

Sustainable Development and Trade: Strengthening EU-Lao PDR Cooperation through the EU-ASEAN Partnership

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Abstract

The collaboration between the Association of Southeast Asian Nations (ASEAN) and the European Union (EU) serves as a prominent example of interregional cooperation. However, academic research assessing the European Union (EU) and the Lao People's Democratic Republic (Lao PDR) cooperation remains limited, studies of trade and sustainable development outcomes have not been systematically examined. This study explores the EU-Lao PDR trade cooperation and sustainable development, analyses the challenges and opportunities, identifies the strategies that could strengthen bilateral relations. Through a comprehensive literature review and the analysis of statistical data to examine the dynamics of the collaboration. The research highlights a trade imbalance, with the EU consistently importing more from Lao PDR over the 2022-2025 period, while key challenges include regulatory compliance, and insufficient integration into global value chains. The study suggests that strengthening cooperation requires closer alignment between market access and support for competitiveness. By integrating policy analysis with statistical data, this study addresses a research gap regarding the impact of EU-ASEAN frameworks on trade and sustainable development in Lao PDR.

Introduction

The cooperation between the European Union (EU) and the Association of Southeast Asian Nations (ASEAN) is a long-established partnership that began in the 1970s, and EU-ASEAN cooperation has been particularly successful in the area of trade (Flers, 2010). In 1977, the European Union (EU) became ASEAN's Dialogue Partner, followed by the formal institutionalization of the signing of the ASEAN-EEC (European Economic Community) Cooperation Agreement on 7 March

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1980 (ASEAN, 2022a). The EU-ASEAN dialogue has evolved over the past decades from the limited scope of trade, investment, and development cooperation; the partnership has broadened to include social and cultural issues, as well as political and security dialogue (Paderon, 2020). In 2021, ASEAN was the third largest trading partner of the European Union, after the United States and China, with total EU exports to ASEAN amounting to €79.7 billion, while EU imports from ASEAN totaled €136.1 billion. Nevertheless, the European Union has been the most important source of Foreign Direct Investment (FDI) in ASEAN countries, as in 2022, foreign direct investment (FDI) inflow from the EU to ASEAN was USD 24 billion (ASEAN, 2023). As the EU and ASEAN's economic partnership has developed, inter-regional trade and investment have intensified, making ASEAN an attractive trading partner for EU businesses (European Union External Action, 2019). The EU and ASEAN have transformed their relationship from a dialogue partnership into a leading model of interregional cooperation, achieving in a Strategic Partnership in 2020, and they share a joint commitment to fostering a fairer, greener, and more sustainable future (EU-ASEAN Strategic Partnership, 2021a). Through this partnership, the EU is committed to assisting the Lao People's Democratic Republic (Lao PDR) on its path towards sustainable and inclusive national development (European Commission, 2024b). In Lao PDR, the EU seeks to support sustainable development by promoting high-quality trade and investment, particularly in green-economy-related sectors, alongside efforts to improve governance and develop workforce skills (European Commission, 2024b). The EU works closely with Lao PDR under the EU-ASEAN Cooperation Agreement to ensure an effective environment for trade and investment relations (European Commission, 2025b).

The EU cooperates with ASEAN as a whole. The cooperation is maintained through the EU-ASEAN Dialogue, which includes trade and investment (European Commission, 2025b). Recent policy developments have further strengthened this cooperation. On 1 December 2020, the EU and ASEAN became Strategic Partners, opening a new chapter in their longstanding relationship (European Union External Action, 2024). The strategic partnership has brought a shared commitment to fostering a fairer, greener and more sustainable future, which is aligned with the European Green Deal. The EU's action plan emphasizes a just transition for all, with actions in this area promoting the importance of environmental sustainability for people and the economy (EU-ASEAN Strategic Partnership, 2022). On 1 December 2021, the European

Union launched the Global Gateway, outlining the EU's global plan to support infrastructure development and mobilize investments to boost smart, clean and secure links in the digital, energy, and transport sectors across the world. In Laos, through the Global Gateway, the EU has initiated the Team Europe partnership with Lao PDR to boost sustainable trade and investment in agriculture and forestry sectors, which focus on several areas such as coffee, tea, and forest-based value chains, and connectivity to markets (European Commission, 2024a). The EU and Lao PDR maintain a long-standing partnership based on mutual interest that extends beyond economic considerations. This relationship encompasses sustainable development, investment opportunities, and shared interests aimed at promoting an interconnected and prosperous ASEAN region (Delegation of the European Union to the Lao PDR et al., 2021). The EU has remained committed to supporting Lao PDR's path toward sustainable and inclusive development. This partnership supports Lao PDR's aspiration to graduate from Least Developed Country status by aligning with Lao PDR's National Socio-Economic Development Plans and sector-based strategies (European Commission, 2025d). Under the framework of the European Green Deal and the EU's Global Gateway Strategy, the European Union continues to support Lao PDR in advancing sustainable and high-quality trade and investment, particularly in sectors associated with the green economy. Additionally, the EU is committed to strengthening good governance and fostering human capital development through targeted skills enhancement initiatives (European Commission, 2025d).

Despite the growing significance of EU-Lao PDR cooperation, the academic study of bilateral cooperation between the EU and Lao PDR remains limited, especially regarding to bilateral trade and sustainable development, which have not been systematically examined. Most studies focus on broader EU-ASEAN cooperation or larger ASEAN economies. For example, existing academic studies (Flers, 2010; Paderon, 2020) focus primarily on the broader EU-ASEAN framework without analyzing the specific challenges and opportunities facing least-developed ASEAN member states such as Lao PDR. Moreover, recent EU frameworks, including the Strategic Partnership between the EU and ASEAN established in 2020, the Global Gateway initiative, and the Team Europe Strategy for Lao PDR for 2021-2025, have received limited academic attention regarding their implications for bilateral trade and sustainable development cooperation with Lao PDR. This study addresses that gap by examining the current state

of EU-Lao PDR trade relations and sustainable development cooperation, especially on the trade structure, the ongoing trade imbalance, and the challenges and opportunities shaping the bilateral cooperation. It also explores the strategies and policy directions that could strengthen future cooperation between the EU and Lao PDR. Therefore, this study addresses two main research questions. First, what is the current state of EU-Lao PDR trade and sustainable development cooperation within the EU-ASEAN framework? Second, what are the key challenges and opportunities for strengthening EU-Lao PDR bilateral trade and sustainable development cooperation? By integrating policy analysis with trade and investment statistical data, this study contributes to the limited academic literature on EU-Lao PDR bilateral cooperation by contributing to a better understanding of opportunities and mutual interest that may emerge from stronger bilateral trade and sustainable development by linking recent EU-ASEAN policy frameworks with trade and investment statistics, and demonstrating how trade imbalance and structural barriers continue to shape the prospects for deeper and more sustainable bilateral cooperation.

To provide a more comprehensive understanding of the of the development of cooperation between the EU and Lao PDR, this study outlines two primary objectives, which are grounded in the context of the EU-ASEAN partnership. The study analyses the current state of EU-Lao PDR trade and sustainable development relations and aims to explore how this bilateral cooperation aligns with Lao PDR's national development goals and the EU's strategic frameworks, such as the European Green Deal, the Global Gateway, and the Indo-Pacific Strategy. The study outlines two primary objectives as follows:

1. Assess the current state of EU-Lao PDR trade relations, sustainable development cooperation, and the existing cooperation framework.
2. Identify potential strategies and policies that can enhance cooperation between the EU and ASEAN, particularly with Lao PDR.

Theoretical Framework

This study draws on several theoretical approaches, including economic integration, interregionalism, and trade and sustainable development, to examine EU-Lao PDR trade and cooperation under the EU-ASEAN partnership. These perspectives provide a useful framework for understanding the relationship by highlighting the institutional structure of cooperation,

the practical barriers to trade, and the unequal economic dynamics between the two partners. The EU-ASEAN partnership reflects an interregional relationship grounded in shared values, where the reduction of trade barriers and deeper regional cooperation are expected to promote trade creation and economic growth. Within this framework, the regional integration approach explains how EU-Lao PDR cooperation is embedded in the broader EU-ASEAN framework, while the trade and sustainable development perspective clarifies why preferential market access alone has not been sufficient to expand Lao PDR's exports to the EU, particularly given regulatory barriers, standards requirements, and limited competitiveness. Together, these perspectives also highlight the continuing trade imbalance and the EU's stronger role in investment and institutional support, shaping an unequal economic relationship between the two partners.

In regional integration, Balassa (2012) outlines that the regional development process step by step, mainly through reducing trade barriers over time, the successive forms of integration is from free trade areas and customs unions to common markets, economic unions, eventually leading to complete economic integration, with greater policy coordination and fewer barriers within the region. Removing internal barriers is expected to increase trade among member countries, support economies of scale, and contribute to overall economic growth (Balassa, 2012). Economic integration is also viewed as a contributing to stability, as shared policies tend to reinforce political connections and create closer links between economic and security cooperation (Feldstein, 1988). The EU-ASEAN comparison shows a clear difference in integration depth, the European Union (EU) represents an advanced economic union, whereas ASEAN's Economic Community (AEC) remains at the common-market stage of regional integration (Paderon, 2020). This inequality suggests that Lao PDR, as one of ASEAN's least-developed members, stands to gain significantly from both ASEAN's further integration and from preferential access to the vast EU market as integration deepens (Paderon, 2020).

At the same time, interregionalism provides a useful lens for examining how two regional actors cooperate across political, economic, and developmental agendas, and how smaller member states such as Lao PDR are positioned within this dynamic. The EU-ASEAN partnership represent interregionalism, which describes structured cooperation between regional organisations (Allison, 2015). This approach aligns with EU external relations principles: under Article 21 of the Treaty on

European Union (TEU), the EU commits to develop partnerships with regional organizations sharing its values and to promote multilateral solutions to common challenges (European Union, 2012). Since becoming ASEAN's first Dialogue Partner in 1977, the EU's engagement with Southeast Asia has broadened from an initial focus on trade and development to an expansive agenda encompassing political, security and socio-cultural cooperation (Paderon, 2020). Allison (2015), state that the EU frequently uses interregional frameworks to support other regions' integration efforts and diffuse its norms of governance and market regulation. Indeed, the EU-ASEAN relationship is reinforced by shared principles, for example, a mutual commitment to a rules-based international order, and by convergent interests in regional stability and prosperity (Paderon, 2020). This interregional framework serves as a structural foundation for EU-Lao PDR cooperation, embedding bilateral trade and development initiatives within the broader EU-ASEAN strategic partnership (Paderon, 2020).

In addition, the study draws on Trade and Sustainable Development: this theoretical pillar connects international trade to sustainable development goals (European Parliament & Nuttin, Xavier, 2017). The EU's external action principle establishes a direct links between trade liberalization and development, emphasizing the progressive removal of trade barriers to integrate developing countries into the world economy while advancing sustainable economic, social, and environmental development and poverty reduction (European Union, 2012). Reflecting this principle, EU free trade agreements have progressive incorporate "Trade and Sustainable Development" (TSD) provisions, as seen in the EU-Vietnam Free Trade Agreements (FTA) concluded in 2015 includes a dedicated chapter on labour rights and environmental standards as part of a sustainable development clause (Paderon, 2020). This perspective underscores that market access alone is insufficient for equitable growth if partner countries face competitiveness gaps or regulatory barriers. As a least-developed economy benefiting from the EU's "Everything But Arms" (EBA) duty-free scheme, Lao PDR still confronts challenges in comply with international standards and integrating into global value chains. Addressing these gaps, the EU's persistent trade imbalance with ASEAN requires linking market access with stronger support for competitiveness. In practice, this means combining trade preferences with targeted development assistance and capacity-building so countries like Lao PDR can use trade for sustainable and inclusive growth (Paderon, 2020).

Research Methodology

This study is conducted based on a combining of a comprehensive literature review and descriptive statistical analysis of secondary data. The study covers the period of 2021 to 2025.

The first part of the study consists of a comprehensive analysis consists of academic literature review, policy documents, strategy papers, blue book and statistical data regarding the background of EU-ASEAN cooperation.

The second part focuses on the economic side of the cooperation, using secondary statistical data drawn from three main sources. The Eurostat database use for analyse indicators including export and import values, trade balance, services credits and debits, FDI inflows and outflows, Generalised Scheme of Preferences (GSP) utilisation rate, based on the data of the bilateral trade in goods between the EU and Lao PDR over the 2022-2025 period, trade in services from 2021 to 2023, and foreign direct investment flows recorded in 2023. The European Commission Directorate-General for Trade offers more detailed data on the composition and volume of bilateral trade for 2024. In addition, GSP Hub supplies data on EU imports from Lao PDR, including imports under preferential arrangements, with the data until 2024. The data are examined through statistical data comparison of trade structures, and the analysis of trade imbalances in the bilateral cooperation.

These approaches a combination of a comprehensive literature review and descriptive statistical analysis allow the study to draw a conclusion of the two research questions including a discussion of the institutional framework and the economic flows of EU-Lao PDR cooperation. This study is led by the three theoretical frameworks supporting the study: economic integration, interregionalism, and trade and sustainable development, which together help the study examine the institutional structure, the policy direction, and the development of EU-Lao PDR cooperation.

There are several limitations in this research. The study depends entirely on secondary sources; the depth and quality of the analysis are shaped by what is available in existing literature, official documents, and statistical databases. The time coverage of the data also differs depending on the indicator. Trade in goods figures cover 2022 to 2025, trade in services data is available from 2021 to 2023, and foreign direct investment data exist only for 2023, which makes consistent comparison across all three dimensions difficult, especially for services and

investment where the data are more limited. Another limitation is related to the limited number of peer-reviewed academic research dealing specifically with EU-Lao PDR bilateral trade and sustainable development, which remains small, and this narrows the possibilities for deeper engagement with the study and theoretical comparison.

Background of the EU and ASEAN Cooperation

The European Union began establishing relations with ASEAN in 1972, following the United Kingdom's accession to the European Community. Since then, the United Kingdom has consistently worked to enhance EU-ASEAN cooperation, aiming to offset the loss of Commonwealth trade advantages for some of its members. The relationship that exists between the EU and ASEAN is continually evolving, but the main foundation is regional cooperation. The dialogue partnership of ASEAN with the European Economic Community (EEC), the precursor of the EU, officially started in 1977 at the 10th ASEAN Foreign Ministers Meeting (AMM) held on 5-8 July 1977 when ASEAN established its formal cooperation and ties with the EEC, its Council of Ministers, the Permanent Representative of the EEC countries and the EEC Commission (ASEAN Secretariat, 2015). The adoption of the Nuremberg Declaration on an EU-ASEAN Enhanced Partnership in 2007 was an important milestone in the dialogue relations. The Declaration brought out the long-term vision and commitment of both regional blocs to cooperate in achieving common goals and objectives. The Bandar Seri Begawan Plan of Action to Strengthen the ASEAN-EU Enhanced Partnership (2013- 2017) was adopted in 2012 to provide strategic focus to the partnership through regional cooperation in a wide range of areas under the three ASEAN Community pillars (ASEAN, 2012).

The academic literature on EU-ASEAN cooperation can be grouped into three main perspectives. The first, trade and economic cooperation as the primary driver of the partnership. Bonet (1998) shows that the EU's early bilateral relations with individual ASEAN member states in the mid-1970s were primarily trade-based. Similarly, Paderon (2020) argues that the institutionalisation of dialogue relations created a framework for deeper economic cooperation. Both researchers present the studied on economic dimension as the foundation of the relationship, but in different scope: Bonet focuses on the historical dimension and the role of bilateral trade between individual states, while Paderon examines the institutional framework at the regional level and how

formalised dialogue opened opportunities for broader economic ties.

Second perspective focuses on the normative and political tensions within the relationship Flers (2010) argue that the evolution of EU-ASEAN relations has also exposed differences in values, norms, and political culture, particularly regarding human rights and democracy clauses in cooperative frameworks. These studies suggest that EU-ASEAN relations have been shaped not only by mutual economic interests but also in the different cooperation. While Bonet and Paderon treat the partnership as largely driven by mutual economic interest, Flers draws attention to the friction that arises when the EU attempts to incorporate its normative agenda into cooperative frameworks with ASEAN.

The third perspective referred to interregionalism. Allison (2015) studied EU-ASEAN cooperation as a form of structured interregional relationship, noting that the EU often uses interregional frameworks to support other regions' integration efforts and diffuse its norms of governance and market regulation.

At the bilateral level, academic research dealing with EU-Lao PDR cooperation is considerably limited. Marjolein (2019) examines EU external policy in Lao PDR, noting that cooperation was significantly improved after both parties signed the 1997 Cooperation Agreement, which laid an important foundation for a stronger institutional presence and increased development assistance. However, Marjolein (2019) study focuses on the EU's external policy performance rather than on trade patterns or sustainable development outcomes. Thepphavanh (2022) takes a different angle, examining Lao PDR's position within the ASEAN-EU relationship, the study arguing that the integrated ASEAN market allows European businesses to scale operations regionally, aligning with the EU's broader objectives of promoting green growth, enhancing human capital, and boosting resilient economic partnership. While Thepphavanh connects Lao PDR to the broader ASEAN economic perspective, the study does not analyse the bilateral trade between the EU and Lao PDR and sustainable development outcomes for Lao PDR specifically.

The reviewed literature mostly covers the EU-ASEAN cooperation from the economic and interregional perspectives at the regional level. However, at the bilateral level, the trade and sustainable development cooperation between the EU and Lao PDR has not been studied in detail by any of the reviewed studies, especially on the trade and Foreign Direct Investment

(FDI) imbalance between EU and Lao PDR. This study tries to fill that part by using both the comprehensive literature analysis and the statistical data from Eurostat, EU Commission DG Trade, and the EU GSP Hub to look at the current state of the EU-Lao PDR bilateral trade cooperation, and to identify what are the challenges and opportunities for strengthening the partnership.

In 2015, the Joint High Representative of the Union for Foreign Affairs and Security Policy, European Commission Communication on EU-ASEAN relations and their further strengthening was adopted (ASEAN Secretariat, 2015). The document "The EU and ASEAN: a Partnership with a Strategic Purpose" was subsequently endorsed by the EU Foreign Affairs Council. The 2016 ASEAN-EU Ministerial Meeting (Bangkok) confirmed the positive momentum in EU-ASEAN relations and the shared objective of taking them to a higher level in the future (Eurostat, 2017). In 2020, the EU and ASEAN opened a new chapter in their longstanding relationship by becoming Strategic Partners. This strategic partnership aims to promote a peaceful, fair, and prosperous global environment between the EU and ASEAN. Its main objective is to strengthen economic cooperation, with a focus on promoting the circular economy, ensuring fiscal and financial stability, and supporting free and fair trade, tackling cross-border rules and regulations. The partnership also emphasizes the protection of labor rights and the creation of employment opportunities in an increasingly interconnected world. A second objective of collaboration is sustainable connectivity, which includes diversifying and modernizing the transport network, promoting trade, sustainability development, renewable energy, ensuring energy security, and increasing cooperation in education, research and innovation, culture, and tourism (European Union External Action, 2024). Lastly, the third objective is that the partnership prioritizes security cooperation. This includes efforts to preserve peace and stability, combat transnational crime and terrorism, consolidate cybersecurity, and enhance maritime security (European Union External Action, 2020).

On the 14 of December 2022, during the ASEAN-EU Commemorative Summit held in Brussels to mark the 45th anniversary of ASEAN-EU diplomatic relations, the leaders of both ASEAN and the EU officially adopted the Plan of Action to Implement the ASEAN-EU Strategic Partnership (2023–2027). This key milestone highlighted the shared commitment of ASEAN and the EU to enhance a peaceful, stable, and prosperous region built in respect of international law and an international order. Both ASEAN and the EU underlined the importance of

sustaining peace, security, and stability, including through the advancement and protection of human rights and gender equality (ASEAN, 2022b). During the Summit, they committed to boosting connectivity within and between ASEAN and EU and recognized ongoing efforts to extend bilateral trade and investment flows to reinforce economic resilience, stability, and strong relations between the two regions (European Council, 2020).

To improve the connectivity between the EU and ASEAN, the EU provides technical support to enhance ASEAN Member States capacities to effectively implement the upgraded ASEAN Trade in Goods Agreement (ATIGA) (The ASEAN Secretariat, 2025). In addition, the EU supports the strengthening and alignment of services regulatory frameworks across ASEAN to facilitate trade in services. Technical assistance also supports better regional frameworks for investment facilitation, based on multilateral and regional agreements. Through several initiatives such as the EU-ASEAN Sustainable Connectivity Package and the Enhanced Dialogue Instrument (E-READI), both regions are working toward reducing non-tariff barriers, harmonizing standards and advancing digital and green transitions (The ASEAN Secretariat, 2025).

The Cooperation of the EU and Lao PDR

The Lao People's Democratic Republic (Lao PDR) is one of the ten members states of the Association of Southeast Asian Nations (ASEAN). As a landlocked country with a population around 7.7 million (Statista, 2026), Lao PDR joined ASEAN in 1997 (ASEAN, 2026). The establishment of formal relations between the EU and Lao PDR formal relations was initiated on 21 November 1975, when the European Commission approved a proposal from the Lao Embassy in Paris. During that period, the EU still operated as the European Communities, and Lao PDR remained the Kingdom of Laos. In the following decades, both partners underwent a significant transformation, the EU expanded from nine to twenty-seven Member States, while Lao PDR made substantial socioeconomic progress (European Union, 2020). This advancement is demonstrated by the accreditation of the first permanent Lao Ambassador to the EU in 1998, the opening of the European Commission Delegation in Vientiane in 2003, and the establishment of a full EU Diplomatic Mission in 2016 (European Union, 2020). the European Union has served as a key development partner with Lao PDR over the past 20 years through various projects, contributing approximately 2.8 trillion LAK. Combined with bilateral support from EU Member States, total European assistance has reached

around 9.25 trillion LAK in the last 10 years alone. In 2021, the European Union approved a new strategy for Lao PDR, which focuses on three important areas such as: a green and inclusive economy, good governance, and human capital development. This initiative, launched by the EU partners for the 2021-2025 period, the scheme is backed by a total budget of €550 million (EU-ASEAN Strategic Partnership, 2021b). Lao PDR's anticipated graduation from Least Developed Country (LDC) status. This development aligns with the EU's progressing external action priorities and aims to extend trade and investment, particularly within sustainable sectors, while supporting skills development and strengthening governance frameworks (EU-ASEAN Strategic Partnership, 2021b). Through increased engagement with ASEAN, and mainly with emerging economies like Lao PDR, the EU aims to access a rapidly growing market, leverage new investment conditions, and strengthen its geopolitical presence in the region. Incentives such as tax exemptions, lower labour costs, and improved governance frameworks make Lao PDR an attractive destination for sustainable and inclusive investment opportunities.

EU-Lao PDR Collaboration Under the Sustainability Agenda

The EU shared vision for sustainable and inclusive growth is aligned with Lao PDR's National Socio-Economic Development Plans and sector-based strategies and support its aspiration to graduate from Least Developed Country status. Through its partnership with Lao PDR, this cooperation is also consistent with the EU's strategic frameworks, including the Green Deal, the Global Gateway Strategy, and the Indo-Pacific Strategy. In Lao PDR, the EU aims to promote sustainable development, high-quality trade and investment, particularly in green economy sectors supported by strengthened governance and enhanced human capital (European Commission, 2025d). The Team Europe in Lao PDR brings together the EU, the European Investment Bank (EIB), Belgium, Finland, France, Germany, Hungary, Ireland, Luxembourg, and Switzerland (European Union External Action, 2020). In 2021, the Team Europe approved the strategy for 2021-2025, which has since been extended to 2027. The strategy is financed by an estimated total funding of €672 million. The EU's initial contribution, through the Neighbourhood, Development, and International Cooperation Instrument (NDICI-Global Europe), amounts to €83 million in grant funding. Additional investments are expected to be mobilised through the Global Gateway initiative, leveraging the European Fund for Sustainable Development Plus (EFSD+), and the development banks

from EU Member States (European Commission, 2025d). In 2023, the Team Europe partnership with Lao PDR to increase sustainable and inclusive trade, investment and connectivity in the agriculture and forestry sectors (TICAF), which is flagship under the Team Europe Green Initiative (The Green TEI) for Lao PDR, which supported by the European Union's NDICI-Global Europe instrument and co-financed by France and Germany, this program aligns with Lao PDR's national green growth strategies as well as the global commitments such as the Paris Climate Agreement and Sustainable Development Goals. The objective is to foster green growth by increasing domestic production, value addition, exports, and decent employment in the coffee, tea and forest product sectors, while supporting Lao PDR's climate change Nationally Determined Contribution (NDC). Two fundamental objectives guide the action as follows: (1) enhancing the sustainable, climate-resilient development of the coffee and tea sectors through inclusive, gender-responsive value chains; and (2) increasing local communities' (especially women's) participation in forest-based value chains to support sustainable forest use and conservation. In 2025, the EU's action plan under the "Laos-EU assistance for private sector & trade (LEAP)" continues to foster sustainable, inclusive economic growth in Lao PDR by strengthening its private sector and trade capacity, financed with a €10 million EU grant, LEAP's overall objective is to improve the business climate, increase responsible private investment, and expand trade, with two specific objectives, such as: (1) to implement inclusive, gender-responsive reforms and capacity-building for a more competitive private sector; and (2) to boost trade and investment between the EU and Laos by associating local businesses with European and international standards, such as on quality, environmental, and labour practices (European Union, 2025).

EU-Lao Economic Cooperation Review

The ASEAN region is a dynamic market with approximately 640 million consumers; Lao PDR is one of the 10 members of ASEAN. The countries as a group are the EU's third largest trading partners outside of Europe, after the United States and China. The EU cooperates with ASEAN as a whole, which the cooperation is maintained through the EU-ASEAN Dialogue that includes discussion on trade, and investment issues at the ministerial and senior economic official level (European Commission, 2025b). The cooperation between the EU and Lao PDR is rooted in a shared commitment to promoting development that prioritizes people and environmental sustainability. This

partnership undertakes to ensure that the benefits of progress are distributed, reaching communities across the country, from remote mountain areas to urban centers. Through ongoing cooperation between the EU and Lao PDR, the EU plays a significant role in supporting Lao PDR's work toward the Sustainable Development Goals and the implementation of the country's National Socio-Economic Development Plans (Vientiane Times, 2025). The EU and Lao PDR work closely under the framework of the EU-ASEAN cooperation agreement to ensure an effective environment for trade and investment relations (European Commission, 2025b). As a Least Developed Country (LDC) classified by the World Bank, Lao PDR benefits from the EU's "Everything but Arms" (EBA) initiative, which grants duty-free and quota-free access to the EU market for all products, except arms and

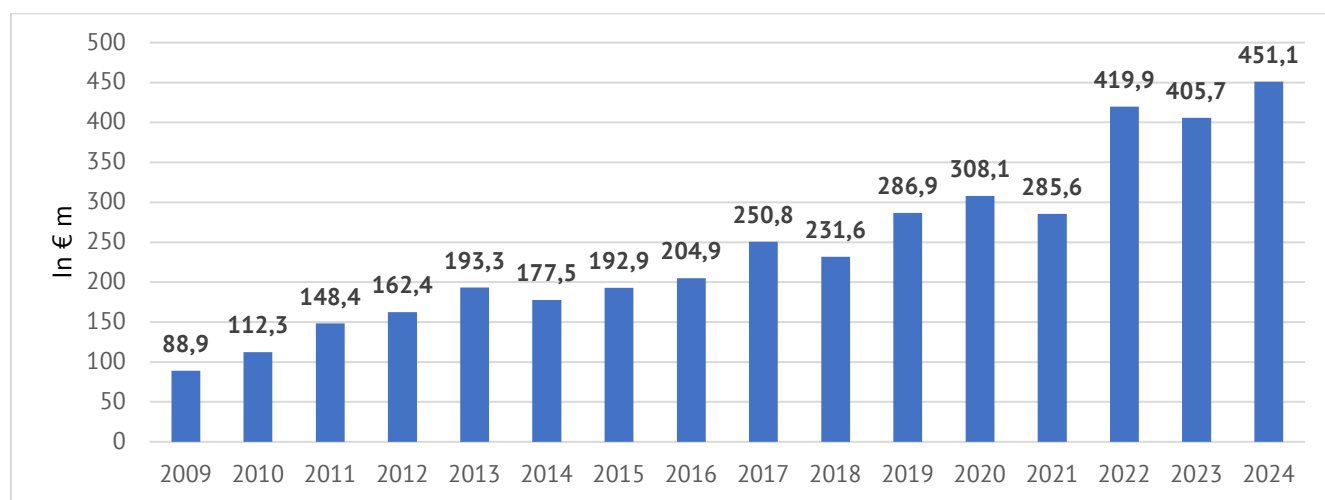
ammunition. This preferential trade arrangement has enhanced Lao PDR's export potential, contributing to its economic diversification and integration into global value chains (European Commission, 2025c).

International Trade and FDI

In 2024, the EU's total imports from Lao PDR were about €451 million (Figure 1), with preferential imports, those benefiting from reduced or zero tariffs accounting for €319 million of the total (The EU's Generalised Scheme of Preferences (GSP), 2026). In the same year, Lao PDR ranked as the EU's 131st largest goods trading partner, while the EU was Lao PDR's 5th largest trading partner for trade in goods. Total bilateral trade in goods reached €583 million (European Commission, 2025b).

Figure 1

The EU Imports from Lao PDR over time (€ million)



Source: Author's own compilation based on data from The EU's Generalised Scheme of Preferences-GSP (2026)

The statistics show that in 2024, the European Union's total imports from Lao PDR amounted to €451 million (Table 1). Textiles and textile articles accounted for the largest share €232.1 million, over half of the total import value, followed by electrical and electronic equipment, which contributed €76.5 million. Footwear and related articles ranked third, with imports valued at €61.9 million. Food products, beverages, and tobacco made up €25.1 million, while imports of pearls, precious stones, and metals totaled €19.8 million. The remaining €35.7

million was distributed across other goods (The EU's Generalised Scheme of Preferences (GSP), 2026). These data indicate that Lao PDR's export to EU are concentrated in textile, electrical and electronic equipment and footwear. These sectors suggested that Lao PDR integrated into EU market and global value chain. At the same time, it reflects the country's current development stage where export depends heavily on a limited number of sectors that benefit from preferential market access under EBA initiative.

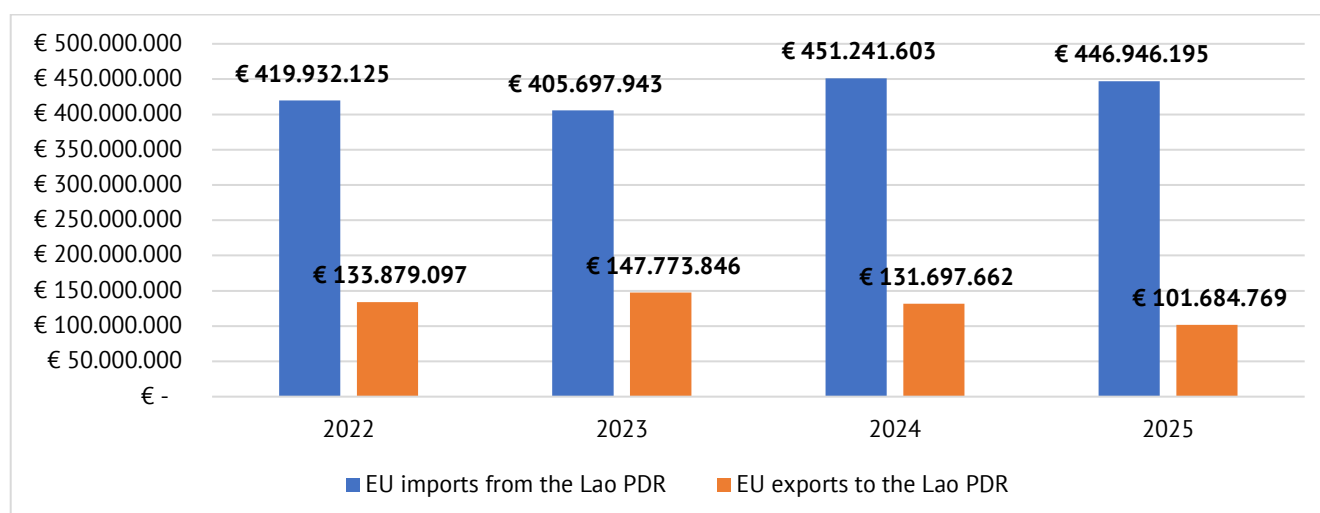
Table 1*European Union trade with Lao PDR in 2024*

Type of products	Imports 2024		Exports 2024	
	Million EUR	% of total	Million EUR	% of total
Agricultural products (WTO AoA)	45	9.9	24	18.3
Fishery products	0	0.0	0	0.1
Industrial products	407	90.1	107	81.7
Total	451	100.0	131	100.0

Source: Author's own compilation based on data from European Commission (2025c)

In contrast, the EU's exports to Lao PDR were significantly smaller than its imports, which totaled €131 million. The main exports were industrial products, which accounted for €107 million, representing the central role

of manufactured goods in bilateral trade relations, followed by agri-food trade exports accounted for €24 million, with a relatively higher share of 18.3% (European Commission, 2025c).

Figure 2*Historical trends in the imports and exports of goods between the European Union and Lao PDR*

Source: Author's own compilation based on data from Eurostat (2026)

The historical data indicate that EU imports of goods from Lao PDR have remained consistently high from 2022 to 2025 period, ranging from €419.9 million in 2022, while export were significantly lower at €133.8 million (Figure 2). In 2023, the imports were lower compared to 2022 at €405.6 million, and the export in 2023 was higher compared to 2022 at €147.7 million, in 2024 the goods import was the highest level within the 5 years historical period at €451.2 million, while export to Lao PDR were lower compared to 2022 and 2023 period at €131.6 million, in 2025 the EU imports from Lao PDR were €446.9 million and the export were the lowest in the five years historically period at €101.6 million.

Although there is a clear imbalance between EU imports from and exports goods to Lao PDR, this gap is primarily driven by structural differences in the types of goods each

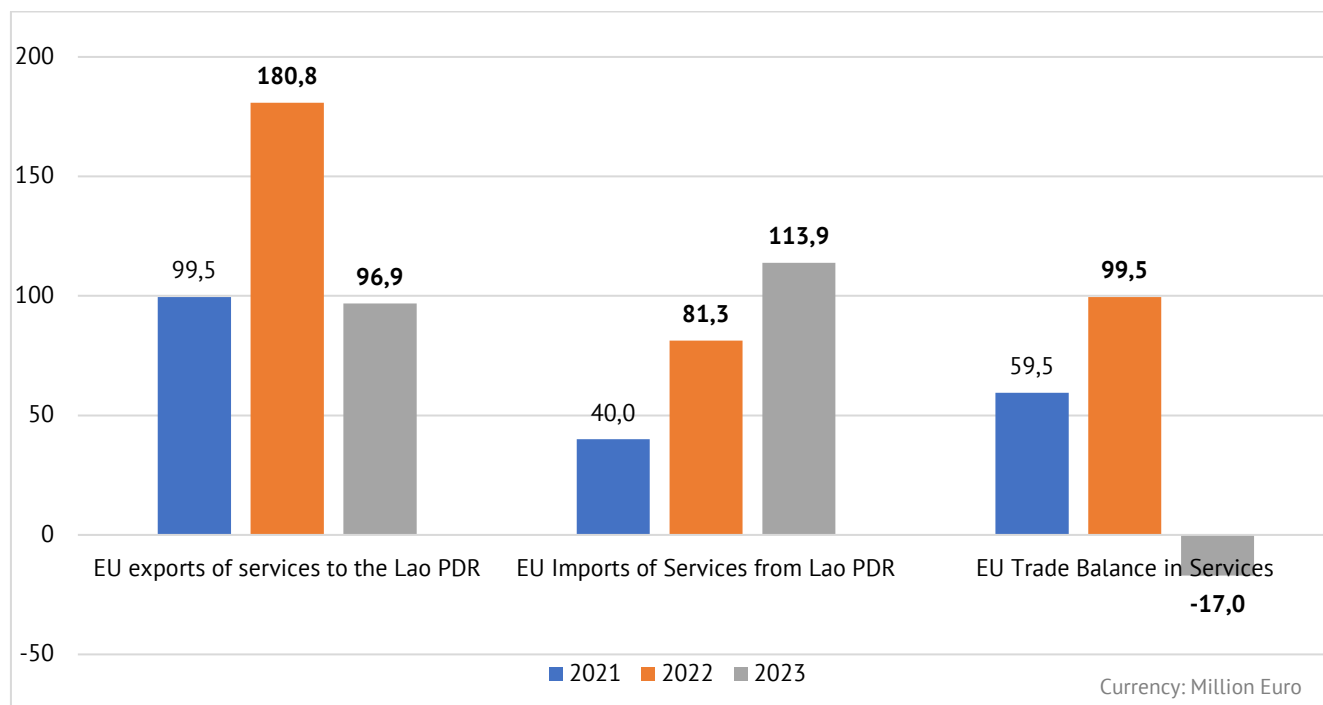
side trades. Lao PDR benefits from access to advanced European technology and equipment. This type of technology transfer contributes to Lao PDR's development, which enables diversification of the economy beyond raw materials and simple goods, and helps Lao PDR integrate into higher value segments of global chains such as food processing, and manufacturing over time. Meanwhile, the EU sources labor-intensive and agricultural products from Lao PDR, which can provide European consumers and businesses with a wider supply

base, potentially lowering costs and enhancing the supply chain. Likewise, the products that are imported from Lao PDR such as Lao coffee, and tea into the European market, can enrich consumer choices and encourage competition. Such structural factors not only explain the trade imbalance but also foster ongoing

economic ties and mutual benefits.

Figure 3

The EU trade in services with Lao PDR



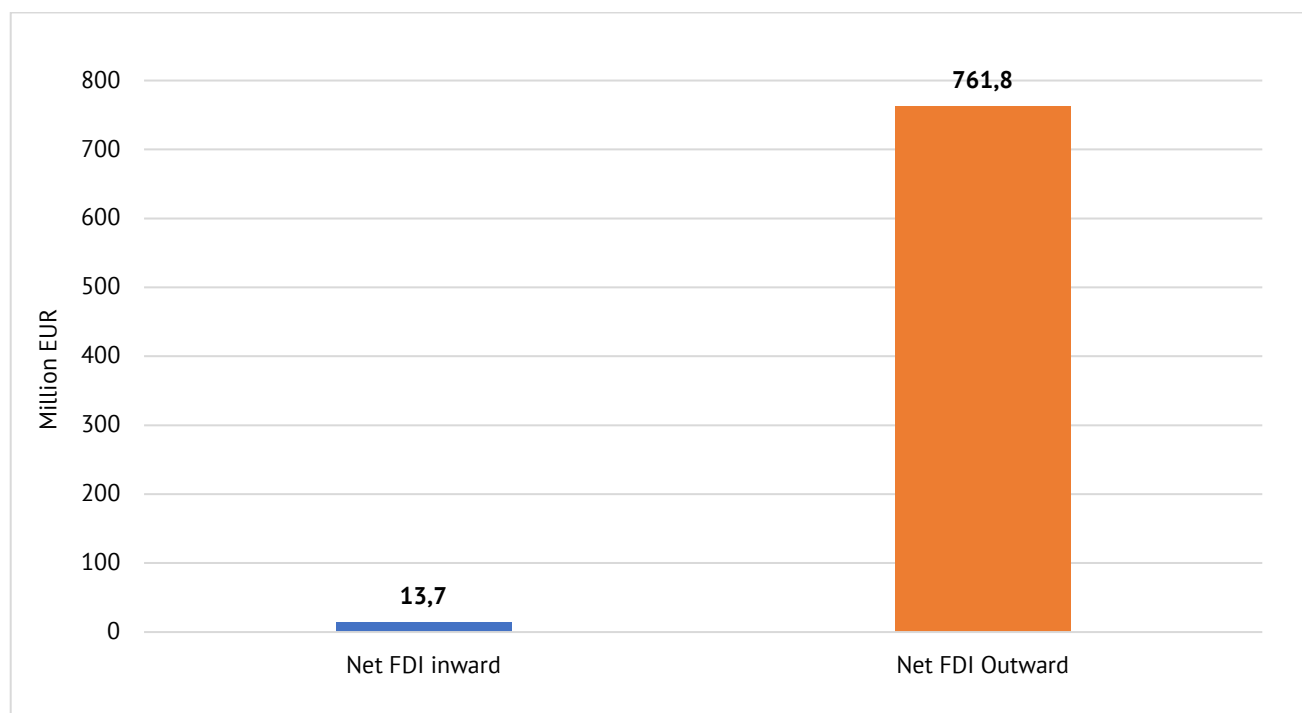
Source: Author's own compilation based on the data from Eurostat (2026)

The Data on the EU's trade in services with Lao PDR from 2021 to 2023 data show a noticeable trend (Figure 3). In 2021 the EU trade in services with Lao PDR accounted for €199 million with a surplus of €40 million. This surplus widened further in 2022 when both credits and debits increased markedly the growth increased to €180.8 million, which surplus of the period €99.5 million. In 2023, total trade in services accounted for €195 million with a surplus for the EU of €34 million. The data

suggests that trade in services between EU and Laos is not only unequal in value but also unstable across the period 2021 to 2023. The increased of EU export services to Lao PDR surplus in 2022 indicate that the EU was able to maintain stronger export of services capacity the Lao PDR. While the decline in 2023 suggests some changes in policy, services structure changes. However, the data shows that, Lao PDR remains in a weaker position in trade in service compared to EU.

Figure 4

EU-Lao PDR foreign direct investment flows in 2023



Source: Author's own compilation based on the data from Eurostat (2026)

In 2023, EU foreign direct investment flows to Lao PDR reached €761.8 million, while investment flows from Lao PDR to the EU amounted to €13.7 million (Figure 4). In this bilateral investment relationship, the EU acts as the primary source of foreign direct investment in Lao PDR. The scale of EU outward investment highlights its dominant role in shaping investment-driven cooperation between the two partners during 2023. The substantial different in Net FDI inward and Net FDI outward between EU and Lao PDR shows the country positioned mainly as a recipient rather than active source of capital. The volume of EU investment shows the EU financial capacity, technology advantage, and institutional stability. while the limited outward investment from Lao PDR suggests the less capital and internationalisation capacity.

The EU, cooperating with ASEAN as well as Lao PDR, is committed to global development and regional stability (European Commission, 2026a). The cooperation aims to promote sustainable trade and investment in Lao PDR in line with the country's own development that priorities include relinking fiscal policy with inclusive growth by broadening the tax base without compromising environmental objectives (Integrated National Financing Framework, 2023) and the EU's Indo-Pacific strategy countries, focusing on security, trade, and sustainable development while upholding a rules-based international order (European Union External Action, 2025). In strategic terms, the EU's engagement with Lao

PDR also supports the EU's broader goals in Asian Countries, fostering relationships in the ASEAN region and securing a presence in emerging markets. Although Lao PDR is a small trading partner for the EU (ranked only 131st in goods trade) (European Commission, 2025c), the EU establishes value in a long-term partnership, expecting that a more developed Laos will become a more significant and stable economic partner in the future.

The EU-Lao PDR partnership for sustainable development

The EU aligned with the United Nations Sustainable Development Goals, the EU addresses environmental, economic and social sustainability. The United Nation Agenda 2030 recognizes trade as an essential tool to support sustainable development across these areas. Accordingly, the EU's trade policy is integrated more closely with sustainable development objectives through regulatory frameworks and trade agreements that promote inclusive growth, environmental protection, and social standards in line with the SDGs (European Commission, 2026b). Building on this commitment, the Team European Green Initiative in Lao PDR transforms the potential in areas including climate protection and mitigation, sustainable socio-economic development, private sector development international, and regional

trade and the governance issue. The Farm-to-Fork (Phakhao Lao) initiative promotes climate-resilient agro-ecological practices, enhancing food security and export potential. The Forest Partnership supports land-use governance and biodiversity. Complementary investments in green infrastructure, renewable energy, and digitalization reinforce systemic change. This integrated approach strengthens Lao PDR's national strategies and regional cooperation, highlighting the EU's leadership in sustainable development and green growth (European Union, 2023). In 2025, the EU and Lao PDR cooperate through the Global Gateway partnership, the project supports to enhance ASEAN connectivity and has proposed a Forest Partnership to promote sustainable forestry, preserve biodiversity, and promote climate action under the Green Deal. The EU continues to support the economic reforms Lao PDR's economy and integrate it into global and ASEAN markets, including strengthening public financial management, improving the banking system, and expanding transport connectivity, cooperation emphasizes sustainable development and inclusive growth by fostering green trade and investment in agriculture and forestry such as coffee, tea, forest products through sustainable value chains, promoting labour rights and social protections for workers, and supporting small businesses (SMEs) including those led by women and youth in sectors such as tourism. This includes promoting the circular economy and green transition by empowering civil society, media, and local communities to raise awareness, support sustainable livelihoods, and advance climate-smart agriculture, biodiversity protection, and plastic usage, while ensuring access to information and fundamental freedoms (EEAS Press Team, 2024). In the EU mainstream environmental protection and climate change policies, the EU trade and investment trade policies integrate environmental protection and climate action by promoting sustainable trade, green investment and strict environmental standard under the EU Green Deal and Trade policy review. Through GSP+, which Lao PDR might aim to access post-LDC graduation, the EU links preferential trade benefits to stricter compliance with human rights, labour rights, environmental, and good governance international standards, encouraging eco-friendly policies and sustainable business practices. This programme, trade facilitation helps reduce trade costs, emissions, and logistical inefficiencies, enabling businesses, especially MSMEs, to integrate into global green value chains. Businesses are also encouraged to adopt corporate environmental responsibility, incorporating eco-friendly production, waste reduction, and sustainable sourcing practices. Technology transfer and capacity building further support climate adaptation,

sustainable agriculture, and energy efficiency, enhancing long-term environmental resilience (European Commission, 2025a)

Strategies and policies for improved EU-Lao PDR cooperation

To strengthen EU-ASEAN cooperation, the EU-ASEAN ties to a strategic partnership, convening regular high-level summits, appointing dedicated ambassadors, and concluding comprehensive trade agreements which will strengthen trade ties and advance regional integration (Khandekar, 2020). The EU development partnership has undergone significant transformation from a traditional donor role to that of an equal development partner. This strategic shift prioritizes high-quality investments aimed to the long-term collaboration and sustainable outcomes. Current efforts focus on strengthening governance structures, enhancing transparency, and reinforcing the rule of law as essential pillars of effective development (European Union, 2022). Robust support for public institutions and civil society is aimed at ensuring that development processes remain participatory, accountable, and effective. Moreover, the partnership seeks to cultivate an enabling business environment that invites responsible investment, by aligning with economic growth with Lao PDR's long-term sustainable development objectives (Vientiane Times, 2025). Aligning Lao PDR with regional and global trade frameworks through technical assistance and active engagement will boost bilateral trade and integration. Such coordinated efforts will deepen economic ties and can pave the way for broader political reforms in Lao PDR. Both Lao PDR and the EU both look forward to further upgrading the EU-ASEAN relationship. Lao PDR welcomed the EU's support for ASEAN-led-mechanisms and noted the EU's commitment to remain in all relevant ASEAN-led security mechanisms, including the East Asia Summit, and the ASEAN Defence Ministers' Meeting Plus, in full respect of the relevant procedures and processes (EEAS Press Team, 2024). The EU looked forward and committed to supporting Lao PDR in the process of graduation from Least Developed Country (LDC) status in the near future. The need for early preparations for a potential GSP+ application was emphasised (EEAS Press Team, 2024). For Lao PDR, strengthening trade and private sector development will drive job creation, improve skills, promote greener equality and foster long-term economic resilience and social development. Integrating green trade practices could also create new investment opportunities aligned with Lao PDR's sustainability goals. In 2025, the European Commission implemented the decision on financing of the annual

plan in favor of Lao PDR, within this plan the EU has further supported Lao PDR by strengthening the European Chamber of Commerce and Industry in Lao PDR (ECCIL) being the official representative of the European business community in Lao PDR representing the interests of European businesses via their active engagement in advocacy, provision of information and tailor-made services. Their main purpose is to facilitate two-way investment, trade flows and business partnership between Lao PDR and the European Community; to assist in the development of the Laotian economy through the internationalization of local companies and the enhancement of the dialogue between public and private sectors (European Commission, 2025a).

Discussion

Firstly, the study indicate that EU-Lao PDR trade and sustainable development cooperation has developed withing the EU-ASEAN framework. However, the bilateral trade relationship continues to reflect a considerable structural imbalance. Lao PDR's cooperation with the EU is positioned within the broader EU-ASEAN strategic partnership, and the country benefits from preferential market access under the EU's EBA initiative, which grants duty-free and quota-free access for all goods except arms and ammunition. Lao PDR's exports to the EU are concentrated in a narrow set of labor-intensive sectors, most notably textiles, electronics, and footwear, which together account for the large majority of bilateral import value. In contrast, EU exports to Lao PDR consist mainly of industrial and capital goods, pointing to the role of European technology and equipment as inputs for Lao PDR's productive sectors.

In trade in services, the EU maintains a surplus position across the 2021-2023 period, although the size of the surplus fluctuates considerably from year to year. This suggests that the services dimension of the bilateral relationship remains both unequal and unstable. In terms of investment, the 2023 data confirm that the EU is the dominant source of foreign direct investment in Lao PDR, with outward flows from the EU exceeding inward flows from Lao PDR. This positions Lao PDR primarily as a recipient of capital rather than an active investor, which further underlines the unequal economic dynamics between the two partners.

Beyond the trade and investment flows, the findings show that EU-Lao PDR cooperation is increasingly shaped by a sustainability agenda embedded in EU strategic frameworks, particularly the European Green

Deal, the Global Gateway initiative, and the Team Europe Strategy. Concrete initiatives such as the TICAF partnership in agriculture and forestry and the LEAP programme for private sector development demonstrate that the cooperation has moved beyond conventional market access toward a more integrated approach that links trade with environmental sustainability, skills development, and institutional strengthening. These programmes are aligned with Lao PDR's national development priorities and its aspiration to graduate from Least Developed Country status.

Secondly, the study identifies several interconnected challenges that limit the deepening of EU-Lao PDR bilateral cooperation. The structural concentration of Lao PDR's exports in a few labour-intensive sectors shows limited diversification and weak integration into global value chains. The country's exporters face difficulties meeting the EU's regulatory and quality requirements, including sanitary and phytosanitary standards and technical barriers to trade, which function as practical obstacles to expanding exports beyond preferential arrangements. These barriers are combined by insubstantial domestic trade facilitation, limited quality infrastructure, and institutional constraints that raise compliance costs for Lao PDR's producers. Additionally, as Lao PDR approaches graduation from LDC status, the transition from EBA to potentially stricter GSP+ conditionalities will require sustained preparation and reform to maintain favourable market access.

At the same time, the analysis points to several opportunities. The scale of EU foreign direct investment provides a foundation for technology transfer, capacity building, and economic diversification in Lao PDR. The Team Europe programmes and the Global Gateway initiative offer targeted instruments for channelling investment and technical support into sectors with long-term growth potential, particularly in green agriculture, forestry, and private sector development. The strengthening of the European Chamber of Commerce and Industry in Lao PDR also supports two-way business engagement and advocacy for an improved business environment.

From the perspective of the theoretical frameworks guiding in this study, these findings are consistent with the expectations of economic integration theory on the benefits of reducing trade barriers, while also illustrating the limitations that arise when partners have unequal productive structures. The interregional lens confirms that Lao PDR's bilateral cooperation with the EU and supported by the wider EU-ASEAN institutional

framework, which provides the political foundation for sustained engagement. The trade and sustainable development perspective is particularly relevant in explaining why preferential market access alone has not translated into significant export expansion or reduction of the trade imbalance. The evidence from this study suggests that strengthening the bilateral cooperation requires a closer alignment between market access provisions and targeted support for competitiveness, compliance capacity, and trade facilitation - so that the benefits of cooperation can be more broadly and sustainably shared.

Conclusion

This study examines EU-Lao PDR trade and sustainable development cooperation under the EU-ASEAN framework, guided by two main objectives: first, to assess the current state of bilateral trade relations, sustainable development cooperation, and the existing cooperation framework; and second, to identify potential strategies and policies that could enhance the partnership between the EU and Lao PDR.

The country continues to strengthen its cooperation with the EU through broader ASEAN-EU cooperation frameworks. With shared interests in regional stability and sustainable development, EU-Lao PDR cooperation has the potential to generate benefits not only for Lao PDR but also for the wider ASEAN region. This study examined the current state of EU-Lao PDR cooperation in trade cooperation and sustainable development within the EU-ASEAN partnership through a comprehensive literature review and descriptive statistical analysis of secondary data.

The study findings show that the EU-Lao PDR trade relations remain significant, but there is a structurally noticeable imbalance in their trade relationship. The data over the 2022-2025 period confirm that the EU consistently imports more from Lao PDR than it exports, with the imbalance continuing across all observed years. Lao PDR exports to the EU are highly centered in labor-intensive, manufacturing sectors, particularly textiles and clothing, alongside electronics and footwear (European Commission, 2025c). This pattern reflects Lao PDR's current position in regional and global value chains and highlights the continued importance of preferential market access under the EU's "Everything but Arms scheme (EBA)". In comparison, EU exports consist mainly of industrial and capital goods, underlining the role of European technology and equipment as potential enablers of longer-term industrial development and

diversification in Lao PDR. The imbalance extends beyond goods trade; in trade in services, the EU maintained a surplus position throughout the 2021-2023 period, while in foreign direct investment, the EU is the dominant source of capital, with outward FDI flows to Lao PDR far exceeding inward flows. These patterns confirm the unequal economic dynamics that continue to characterize the bilateral relationship. Beyond trade flows, the analysis shows that the partnership is increasingly shaped by a sustainability agenda, implemented through EU strategic frameworks such as the European Green Deal and the Global Gateway, as well as concrete Team Europe initiatives in Lao PDR. These initiatives aim to support greener agricultural and forestry value chains, private sector improvement, and skills enhancement, which align with Lao PDR's national development priorities and its aspiration to graduate from Least Developed Country status.

Lao PDR faces ongoing challenges in improving better market access and project-based support into sustained export growth due to the limitation by non-tariff barriers and domestic challenges. These include high compliance costs, limited quality and standards infrastructure, weak logistics and customs procedures, and incomplete integration into higher value-added production segments. As Lao PDR approaches graduation from LDC status, the transition from EBA to potentially stricter GSP+ conditionalities will require early preparation and institutional reform to maintain favourable market access. The evidence suggests that to strengthen the EU, and Lao PDR cooperation requires a closer alignment between market access and targeted support for competitiveness and compliance. This is specifically relevant in quality infrastructure, certification systems, and trade facilitation reforms. Additionally, prioritizing responsible investment, encouraging green innovation, and supporting job creation will be fundamental to ensuring that the benefits of cooperation are more broadly and sustainably shared.

From a theoretical standpoint, the findings of this study are consistent with the expectations of economic integration theory regarding the benefits of reducing trade barriers, while also illustrating the limitations that arise when partners have considerably unequal productive structures. The interregional perspective confirms that the bilateral cooperation is embedded in and supported by the broader EU-ASEAN institutional framework, which provides the political foundation for continued engagement. The trade and sustainable development lens are particularly relevant in explaining why preferential market access alone has not been

sufficient to address the structural trade imbalance or to significantly expand Lao PDR's export capacity.

By integrating policy analysis with trade and investment statistical data, this study contributes to the limited academic literature on EU-Lao PDR bilateral cooperation. It demonstrates how the trade imbalance and structural barriers continue to shape the prospects for deeper cooperation, and it highlights the importance of linking recent EU policy frameworks with concrete support for Lao PDR's productive capacity and institutional readiness. While the findings are constrained by the

limitations outlined earlier in this paper, particularly the reliance on secondary data and the uneven time coverage across indicators, these limitations open several directions for future research. The inclusion of primary data such as interviews with policymakers and business stakeholders would provide a more grounded understanding of the dynamics shaping the partnership. Comparative studies with other member states such as, Thailand, Cambodia and Myanmar could help identify whether the challenges observed in the EU-Lao PDR case are reflect broader patterns within the EU-ASEAN framework.

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Trajnostni razvoj in trgovina: Krepitev sodelovanja med EU in Laosom v okviru partnerstva med EU in ASEAN

Izvleček

Sodelovanje med Združenjem držav jugovzhodne Azije (ASEAN) in Evropsko unijo (EU) je pomemben primer med regionalnega sodelovanja. Vendar pa so akademske raziskave, ki ocenjujejo sodelovanje med Evropsko unijo (EU) in Laoško ljudsko demokratično republiko (Laos), še vedno omejene, študije o rezultatih trgovine in trajnostnega razvoja pa niso bile sistematično preučene. Ta študija raziskuje trgovinsko sodelovanje med EU in Laosom ter trajnostni razvoj. Analizira izzive in priložnosti ter opredeljuje strategije, ki bi lahko okrepile dvostranske odnose. Prek celovitega pregleda literature in analize statističnih podatkov preučuje dinamiko sodelovanja. Raziskava izpostavlja trgovinsko neravnovesje, saj je EU v obdobju 2022–2025 iz Laosa dosledno uvažala več, medtem ko ključni izzivi vključujejo skladnost z zakonodajo in nezadostno vključevanje v globalne vrednostne verige. Študija kaže, da krepitev sodelovanja zahteva tesnejše usklajevanje med dostopom do trga in podporo konkurenčnosti. S povezovanjem analize politik s statističnimi podatki ta študija zapolnjuje vrzel v raziskavah glede vpliva okvirov EU–ASEAN na trgovino in trajnostni razvoj v Laosu.

Ključne besede: EU-ASEAN, Laos, trajnostni razvoj, trgovina, naložbe, gospodarstvo