

THE WAVERLEY SERIES

LAOS

An Insight of Investment, Trade and Economy

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For Advisory & Partnership

LORD WAVERLEY

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LAOS — AT A GLANCE

Capital	Vientiane
A severe, unresolved debt crisis	Total public and publicly guaranteed debt is estimated at 97-130% of GDP depending on source and year measured; China holds nearly half of Laos' sovereign external debt, and annual debt payments are expected to reach at least USD 700 million by 2028; independent analysis states plainly that 'the only way out of the crisis is probably extensive debt relief from China on an unprecedented scale'
Dependence on ad hoc Chinese deferrals	Laos has relied on repeated ad hoc debt service deferrals from Chinese creditors since 2020, with principal postponements of USD 222 million (2020) rising to USD 609 million (2022) before easing to USD 427 million (2024); cumulative suspended interest has reached USD 470 million, now added to the debt stock; the IMF states this 'effectively pushes principal payments further into the future,' now expected between 2027 and 2040, with 'unidentified financing' still required for post-2027 repayments
The China-Laos Railway	China lent 70% of the USD 6 billion needed for this high-speed rail link to Kunming; the parent company has no revenue beyond the railway itself yet must also repay a USD 3.54 billion loan to China's Export-Import Bank; one company executive told reporters that without connections to the Chinese and Lao investors involved, 'it is almost impossible to utilise the rail'
Energy-sector debt concentration	State utility Électricité du Laos carried USD 5.4 billion in total debt as of 2023, including USD 1.8 billion government-guaranteed; the energy sector alone accounts for more than USD 6 billion of government debt exposure, the largest single component of the country's debt burden
Asset sales to Chinese buyers	Laos is already selling state-owned companies and mining concessions to Chinese buyers to manage liquidity pressures, a response independent analysis warns risks 'countering a temporary liquidity crisis with a permanent solvency crisis'
A declared 'self-reliant economy' policy response	Formalised at the January 2026 Party Congress and elaborated the following month, this approach seeks to reduce debt, enhance sovereign resilience, and improve transparency and the business environment, underpinning a 6% annual GDP growth target under the 10th Five-Year National Socio-Economic Development Plan
Diversification beyond China	Laos is seeking increased investment from Vietnam and has revitalised ties with Russia, culminating in seven agreements signed in Moscow and a defence cooperation roadmap; the Vientiane Declaration III (2026-2035), launched November 2025, calls for transitioning from an aid-driven approach to a more integrated financing model
Continued FDI, led by China	Foreign direct investment is expected to remain resilient, led by China through the Belt and Road Initiative, followed by Vietnam and Thailand
Governing framework	A one-party state governed by the Lao People's Revolutionary Party (LPRP), with independent analysis noting no prospects for political pluralism;

	parliamentary elections held 22 February 2026, with the newly convened National Assembly to elect senior leaders
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Laos remains caught in one of the most severe, unresolved sovereign debt crises identified in this series, with public debt estimated as high as 130% of GDP and nearly half of it owed to China, kept from formal default only through repeated ad hoc Chinese deferrals that independent analysts warn are converting a temporary liquidity problem into a permanent solvency crisis. The government has responded with a genuine 'self-reliant economy' policy shift and active diversification toward Vietnam and Russia, even as it continues selling state assets to Chinese buyers to manage near-term cash pressures. Investors should read Laos as a country whose investment case is dominated by acute, unresolved debt distress, where any specific opportunity must be weighed directly against the risk of a broader sovereign solvency crisis still awaiting genuine resolution.

1. INVESTMENT & FDI

Continued FDI led by China, Vietnam and Thailand persists even as the government's own asset sales to Chinese buyers illustrate the depth of the underlying fiscal distress shaping the investment environment.

Foreign direct investment in Laos is expected to remain resilient, led by China through its Belt and Road Initiative, followed by Vietnam and Thailand. However, Laos is already selling state-owned companies and mining concessions to Chinese buyers specifically to manage liquidity pressures, a response independent analysis warns risks converting a temporary liquidity crisis into a permanent solvency crisis. The Vientiane Declaration III (2026-2035), Laos' renewed development cooperation framework launched at the 14th High-Level Round Table Meeting in November 2025, explicitly calls for a 'transition from an aid-driven approach to a more integrated financing model' while strengthening existing partnerships.

- **A continued, if narrowly sourced, FDI pipeline despite the severe fiscal backdrop:** the persistence of Chinese, Vietnamese and Thai investment demonstrates some ongoing external confidence, though its heavy concentration in these three specific partners reflects Laos' limited broader international investment appeal.
- **A specific, sourced warning about the nature of the government's own debt-management response:** the direct characterisation of asset sales as risking a shift from liquidity to solvency crisis represents a serious, credible caution about the underlying financial health investors should weigh directly.
- **A stated, structural shift in the government's own development-financing philosophy:** the explicit move from an aid-driven to a more integrated financing model, articulated in the Vientiane Declaration III, represents a specific, sourced policy direction relevant to how future international investment and assistance will be structured.

2. TRADE & BUSINESS

The China-Laos Railway, the country's flagship infrastructure project, illustrates a specific, documented gap between headline project completion and actual accessible economic benefit for businesses without direct Chinese or Lao investor connections.

China lent 70% of the \$6 billion needed for the high-speed rail link between Vientiane and Kunming, structured as a 70-30 joint venture between Chinese state-owned companies and a Laotian one; the Laotian government has stated it expects the railway to be profitable, but the parent company, which has no revenue beyond that

generated by the railway itself, must also repay a \$3.54 billion loan from China's state-run Export-Import Bank. One company executive in Laos told reporters that only companies connected to the Chinese and Lao investors in the project appear able to access it, adding that without such connections, 'it is almost impossible to utilise the rail.'

- **A specific, quantified financial structure creating direct pressure on the railway's own viability:** the precise 70% Chinese lending share and the \$3.54 billion Exim Bank loan obligation demonstrate concrete, sourced financial pressures on a project with no alternative revenue source.
- **A directly documented access barrier undermining the project's broader economic benefit:** the specific, on-record testimony that non-connected companies find it 'almost impossible' to utilise the railway represents serious, sourced evidence that headline infrastructure achievement has not translated into broadly accessible commercial opportunity.

3. MAJOR ECONOMIC DEVELOPMENTS

Laos remains trapped in an unresolved debt crisis sustained only by repeated ad hoc Chinese deferrals, even as the government has genuinely begun pursuing a 'self-reliant economy' policy shift and active diversification toward Vietnam and Russia.

Total public and publicly guaranteed debt is estimated at 97-130% of GDP depending on source and measurement year, with China holding nearly half of Laos' sovereign external debt; annual debt payments are expected to reach at least \$700 million by 2028, a level independent analysis states will 'consume a large part of already scarce currency reserves and state revenue.' Laos has relied on repeated ad hoc debt service deferrals from Chinese creditors since 2020, with principal postponements of \$222 million in 2020 rising to \$609 million in 2022 before easing to \$427 million, equivalent to 2.7% of GDP, in 2024; cumulative suspended interest has reached \$470 million, equivalent to 3% of GDP over five years, now added to the debt stock estimates. The IMF's 2025 Article IV Debt Sustainability Analysis states directly that this deferral pattern 'effectively pushes principal payments further into the future,' now expected to be repaid between 2027 and 2040, while gross financing needs beyond 2027 currently rely on 'unidentified financing,' with the outcome of ongoing debt negotiations with China remaining genuinely uncertain; the IMF concludes Laos' 'public debt burden remains unsustainable' and the country is 'increasingly dependent on China for future refinancings, rollovers.' Independent analysis from BTI states bluntly that 'the only way out of the crisis is probably extensive debt relief from China on an unprecedented scale,' warning that current asset sales risk converting a temporary liquidity crisis into a permanent solvency crisis. Government revenue fell from 20% of GDP in 2013 to 15.4% in 2019, reflecting investment incentives, tax exemptions and weak compliance, while credit rating downgrades by Moody's and Fitch in 2020, followed by a Thai rating agency in 2023, have largely closed off access to the Thai bond market. In response, the ruling Lao People's Revolutionary Party began promoting a 'self-reliant economy' concept in late 2024, formalised at the January 2026 Party Congress and elaborated the following month, seeking to reduce debt, enhance sovereign resilience, and improve transparency and the business environment; this underpins a 6% annual GDP growth target under the 10th Five-Year National Socio-Economic Development Plan, a notably higher target than the 4% goal set at the 2021 Party Congress, itself already a reduction from an earlier 7.5% target that was ultimately missed. The strategy also implies deliberate geoeconomic diversification away from China: Laos is seeking increased investment from fast-growing ally Vietnam, while revitalising ties with Russia, culminating in seven wide-ranging agreements signed in Moscow and a defence cooperation roadmap. Laos' foreign policy approach has been described as 'dwarf bamboo diplomacy,' reflecting adaptability, consensus and profound regional embeddedness in balancing China as its largest investor and creditor, Vietnam as a long-standing party ally, Thailand as a key trading partner, and Western development partners; parliamentary elections were held 22 February 2026, with the newly convened

National Assembly to elect senior leaders, though Laos remains, in the words of independent governance analysis, 'a one-party state without prospects for political pluralism.'

- **A genuinely severe, multiply-sourced debt burden with real solvency implications:** the consistent finding across BTI, the IMF and the Lowy Institute that Laos' debt is unsustainable, and specifically dependent on a single major creditor for continued rollover, represents a serious, cross-validated assessment rather than a single source's alarmism.
- **A specific, quantified deferral mechanism that manages near-term cash flow while worsening long-term obligations:** the IMF's own direct framing that deferrals merely push payments to 2027-2040, rather than resolving the underlying burden, provides investors an honest, sourced basis for understanding why near-term stability should not be mistaken for genuine debt sustainability.
- **A specific, sourced structural revenue decline compounding the debt burden's severity:** the direct citation of government revenue falling from 20% to 15.4% of GDP represents a concrete, quantified fiscal capacity erosion occurring alongside, and compounding, the debt crisis itself.
- **A genuine, credible policy response distinct from mere rhetorical acknowledgment of the crisis:** the specific 'self-reliant economy' framework, formalised at a Party Congress and embedded in the current Five-Year Plan's growth target, represents a concrete institutional commitment to addressing the crisis, even if its ultimate success remains unproven.
- **A specific, documented history of missed and successively revised growth targets:** the trajectory from 7.5% to 4% to the current 6% target, with the 4% goal itself having been missed, provides investors an honest, sourced basis for calibrating scepticism about the achievability of current growth ambitions.
- **A concrete, quantified geoeconomic diversification effort beyond rhetoric:** the specific seven Moscow agreements and defence cooperation roadmap with Russia, alongside sought Vietnamese investment, represent genuine, sourced diplomatic and economic actions distinct from a stated diversification aspiration alone.

4. MAJOR PROJECTS & INFRASTRUCTURE

The energy sector's more than \$6 billion in government debt exposure, anchored by state utility Électricité du Laos, represents the largest single component of Laos' infrastructure-linked debt burden.

- **Électricité du Laos (EDL) debt exposure:** the state utility's \$5.4 billion total debt load as of 2023, including \$1.8 billion government-guaranteed, represents the single largest infrastructure-linked liability within Laos' broader debt crisis.
- **China-Laos Railway:** described extensively in Section 2, this flagship infrastructure project's own financing structure and documented access limitations represent a specific, cautionary case study for how infrastructure investment has translated into practical economic outcomes.

5. CONFERENCES, FORUMS & EXHIBITIONS

The 14th High-Level Round Table Meeting represented the most significant recent international development-cooperation event shaping Laos' forward financing strategy.

- **14th High-Level Round Table Meeting, November 2025:** described in Section 1, this meeting launched the Vientiane Declaration III, representing the central platform for articulating Laos' renewed development financing framework to international partners.

6. BUSINESS & INVESTMENT EVENTS

The January 2026 Party Congress represented the year's most significant formal domestic policy event, formalising the 'self-reliant economy' framework central to Laos' current economic strategy.

- **Lao People's Revolutionary Party Congress, January 2026:** described extensively in Section 3, this Congress formalised the self-reliant economy concept and set the current 6% growth target underpinning the 10th Five-Year Plan.

7. GOVERNMENT & INTERNATIONAL PARTNERSHIPS

China's dominant creditor and investor position, alongside genuine diversification efforts toward Vietnam and Russia, define Laos' most consequential and actively evolving current international relationships.

- **China:** as the holder of nearly half of Laos' sovereign external debt and its leading FDI source, described extensively in Section 3, China represents by far Laos' most consequential, if increasingly strained, international relationship.
- **Vietnam:** described as a 'long-standing party ally' and a target for increased investment under the diversification strategy, this relationship represents a genuine, sourced alternative partnership Laos is actively cultivating.
- **Russia:** the specific seven-agreement Moscow package and defence cooperation roadmap, described in Section 3, represent a concrete, revitalised relationship distinct from Laos' more traditional regional partnerships.
- **IMF:** the Fund's detailed 2025 Article IV Debt Sustainability Analysis, described extensively in Section 3, represents the most authoritative current independent assessment of Laos' debt trajectory and financing needs.

8. SME & PRIVATE-SECTOR DEVELOPMENTS

Weak institutions and limited absorptive capacity for large-scale investment have directly constrained how broadly Laos' infrastructure investment has translated into genuine private-sector opportunity.

Independent analysis states directly that China 'lent on a huge scale to a country with weak institutions and limited ability to productively absorb the investment,' a structural characterisation directly relevant to understanding why infrastructure projects like the China-Laos Railway have not translated into broadly accessible private-sector opportunity, as described in Section 2. Unreliable unemployment statistics, combined with low salaries and high inflation, have contributed to increasing out-migration, a booming shadow economy, and a return to subsistence agriculture among the Lao population.

- **A direct, sourced institutional-capacity constraint underlying the country's broader investment challenges:** this explicit characterisation provides important context for why large-scale foreign lending has not produced correspondingly broad-based private-sector development.
- **Specific, sourced evidence of private-sector and household economic distress beyond the sovereign debt figures alone:** the direct citation of out-migration, shadow-economy growth and subsistence-agriculture reversion represents concrete, human-level evidence of the crisis's practical impact on ordinary economic life.

9. NEW INVESTMENT OPPORTUNITIES / PROJECTS ANNOUNCED

Given the severity and unresolved nature of Laos' sovereign debt crisis, this briefing identifies no new investment opportunities meeting a credible risk-adjusted threshold at this time, beyond continued, narrowly-scoped Chinese, Vietnamese and Thai FDI already described.

Any specific investment consideration in Laos must be weighed directly against the unresolved debt sustainability questions, the documented access limitations even for flagship completed infrastructure, and the genuine risk that current asset sales to Chinese buyers convert a liquidity problem into a permanent solvency crisis, as described throughout this briefing.

SUMMARY ASSESSMENT

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The government has responded with a genuine 'self-reliant economy' policy shift and active diversification toward Vietnam and Russia, even as it continues selling state assets to Chinese buyers to manage near-term cash pressures. Investors should read Laos as a country whose investment case is dominated by acute, unresolved debt distress, where any specific opportunity must be weighed directly against the risk of a broader sovereign solvency crisis still awaiting genuine resolution.