners to advance swaps of debt for climate adaptation; developing innovative financing mechanisms for providing liquidity support; and engaging in South-South cooperation in advancing the construct of a global architecture for debt restructuring. The Lao People's Democratic Republic can draw on the lessons and experiences of other countries, with the support of international development partners,

39. Soulivath Souvannachoumksam and Emma Veve, "Laos is getting a handle on its debt", Nikkei Asia, 15 January 2024.

40. World Bank, Lao People's Democratic Republic Economic Monitor: October 2022 (Washington, D.C., World Bank).

to enhance transparency and strengthen sustainable debt management. For example, a recent high-level dialogue organized by the Ministry of Finance and ADB on good practices to enhance public-debt management offered the Government an opportunity to share experiences on national and subnational public-debt management and debt-sustainability best practices with practitioners and experts from across the world.⁴¹

D. concessional financing

Related to debt financing, South-South cooperation can be a growing source of concessional financing from Southern and regional development banks, particularly for targeted sustainable infrastructure and energy transition projects with high growth and social returns.

E. domestic resource mobilization

Broadening the tax base is critical to boost domestic revenue mobilization in the Lao People's Democratic Republic. The country is already modernizing its tax collection and revenue information systems and, to find other ways to improve revenue collection, it is potentially including new taxes on land, property and products with negative health, environmental or social consequences. E-filing and e-payment systems and an improved value-added tax system are being developed for businesses.⁴² International tax cooperation initiatives and South-South and triangular cooperation, within ASEAN and beyond, can develop capacity through the sharing of experiences in this critical area.

41. Soulivath Souvannachoumklam and Emma Veve, "Laos... debt".

42. Ibid.

F. remittances and diaspora potential

There is also potential for South-South and triangular cooperation to share experiences and expertise on boosting remittances from diaspora communities through policy measures both domestically and in collaboration with regional partners. A good example of engagement of diaspora communities in sustainable development is the Ethiopian Diaspora Trust Fund⁴³ established as a mechanism for collecting and channelling the financial contributions of the Ethiopian diaspora community to improve the lives of poor and disadvantaged people in Ethiopia through creative and entrepreneurial projects.

G. expanding ASEAN reach as a global actor

The success story of the Lao People's Democratic Republic Diaspora Trust Fund serves as an example for other LLDCs navigating similar development challenges towards inclusive growth and integration. The collaborative efforts within the ASEAN framework and the principles of South-South cooperation have transformed challenges into opportunities, demonstrating the potential for subregional, regional and global solidarity in advancing the development agenda. ASEAN can expand its reach as a global actor by leveraging intraregional and interregional synergies and further scaling up links to other regional connectivity frameworks as well as by sharing its experiences in implementing regional agreements and regional integration to boost means of implementation with other regions such as the Common Market for Eastern and Southern Africa and the Caribbean Community.

43. <https://www.ethiopiastrustfund.org/who-we-are>.



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