

# Assessment and Prospect of China-Laos Development Cooperation



SHANGHAI INSTITUTES FOR  
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Lao People's Democratic Republic (Laos) is located in the north of IndoChina Peninsula of Southeast Asia. Covering approximately 236,800 square kilometers, Laos is the only landlocked country on the peninsula. Suffering from geographical disadvantages, Laos has in recent years prioritized construction of transport infrastructure. Transforming itself into a "land-linked" from a "land-locked" country has become one major national development strategy. Laos geographical features can be generalized as mountains in the north, plateau in the southeast, plain in the southwest, and hills in the west. Mountains and plateau occupy two thirds of the whole territory. Plentiful rivers flow within Laos, among which the most prominent is the Meikong River and its tributaries. Most of the rivers run from north to south or from west to east. Forests cover 52% of Laotian territory, making it a famous country of forests. Endowed with abundant natural and water resources, Laos enjoys advantages in mining and developing water conservancy. The country is dedicated to become the "battery" of IndoChina Peninsula. In terms of its industrial development, Laos is an agrarian country where agriculture and forestry lay the foundation for its national economy. Beginning from the mid-1980s, Laos has put in place policies for reform and opening. After its accession to the WTO in 2013, Laos' industries and services started to develop, gathering a positive momentum for economic development. With national

income per capita of 1600 USD, Laos ranked 134th globally in terms of its ease of doing business, five notches higher than in 2015, as shown in the report Doing Business 2016 by the World Bank. The second meeting of Laos 8th National Congress set the target for economic growth in 2017 as 7%, the average growth rate by 2020 as 7.2%, and the GNP per capita by 2020 as 2978 USD.

China and Laos enjoy close bilateral economic and trade relations, as well as increasingly frequent communications between the governments and the public. On the one hand, Laos and China, both as socialist countries, have assisted and learned mutually during the course of development. The brotherhood-like relation added a dimension of kinship to the bilateral relationship. On the other hand, bilateral trade and investment have witnessed rather strong momentum in recent years, especially after China proposed the Belt and Road Initiative (BRI) in 2013, in which Laos is a major partner for cooperation. At present, China is Laos' largest source of aid and investment.

This report approaches Laos-China development cooperation from three perspectives:

Firstly, the report analyzes the role of China in Laos's development from a historical perspective. China has acted as a positive supporter and an equal partner in Laos' national independence, external relations, and economic development.

Secondly, the report analyzes China's investment in Laos, assessing the facts and problems of Chinese investment in Laos as well as Laos' views on Chinese investment within the framework of BRI. Generally speaking, the government and the public of Laos hold a positive view on the investment of Chinese enterprises in Laos, arguing that Chinese enterprises have made positive contribution

to local economic development, job creation, and improvement in livelihood. Nevertheless, problems exist, among which three stand out: the localization of employees in Chinese enterprises, legal issues caused by the utilization of land, and environmental problems caused by investment.

Lastly, the report systematically analyzes the history, features, and problems of Chinese aid to Laos, and the views on Chinese aid from the perspectives of the government, think tanks, and the public. Specifically, Laotian government view Chinese aid most positively, and hope that China can increase its aid to Laos. One of the reasons for this popularity is that China has helped alleviated infrastructure shortage, such as hospitals, roads, schools, and sports facilities, and Chinese aid projects are completed rather efficiently and on time. From the perspectives of academia and think tanks, Chinese aid is highly welcome rather than being seen as a threat. Laos can learn valuable lessons from Chinese aid and development model, which provide another option from that of the West. From the perspective of the public, views on Chinese aid projects are generally positive, especially for projects that bring benefits to the welfare of local people. However, criticism of Chinese aid is not absent. Some local non-governmental organizations have expressed their concerns. First, infrastructure aid and investment projects are associated with such issues as the utilization of land, demolition of old infrastructure, relocation of affected population, and accompanying environmental protection. Second, in addition to grant, interest-free loans from China and especially the large volume of concessional loans have triggered debates and concerns on Laos' "debt sustainability". Third, there are also concerns on low transparency in Chinese aid. Local people and NGOs have limited knowledge of and participation in China's aid projects, and the coverage and benefits of aid need to

be broaden to engage more local population.

In consideration of the issues of Chinese investment and aid in Laos, this report proposes five policy recommendations. First, in the context of the implementation of the 2030 sustainable development agenda, China and Laos should explore the construction of Laos-China demonstration zones for sustainable development, and develop model project of Laos-China cooperation. Second, China and Laos should strengthen people-to-people exchanges with a long-term perspective. People-to-people connectivity is one of the five "connectivities" of the BRI as well as one of the three pillars of the Lancang-Mekong Cooperation Mechanism. The two nations should reinforce investment and aid in soft infrastructure, especially in education. Third, China and Laos should improve the visibility and impact of Chinese aid projects. The Chinese government and the Laotian government should strengthen evaluation and assessment on aid and investment projects, and publish reports regularly to the media and the public. Fourth, China should improve the communication and coordination with other major donors in Laos. Fifth, China should actively promote the involvement of Chinese NGOs in Laos to strengthen the communication with local people. China should establish platforms for trilateral cooperation among the government, enterprises, and civil societies. Civil society organizations should be engaged more in such sectors as humanitarian assistance, environmental protection and healthcare to help improve the resilience of Laos society and lay the social foundation for governmental cooperation between the two countries.

This report is based on field study and a large number of interviews. We hope that it provides a relatively objective and overall picture of the achievements and problems of Laos-China

development cooperation. The report also provides possible policy alternatives for future cooperation. We also hope that this report can increase understanding of the international community on Chinese investment and aid in Laos. We wish that Laos-China relationship continue to thrive as time goes by.



# 1 Evolution and Status Quo of Laos-China Relationship



## Chapter I

# Evolution and Status Quo of Laos-China Relationship

China has been playing a special and significant role in the course of Laos' national independence and economic development. The special feature lies in the fact that Laos and China are both socialist countries and have both fought against colonialism and hegemony for independence. Despite ups and downs in the bilateral relationship, China has always valued Laos as its important brother nation. Having gone through its own struggle, Laos also attaches growing importance to strengthening cooperation with China. The significance of China in Lao's national development is manifested by the fact that China is not only its largest aid donor and investor, but also a valuable source of development experience.

### 1.1 China and Lao's Independence

China was a staunch supporter in Lao's fight against colonial rule and its pursuit of state and national independence.

Laos has a long history, yet it underwent a series of setbacks in its course of establishing an independent nation. The history of Laos can be traced back to the Kingdom of Lan Xang, which was founded in the 14th century. Between 1707 and 1713, the Kingdom was split into Kingdom of Luang Phrabang, Kingdom of Vientiane, and Kingdom of Champasak. From 1779 to mid-19th century, the kingdoms were gradually brought under the Siamese suzerainty. It then became a French protectorate in

1893 and was occupied by Japan in 1940. In August 1945, armed uprisings by Laos people formed an Issara front. In the same year, Laos was declared independent on 12 October and the Lao Issara government was formed. However, with return of the French in 1946, the Lao Issara was disbanded. In 1950, nationalists resumed the Issara front and established a resistance government with Prince Souphanouvong as its Prime Minister. The French was forced to sign the Geneva Agreements in July 1954 and retreat from Laos. The USA invaded the land afterwards, but was forced to sign the Geneva Agreements on Laos in 1962. Subsequently, a coalition government was formed with Prince Phouma as Prime Minister and Prince Souphanouvong as Deputy Prime Minister. In 1964 pro-American forces backed by the US sabotaged the coalition government and attacked the liberated regions. Under the leadership of the Lao Patriotic Front, Laotian armies and people carried out gallant fight against the US forces. In February 1973, all sides in Laos signed a treaty on restoring peace and achieving ethnic harmony. In April 1974, another coalition government was formed with Prince Phouma as Prime Minister and the National Political Consultative Council was established with Prince Souphanouvong as Chairman. In December 1975, the first People's National Congress was convened in Vientiane, announcing the abolishment of the monarchy and the establishment of the Lao People's Democratic Republic, with the Lao People's Revolutionary Party in power. In August 1991, the Supreme People's Assembly promulgated the *Constitution of Lao People's Democratic Republic*, establishing the National Assembly.

In the two Geneva conferences concerning the national independence of Laos, China offered staunch support to the country. In the Geneva conference of 1954, Premier Zhou Enlai, the representative of China, demanded that all foreign armies

should withdraw from Laos, including Vietnamese volunteers who might travel to Laos; and that antagonistic actions within Laos should stop and no armies or ammunitions should be allowed in from other countries. On the second Geneva conference, which was held on 12 May 1961 to settle the Laotian Question peacefully, Chen Yi, Chinese Minister of Foreign Relations, stated that the resolution of 1954 Geneva Conference must be respected; that the agreement should be reiterated on Laos' sovereignty, independence, unity, territorial integrity, and no military bases should be established within Laos; and that Laotian people must be entitled to the right of solving their problems by themselves. These laid the foundation for the signature of *Declaration on the Neutrality of Laos* and *Protocol to the Declaration on the Neutrality of Laos*. The two documents confirmed the principles of respect for the sovereignty, independence, unity and territorial integrity of the Kingdom of Laos and non-interference in its internal affairs; Laos do not recognize the protection of any alliance or military coalition, including SEATO; all participating states will not resort to the use or threat of force or any other measure which might impair the peace of the Kingdom of Laos. The active efforts and struggle made by China in the two Geneva conferences contributed significantly to maintaining the peace, independence and neutrality of Laos.<sup>1</sup>

## 1.2 Laos-China Foreign Relations

Cooperation with ASEAN is the most critical part in Laos' foreign relations. In the meantime, its special partnerships with two other socialist countries, Vietnam and China, also carries considerable weight. Laos and China officially established diplomatic relations on 25 April 1961. Yet the development of

<sup>1</sup> Ma, Shuhong & Fang, Yun. 2004. *Guide to the World States: Laos*, Social Sciences Academic Press, P. 303.

the bilateral relationship has not always been smooth. In the end of December 1978, Vietnam invaded Cambodia. When China launched counterattack in self-defense against Vietnam in February 1979, Laos publicly censured China for "violating Vietnam". In June of the same year, Laos placed a limit on the number of staff in Chinese Embassy, and demanded the removal of military attaché's office and the withdrawal of Chinese aid workers. In July and August 1980, the Ambassadors of China and Laos returned to their home countries and left chargés d'affaires manage affairs in the Embassies, throwing the bilateral relationship in an abnormal state.<sup>1</sup> However, beginning from the 1980s, along with the development of regional and international trends, Laos proactively sought reconciliation with China out of its own need for development. On the occasion of the decennial anniversary of the founding of LPDR in December 1985, the leader of Laos stated the "hope that Laos-China relationship returns to normal state on the basis of the five principles of peaceful co-existence", which received prompt and positive response from the Chinese government. In April 1986, the Minister of Foreign Relations of China, Wu Xueqian, sent a telegram to Laos, congratulating on the 25th anniversary of establishing bilateral relationship between the two countries. The two sides then carried out negotiations on issues like resuming diplomatic relations, sending ambassadors, bilateral trading, and border trading. In June 1988, the two countries resumed exchanging ambassadors, normalizing bilateral relationship. In October 1989, Laotian leader Kaysone Phomvihane led a delegation to pay a state visit to China, during which both sides signed agreements on consulate, cultural cooperation, temporary agreement on border issues, and visa exemption. In December 1990, Chinese Premier Li Peng paid an official and goodwill visit to Laos, marking that China-Laos friendship and cooperation entered a stage of

<sup>1</sup> Du, Dunxin & Zhao, Heman. 1988. *Handbook of Vietnam, Laos, and Cambodia*. Current Affairs Press. p. 147.

comprehensive and normal development. In the same year, Laos adjusted its strategy "to develop a multi-faceted and cooperative relationship with China" into "to develop a comprehensive and cooperative relationship with China". Henceforth, leaders of both sides exchanged visits frequently and the bilateral relationship has seen steady development, expanding and deepening cooperation between the two countries.

It is worth noting that Bounnhang Vorachith attended the G20 Hangzhou Summit in September 2016 as head of a guest country. During his meeting with President Xi Jinping of China, he stated that the new leadership of the party and state of Laos will comprehensively inherit and carry forward their traditional friendship with the CPC, the Chinese government and people, as well as the long-term and stable comprehensive strategic partnership of cooperation. Laos will make joint efforts with China to promote bilateral friendly relations to continuously bloom and yield fruits.<sup>1</sup> China and Laos are closest partners in regional cooperative mechanisms, such as ASEAN+1, ASEAN+3, ASEAN +6, and a number of mechanisms involving the Greater Mekong Sub-region, as well as the Lancang-Mekong Cooperation mechanism established a couple of years ago. The present China-Laos relationship have become a model for equal cooperation between large states and smaller ones.

<sup>1</sup> "Xi Jinping Holds Talks with General Secretary of the LPRP Central Committee and President Bounnhang Vorachith of Laos", Ministry of Foreign Affairs of the People's Republic of China, 3 May 2016. <http://www.fmprc.gov.cn/web/zyxw/t1360348.shtml>

List 1. 1 Exchange visits by leaders of China and Laos (1989-2016)

| Year | Visits of Chinese Leaders to Laos  | Visits of Laotian Leaders to China  |
|------|--|---|
| 1989 |  | Kaysone Phomvihane, Secretary General of the Lao People's Revolutionary Party and President of the Council of Ministers           |
| 1990 | Li Peng, Premier of the State Council  |   |
| 1991 |  | Phoune Sipraseuth, Vice President of the Council of Ministers and Minister of Foreign Affairs; Khamtay Siphandone, Prime Minister |
| 1992 |  | Kaysone Phomvihane, President of the Lao PDR and Secretary General of the Lao People's Revolutionary Party                        |
| 1993 |  | Khamtay Siphandone, Secretary General of the Lao People's Revolutionary Party and Prime Minister                                  |
| 1994 | Huang Zhendong, Minister of Transport  |   |
| 1995 |  | President Nouhak Phoumsavanh  |
| 1996 | Qiao Shi, Chairman of the Standing Committee of the National People's Congress   |   |
| 1997 | Li Guohua, Vice Minister of Foreign Economic Relations and Trade; Wu Bangguo, Vice Premier   |   |
| 1998 |  |   |
| 1999 |  | Prime Minister Sisavath Keobounphanh  |
| 2000 | President Jiang Zemin  |   |
| 2002 |  | Prime Minister Bounnhang Vorachith  |
| 2003 |  | Khamtay Siphandon, President  |
| 2004 | Deputy Premier Wu Yi; Premier Wen Jiabao   | First Deputy Prime Minister Bouasone Bouphavanh; Prime Minister Bounnhang Vorachith   |
| 2005 |  | Vice President Choummaly Sayasone; Samane Vignaket, President of National Assembly  |
| 2006 | President Hu Jintao  | Secretary General and President Choummaly Sayasone; Prime Minister Bouasone Bouphavanh  |
| 2007 | Yu Zhengsheng, member of the Politburo and Secretary of CPC Hubei Provincial Committee; Liu Yunshan, member of the Politburo and head of the Publicity Department of the CPC Central Committee | Two visits of Prime Minister Bouasone Bouphavanh  |

| Year | Visits of Chinese Leaders to Laos  | Visits of Laotian Leaders to China  |
|------|--|---|
| 2008 | Jia Qinglin, Chairman of CPPCC;<br>Premier Wen Jiabao  | Thongsing Thammavong, President of National Assembly  |
| 2009 |  | Secretary General and President Choummaly Sayasone  |
| 2010 | Vice President Xi Jinping  |   |
| 2011 | Meng Jianzhu, State Councilor and Minister of Public Security;<br>Chen Zongxing, Vice Chairman of CPPCC;<br>Zhou Yongkang, member of the Politburo and Secretary of the Central Political and Legal Affairs Commission of CPC;<br>Liu Qi, member of the Politburo and Secretary of CPC Beijing Municipal Committee | Deputy Prime Minister Somsavat Lengsavad (twice); Thongloun Sisoulith, Deputy Prime Minister and Minister of Foreign Affairs; Prime Minister Asang Laoly; Secretary General and President Choummaly Sayasone; Vice President Bounnhang Vorachit; Douangchay Phichit, Deputy Prime Minister and Minister of Defense. |
| 2012 | Premier WEN Jiabao;<br>He Guoqiang, member of the Politburo and Secretary of the Central Commission for Discipline Inspection  | Prime Minister Thongsing Thammavong   |
| 2013 | Qi Jianguo, Deputy Chief of the Joint Staff Department of the Central Military Commission;<br>Liu Xiaofeng, Vice Chairman of CPPCC   | Pany Yathotou, President of National Assembly; Somsavat Lengsavad, Deputy Prime Minister; Douangchay Phichit, Deputy Prime Minister and Minister of Defense; Secretary General and President Choummaly Sayasone; Prime Minister Thongsing Thammavong; Bounthong Chitmany, Chairman of the Commission for Inspection |
| 2014 | Chang Wanquan, State Councilor and Minister of Defense; Liu Qibao, member of the Politburo, Secretary of the Secretariat and head of the Publicity Department of the CPC Central Committee   | Prime Minister Thongsing Thammavong; Secretary General and President Choummaly Sayasone; Thongloun Sisoulith, member of Politburo of the LPRP, Deputy Prime Minister, Head of the Party's National External Relations Committee, and Minister of Foreign Affairs  |
| 2015 | Ailigeng Yimingbahai, Vice Chairman of the Standing Committee of the National People's Congress; Zhang Dejiang, member of the Politburo and Chairman of the Standing Committee of the National People's Congress   | Prime Minister Thongsing Thammavong; Somsavat Lengsavad, member of Politburo of the LPRP and Deputy Prime Minister; Secretary General and President Choummaly Sayasone  |
| 2016 | Song Tao, Minister of the International Department of the CPC Central Committee; Premier LI Keqiang  | Prime Minister Thongloun Sisoulith; Secretary General and President Bounnhang Vorachith(twice)  |

Source: compiled by the author based on information from the website of Ministry of Foreign Affairs of China

### 1.3 China and Laos' Economic Development

The role of China in Laos' economic development is manifested in three aspects: a major investor, an important aid provider, and a valuable source of development experience.

Laos introduced reforms on economic institutions in 1986, which was closely followed by a comprehensive opening policy, forming the present economic institutions: coexistence of diverse economic sectors based on public ownership of the means of production; prices set by the market; more pay for more work, reward for diligence and punishment for indolence; rational distribution and redistribution of all incomes. A rudimentary system of market economy has been set up in Laos with management model conducive to economic development. The rapid growth in national economy and the rise in living standard and incomes produced favorable macroeconomic conditions for attracting foreign investment. Laos became the 158th member of the World Trade Organization in 2013. The rapid growth of China's economy and the steady rise of its international prestige are seen by Laos as a great opportunity for its own economic development. Laos not only values China's development experience, but also attaches great importance to aid and investment from China.

The development of Laotian economy calls for reinforcement of infrastructure construction. Laos can overcome its geographical disadvantages through infrastructure connectivity, transforming itself from a "land-locked country" to a "land-linked country". The Belt and Road Initiative put forward by China in 2013 shares a high degree of similarity with the development strategy of Laos. Several railways in plan or under construction, stretching from Kunming of southwest China, crossing Vietnam, Laos, Cambodia, Myanmar, Thailand, Malaysia, and ending in Signore, will connect China closely with all countries in

Southeast Asia, forming three major international railways in the east, middle, and west regions. The central route of the pan-Asian railway is the Boten-Vientiane Railway, connecting China, Laos and Thailand. H.E. Somsanith Souvannalath, Vice Minister to the Government's Office and Vice Chair of the National Committee for Rural Development and Poverty Eradication Lao PDR, regarded co-building the Belt and Road as an excellent opportunity for reducing rural poverty in China and in ASEAN countries. He also stated that the ongoing China-Laos railway projects have tremendously boosted Laos' economic and social development, enhanced regional cooperation, and in particular accelerated rural development and poverty eradication in Laos.<sup>1</sup>

Improvement in electricity, agriculture, industry and society are the bedrock for Laos socioeconomic development. Chinese aid and investment in these areas have seen continuous growth. In terms of electricity cooperation, as the battery of Southeast Asia, Laos enjoy abundant resources of hydropower. However, a string of transmission and transformation facilities as well as corresponding talents and skills are required to export electricity, which can hardly be realized in short term by Laos alone. These practical demands drive the investment, aid and technological cooperation in hydropower construction between China and Laos. In an effort to promote industrial development, Laos established Boten-Mohan Economic Cooperation Zone with China, and planned to set up 10 special economic zones and 29 specific economic zones in 41 targeted regions nationwide.<sup>2</sup> In agricultural cooperation, China has assisted Laos in ameliorating water infrastructure, improving the technology and levels of production, expanding intensive processing of agricultural products, cooperating in pest control technology, and developing substitution economic plants in the north, all of which have generated considerable economic outcomes. In terms of resource

1 "Notable Effect from China-ASEAN Cooperation on Poverty Eradication", China News, 22 June 2016. <http://www.chinanews.com/cj/2016/06-22/7913856.shtml>.

2 Chen, Dinghui. 2013. "Brief Introduction of Lao Special Economic Zone and Economic Zone", *Around Southeast Asia*, No. 7, P. 16.

cooperation, China and Laos enhanced cooperation in mining technology for sylvite, copper ore, and tin ore through training technicians for Laos. In the realm of technical cooperation, apart from collaboration in new energy such as hydropower, China has also strengthened cooperation with Laos in broadcast television and satellite communications. In social and health development, China has been increasing its aid to Laos on education, health care, disaster relief, etc. In conclusion, it is safe to say that China has become a great contributor to the comprehensive and rapid development of Laos.



## China's Investment in Laos

## Chapter II China's Investment in Laos

In recent years, the investment of Chinese enterprises in Laos has quickly expanded in both scale and scope with the continuous development of bilateral economic and trade relations and especially China's launch of the "Belt and Road" initiative. Laotian government and community have high expectations of strengthening investment cooperation with China. However, increasing apparent problems also arise from the process of making investment.

### 2.1 An Overview of China's Investment in Laos

In 2015, China's non-financial foreign direct investment (FDI) in Laos surpassed 1 billion US dollars and climbed to 1.36 billion US dollars, an increase of 36.2% year on year, second only to Singapore in the ASEAN countries.<sup>1</sup> At the end of 2005, China's FDI stock in Laos registered 32.9 million US dollars, but surged to 4.491 billion US dollars at the end of 2014 with the fast expansion of investment in recent years. Laos has also made into the top 20 host countries (regions) of China's FDI stock (Table 1). It is no exaggeration to say that there is a leapfrog growth in the flow and stock of China's business investment in Laos.

<sup>1</sup> "China Becomes the 2<sup>nd</sup> Largest ASEAN Investor of Laos", February 14, 2016. Source: Economic and Commercial Counsellor at the Chinese Embassy in Laos, <http://la.mofcom.gov.cn/article/jmxw/201602/20160201254473.shtml>, accessed on July 25, 2016.

Table 1 Top 20 host countries (regions) of China's FDI stock at the year end of 2014

| Ranking | Country / region                               | Stock (USD100 million) |
|---------|--|------------------------|
| 1       | Hong Kong Special Administrative Region, China | 5099.20                |
| 2       | British Virgin Islands (BVI)                   | 493.20                 |
| 3       | Cayman Islands                                 | 442.37                 |
| 4       | United States                                  | 380.11                 |
| 5       | Australia                                      | 238.82                 |
| 6       | Singapore                                      | 206.40                 |
| ...     | ...  | ...                    |
| 17      | Laos   | 44.91                  |
| 18      | Netherlands                                    | 41.94                  |
| 19      | Macau Special Administrative Region, China     | 39.31                  |
| 20      | Myanmar  | 39.26                  |
|         | Total  | 7872.52                |

Source: Ministry of Commerce (MOFCOM), National Bureau of Statistics (NBS), State Administration of Foreign Exchange (SAFE) of the People's Republic of China: *Statistical Communiqué on China's Foreign Direct Investment in 2014*, pp. 21.

China's investment in Laos is mostly concentrated in mining, electricity, agricultural and manufacturing sectors. Traditionally, Chinese enterprises prefer mineral, agriculture, electricity, rubber, storage and logistics and construction in investment in Laos due to Laos' national factor endowments and investment promotion policies. According to the Promotion Department of Ministry of Planning and Investment of Laos, its approved investment agreements with China approximately involved 4.9 billion US dollars from January 1, 2000 to June 1, 2013. By sectors, mining took up the largest share of more than 50%, followed by electricity, agriculture and manufacturing, while the stock investment accounted for less than 10%, numbering only 390 million US dollars.<sup>1</sup> According to *Vientiane Mai*, the output of Lao energy and mining industry

<sup>1</sup> Guo Jiguang: "Foreign Direct Investment of Chinese Enterprises in Laos and the Impact", *Southeast Asian Studies*, 2013 (5), pp. 39.

amounted to 94.34239 trillion kip (USD 11.79 billion) during 2011-2015, representing a 9.22% increase over 2006-2010 and 12% of the gross domestic product (GDP), and the exports of mineral products totaled 8.46 billion US dollars.<sup>1</sup>

Laos has a weak agricultural base and a slow process of industrialization. The challenges in poverty reduction and rural development will involve tackling rural poverty and containing the rise in inequality, according to the International Monetary Fund (IMF) Country Report in 2015. Agricultural production has been highly valued by Chinese investors in recent years, followed by mining and electricity. Laos is rich in grain and cash crops and productive in rubber, tobacco, tea and the like. Glutinous rice accounts for 90% of grain crops and coffee is the major export crop. However, capital, technology and market are still far from adequate for agricultural production, so the Laos Government provides priority support to rice, grain and food processing. As far as China-Laos agricultural cooperation is concerned, agriculture received 1.2 billion US dollars FDI from China during 2001-2009, coming after mining, electricity and services only. Chinese investors in Laos largely concentrated in the northern areas and focused business on agricultural cultivation, covering rice, corn, sugar cane, castor, rubber, cassava, vegetables, tobacco and tropical fruits.<sup>2</sup>

China's local governments are also actively promoting bilateral cooperation in the field of agriculture. In early 2016, the Conference on Outcomes of China-Laos Grain Cooperation and Laos Rice Launching Ceremony was held in Changsha, Hunan Province, marking the formal entry of the Laos rice into the Chinese market. Laos rice is an outcome of strategic agricultural cooperation between, Hunan Xuanye Ecological Agriculture

<sup>1</sup> "Energy and Mining Industry Accounts for 12% of the Lao GDP", May 13, 2015, <http://la.mofcom.gov.cn/article/zwjingji/201505/20150500973253.shtml>, accessed on July 23, 2016.

<sup>2</sup> Li Hao: "Lao Investment Environment in the Next Few Years in and Investment Advice", *Journal of Guangxi University*, 2014(3), pp. 47.

Development Co., Ltd and Ministry of Agriculture and Forestry of Laos, included in the key support projects of *Hunan Provincial Action Plan for the Belt and Road Strategy (2015-2017)* by Hunan People's Government. The first-batch 88 tons of Lao rice arrived in China on January 6, 2016 and was tested to have broken rice less than 2% and rice purity higher than 96%. Instead of traditional sales channels, the rice is sold and extended through dedicated stores in different places, such as Beijing, Shanghai, Guangzhou, Shenzhen, Changsha, and online platforms, such as Womai, so 50 and online supply and marketing cooperatives. Hunan's investment in Laos and other ASEAN countries has entered into the fast-rising channel with increasing efficiency in recent years, and this boosts bilateral trade, traditional friendship and cultural exchanges, said Mr. Zhou Yue, Deputy Director of Hunan Provincial Department of Commerce. The introduction and sales of Lao rice not only provides more choices for the Chinese people, but also will serve as an important platform for broadening economic and trade cooperation between Hunan and Laos.<sup>1</sup>

To meet the needs of economic development in Laos, Chinese enterprises are also extending their investments beyond above-mentioned traditional industries.

**Electric power industry and projects.** In December 2011, Yunnan Power Grid Corporation and Lao National Power Corporation officially signed the *Engineering, Procurement, and Construction (EPC) Contract Between Yunnan Power Grid Corporation and Lao National Power Corporation for the 115 kV Power Transmission Project in Northern Laos* which involves all aspects of project implementation including design, procurement and supply and construction. The project sets a new model for overseas project contracting for Yunnan Power

<sup>1</sup> "Fruitful China-Laos Agricultural Cooperation in the 'One Belt and One Road' Initiative: Indigenous Lao Rice Officially Enters the Chinese Market", *Xinhua Net*, January 22, 2016, [http://news.xinhuanet.com/politics/2016-01/22/c\\_128657254.htm](http://news.xinhuanet.com/politics/2016-01/22/c_128657254.htm).



Grid Corporation.<sup>1</sup> Currently, Chinese investment in the electric power industry is targeted at adequate power supply for the Lao people and businesses, which differs from cross-border electricity sales as in the traditional EPC contracts for hydropower projects. In fact, though committed to achieving the goal of "Battery in Southeast Asia", Laos is still facing major bottlenecks in electric power supply and the relative high price makes electric power hardly affordable. Therefore, the involvement of Chinese-funded enterprises will play an important role in strengthening the Lao power grid and contribute to the target of benefiting the Lao enterprises and the public.

**Space science and technology.** In 2016, with the approval of the Prime Minister of Laos, the China-Laos joint venture Lao Asia Pacific Satellite Company Limited signed a Franchise Agreement on Lao satellites with the Ministry of Planning and Investment of Laos. Under the agreement, the enterprise is formally approved by the Lao Government to carry out, through Lao Sat-1, the business of satellite communications, satellite television and terrestrial mobile communications. On December 1, 2012, the Lao Sat-1 Project was officially kicked off and contracted to the China Asia-Pacific Mobile Telecommunications Satellite Co., Ltd. On November 21, 2015, this satellite was successfully launched by Long March 3B in Xichang Satellite Launch Center, China. In March 2016, the in-orbit satellite delivery was completed and the concurrently founded Lao Asia Pacific Satellite Company Limited is responsible for commercial satellite operation.<sup>2</sup> At the same time, China's self-built BeiDou satellite navigation system has covered the whole territory of Laos and started to provide services for all sectors of Laos.

**Financial industry.** In 2011, the Industrial and Commercial

- 1 Guo Xiaofang, Leng Xiluo: "Electricity Investment of Chinese Enterprises in Laos: Prospect and Risk Analysis", *Journal of Yunnan University of Finance and Economics*, Issue 3, pp. 9.
- 2 "Chinese-Invested Satellite Communications Company Obtains Business License in Laos", September 4, 2016, [http://news.ifeng.com/a/20160904/49896410\\_0.shtml](http://news.ifeng.com/a/20160904/49896410_0.shtml), accessed on September 12, 2016.

Bank of China (ICBC) opened the Vientiane Branch. In 2014, Lao China Bank (LCB) was formally established in Vientiane, Laos by Fudian Bank, Yunnan-based Chinese provincial joint-stock commercial bank, and Banque Pour Le Commerce Exterieur Lao Public (BCEL), the largest Lao commercial bank. LCB is the first joint venture bank approved by the Bank of the Lao PDR and the first overseas business institution of urban commercial banks approved by China Banking Regulatory Commission (CBRC). It began to open for business in January 2014,<sup>1</sup> covering assets, liabilities and intermediary business in kip, dollar, yuan and baht.

**Real estate industry.** The real estate industry is expected to become a new pillar of the Lao economic growth in the process of accelerated urbanization and industrialization that accompanies the increase of per capita income towards "graduation" from the least developed countries (LDCs) as contemplated by the Lao Government. A typical case is Metropolitan Asset Group's ongoing Project of Latsavong Plaza Residential Tower, the tallest building in Vientiane. Chinese enterprises contribute a large share of the project investment of 150 million US dollars, which mirrors optimism about the prospect of Lao real estate market. "A number of powerful Chinese construction companies targeting at the Lao real estate market gather in Vientiane and apply China's experience into urban construction of Laos. Latsavong Plaza Residential Tower, a prospective landmark in the process of urbanization, is expected to provide at least 1,500 jobs once put into operation", said a Chinese real estate developer in Laos.<sup>2</sup>

In short, Chinese investors are making appropriate adjustment with economic opening and transformation in Laos, and constantly exploring new profitable growth points of the Lao economy beyond traditional fields.

- 1 "First China-Laos Joint Venture Bank Establishes and Serves for Chinese Clients in Laos", June 27, 2014, <http://la.mofcom.gov.cn/article/sqfb/201406/20140600643042.shtml>, accessed on July 23, 2016.
- 2 "Laos Business: Chinese Investment Produces Multilateral Mutual Benefits", *Economic Information Daily*, September 7, 2016.

## 2.2 The "Belt and Road" Initiative and China's Investment in Laos

The "Belt and Road" Initiative, Asian Infrastructure Investment Bank (AIIB) and Lancang-Mekong Cooperation Mechanism have brought significant changes to the structure, direction and policy environment of Chinese overseas investment, but also created favorable conditions for further upgrading the size and content of Chinese investment in Laos.

First of all, China and Laos have begun new strategic connectivity at the government level. In September 2016, Chinese Premier Li Keqiang attended the ASEAN meetings and issued a joint communiqué with Lao leaders while visiting Laos. The two sides decided to speed up connecting China's "Belt and Road" initiative and 13th Five-Year Plan with Laos' "Land-locked to Landlinked Transition" strategy and 8th Five-Year Plan. They resolved to formulate and implement a joint plan to advance the "Belt and Road" initiative, make solid efforts to promote production capacity and investment cooperation, and bring economic and technological cooperation plans into full play. The Chinese side vowed to assist Laos in the formulation of special economic development plan and continue support within its capacity for sustainable economic and social development in Laos. The two countries will actively carry forward the China-Laos Railway Project<sup>1</sup> which aims to build 417 km railways within five years and involves a total investment of about 37.4 billion yuan. The groundbreaking ceremony took place in Luang Prabang Province of Laos on December 25, 2016, marking a new phase of the railway construction. Further, substantive cooperation on infrastructure and technology will be carried out. China

<sup>1</sup> "Joint Communiqué of the People's Republic of China and the Lao People's Democratic Republic", September 9, 2016, [http://www.fmprc.gov.cn/web/ziliao\\_674904/zt\\_674979/dnzt\\_674981/lzlt/lkqcxdyhzldrhy\\_687612/zxxx\\_687614/t1396153.shtml](http://www.fmprc.gov.cn/web/ziliao_674904/zt_674979/dnzt_674981/lzlt/lkqcxdyhzldrhy_687612/zxxx_687614/t1396153.shtml), accessed on September 12, 2016.

Railway Corporation will lead effective cooperation with the Lao enterprises in the fields of project exploration, project design and equipment manufacturing. In addition, the "Belt and Road" initiative stimulates China's reform of management systems concerning foreign investment policies. In accordance with the *Administrative Measures for Overseas Investment* promulgated by MOFCOM in 2014, state, provincial and municipal commercial departments filed and approved 21,175 overseas investment cases as of September 8, 2016, of which only 0.5% or 110 cases need approval and the rest 99.5% are just filed on record.<sup>1</sup> A relaxed policy environment facilitates more time-saving and convenient investment in Laos for Chinese enterprises.

Secondly, China-Laos production capacity cooperation will generate more win-win benefits. As a by-product of the "Belt and Road" initiative, international production capacity cooperation which centers on manufacturing capacity transfer has become an important way to China's foreign investment cooperation. The Lancang-Mekong Cooperation Mechanism, founded by China, Laos and other Mekong countries, considers production capacity cooperation as an important start. It is made clear that production capacity cooperation will adopt diversified forms such as direct investment, project contracting, technical cooperation and equipment import and export and focus on jointly promoting economic development and industrial transformation and upgrading in relevant countries. It should increase localization in enterprise employment and procurement, reinforce local staff training and enhance local employment to generate good economic and social results, and provide necessary support for the development of small and medium-sized enterprises (SMEs) in the production linkages.<sup>2</sup> In

<sup>1</sup> "SCIO Press Conference on *Statistical Bulletin of China's Foreign Direct Investment in 2015*", September 22, 2016, [http://www.gov.cn/xinwen/2016-09/22/content\\_5110783.htm](http://www.gov.cn/xinwen/2016-09/22/content_5110783.htm), accessed on September 23, 2016.

<sup>2</sup> "Joint Statement on Production Capacity Cooperation Among Lancang-Mekong Countries", March 23, 2016, [http://www.fmprc.gov.cn/web/gjhdq\\_676201/gj\\_676203/yz\\_676205/1206\\_676644/1207\\_676656/t1350038.shtml](http://www.fmprc.gov.cn/web/gjhdq_676201/gj_676203/yz_676205/1206_676644/1207_676656/t1350038.shtml), accessed on July 22, 2016.

the development of export-oriented manufacturing industry, Laos has a certain degree of unique advantages. Its recognition as a Least Developed Country (LDC) by the United Nations according to the overall situation of economic and social development is favorable for production capacity cooperation. Under the World Trade Organization (WTO) trade agreements as well as many regional and bilateral trade agreements, LDCs obtain export waivers in the importing countries in the Generalized System of Preferences (GSP). Therefore, Chinese enterprises targeted at the export market of the United States, Europe and other developed countries can transfer production lines to Laos to enjoy preferential tariff treatment that reduces production and marketing costs. Meanwhile, the most favored nation (MFN) exemptions are also applicable to border trade. This creates the condition for neighboring China and Laos to upgrade bilateral economic and trade cooperation by strengthening border trade.

Finally, with growing Chinese investment in Laos and expanding industrial coverage, the Chinese and Lao governments pay more attention to the role of agglomeration of Chinese and Lao enterprises in advancing industrialization and development of related industries. This idea is embodied in the policy of diverse and distinctive special economic zones and specific economic zones.

China-Laos Cross-Border Economic Cooperation Zone. China and Laos signed the *China-Laos Joint General Scheme for Mohan-Boten Cross-Border Economic Cooperation Zone* on August 31, 2015. The two sides have decided to establish the Mohan-Boten Cross-Border Economic Cooperation Zone in Yunnan Province of China and Luang Namtha Province of Laos in order to promote the "Belt and Road" initiative, consolidate and develop the comprehensive strategic partnership and enhance beneficial cooperation.<sup>1</sup>

<sup>1</sup> "China and Laos Sign the Joint General Scheme for Mohan-Boten Cross-Border Economic Cooperation Zone", September 1, 2015, <http://la.mofcom.gov.cn/article/zwjingji/201510/20151001147759.shtml>, accessed on July 3, 2016.

Industrial processing zones. Laos strives to boost its industrialization and export-oriented manufacturing industry while promoting international capacity cooperation. One such example is Saysetta Comprehensive Development Zone which was co-funded by Yunnan Provincial Overseas Investment Co., Ltd. and identified as a state-level overseas economic and trade cooperation zone of China in August 2013. Located in Saysetta and Xaythany in northeast Vientiane, the 10 km<sup>2</sup> zone combines industrial parks and new urban districts and supports comprehensive development covering "processing bases for agricultural export and light industrial export, service and logistics centers, bonded area, modern business district, public facilities and residential area, and leisure tourism area". At the same time, the Lao Government provides adequate policy preference and support, especially tax concessions for the construction of such zones. In-zone enterprises that have obtained the business license shall be exempted from value-added tax (VAT) on imported goods or services used, processed or sold in the zone. Investors that have obtained the business license shall enjoy the tax relief policy with respect to profit tax for investment and operation in the zone. The operators that export 70% or more of the total production or engage in high-tech equipment, instrument and product manufacturing and assembly shall enjoy a 10-year tax holiday and a tax rate of 6% following the expiry of holiday.<sup>1</sup>

Agricultural cooperation demonstration parks. China-Laos cooperation projects in agricultural parks show a tendency of fast increase in recent years, such as Yunnan-Oudomxay Agricultural Science and Technology Demonstration Park, Guangxi-Champasak Experimental Base for Chinese New Fruit and Vegetable Varieties, and Lao Chongqing Integrated Agricultural Park as a result of Chongqing-Vientiane cooperation.

<sup>1</sup> "Investment in Saysetta Comprehensive Development Zone, Vientiane, Laos", December 10, 2013, <http://la.mofcom.gov.cn/article/sqfb/201312/20131200419472.shtml>, accessed on July 23, 2016.

In a recent joint communiqué, the governments of China and Laos spoke highly of the special economic zones and pledged to cooperate closely to build the Mohan-Boten Economic Cooperation Zone and Saysetta Comprehensive Development Zone.

## 2.3 Problems Associated with China's Investment in Laos

The Lao Government and people have an overall favorable evaluation of Chinese investment, considering that Chinese enterprises greatly contribute to local economic development, job creation and living environmental improvement. However, they are concerned about problems arising from investment, particularly enterprise employment localization, land use and environmental protection. On the other hand, Chinese investors are largely concerned with Laos business environment.

### 2.3.1 Localization of Chinese enterprise employment

In Laos, projects contracted to China have increased substantially. In 2015, China sent more than 101,000 people to Laos for contracted projects, ranking first in Asia and ASEAN.<sup>1</sup> It sparks a pluralistic view of employment localization of Chinese enterprises in the Lao society. Most of civil society organizations hold that Chinese companies largely hire their own workers and contribute little to local employment. As to the Lao people, driven by high treatment, young people generally would like to learn Chinese and work for Chinese companies. In the eyes of the Lao Government and think tanks, Chinese companies create a considerable number of jobs and give a positive impetus to the economic development of Laos. For Chinese companies in Laos, language is an apparent barrier to local employment, in addition

<sup>1</sup> "Chinese Labor Force in Lao Increase Significantly, Ranking First in Asian Countries", February 15, 2016, <http://la.mofcom.gov.cn/article/zwjingji/201602/20160201254863.shtml>, accessed on July 25, 2016.

to educational levels and technical factors. The advantage in Chinese is reflected in the phenomenon that trainees far exceed the capacity of short-term Chinese courses in Vientiane Confucius Institute.

With a total population of only 6.5 million, Laos is a relatively sparsely populated country overall and short of labor force. At present, many foreign-funded enterprises in Laos rely heavily on foreign employees, mainly from Thailand, Vietnam and China. Chinese enterprises largely hire Chinese workers when establishing companies or contracting projects in Laos. The survey of the Research Team found that Chinese enterprises in Laos are caught in a dilemma in employment practice. On the one hand, the additional costs for Chinese employees in a foreign country and family problems arising therefrom push up labor costs, while the tropical climate in Laos makes it more difficult to maintain a stable workforce. On the other hand, there are not sufficient qualified local workers due to constraints in technology, education and language.

In fact, in response to the influx and impact of foreign labor force, the Lao Government has put a cap on foreign employees in foreign-funded enterprises. According to the relevant administrative measures issued by the Lao Government, introduced manual workers shall not exceed 10% of the total labor force of units and projects and introduced mental workers, 20% (except in special circumstances approved by the Government). The prescribed period of work shall be no more than two years or four years where there is an extension of another two years. Those working for over four years shall be deprived of work permit, residence permit and work visa before they can apply again two years later.<sup>1</sup> However, the employment of local workers is constrained by personnel quality.

<sup>1</sup> "Government Resolution on Principles and Methods for Dealing with Foreign Business Operators and Employers in Laos", No.3 Document of the Lao Government, issued on March 6, 2011. Source: <http://la.mofcom.gov.cn/article/ddfg/201204/20120408081967.shtml>, accessed on July 23, 2016.

In Laos, there are only 5 universities, 133 colleges and 11 normal schools, all of which focus on agriculture and services and little touch science and engineering education. Buddhist temple schools that play an indispensable role in the Lao national education also put more emphasis on philosophy than science. In the current Lao labor market, most labor force have neither received formal vocational education nor acquired management and technical skills.<sup>1</sup>

On the issue of employment localization, Chinese companies cannot be localized due to work requirements though the Lao Government strives to improve the employment rate of the local people. As more Chinese enterprises engage in business activities in Laos, the problem will become an important factor restricting business operation, management and profitability. It requires an appropriate policy solution of the Lao Government in consultation with foreign investors.

### 2.3.2 Land use

Land is an unavoidable issue for Chinese investors in Laos, whether agricultural, industrial or real estate investment. It is in the process of land use that Chinese enterprises and the local authorities and residents establish the most frequent and close contacts and are likely to have controversies. Lao civil society organizations and government officials raised that Chinese companies have land lease and use irregularities harmful to the interests of local people. According to the in-depth survey and interview of the Research Team, the actual land use problems can be broadly divided into two categories: a) land lease problems. In some cases, small private investors lease land for crop cultivation through secret transactions instead of formal procedures and in very few cases, investors abandon the lease before expire due to operational problems; b) complex land problems arising from

<sup>1</sup> Tang Yinping: "Study on Employment Localization of Chinese Enterprises in Laos", *Modern Business Trade Industry*, 2016 (17), pp. 44.

relocation and demolition. It is often the case that the Chinese companies have paid the relevant costs as required, but the payment is not issued or in place because of other reasons, resulting in dissatisfaction with Chinese companies.

According to the Lao law, land is publicly owned and not transferable and enterprises or individuals can only transfer and receive land tenure. Land tenure mainly serves the purposes of production and residence. Land tenure for production is most typically seen in the land concession of mining, energy and agriculture. It allows the control of land use in the course of business operation and thereby wins the preference of investors. According to a preliminary survey of land concession in Vientiane and Luang Namtha conducted by the German Agency for International Cooperation in 2009, land concession was estimated to cover 2-3 million hectares in Laos, about 10%-15% of the national land,<sup>1</sup> and this area enlarged to 5-6 million hectares in 2012. To this end, the Lao Government suspended land concession for rubber planting, eucalyptus and mineral exploitation and announced a comprehensive land survey to be conducted before restoration of examination and approval. The specific measures included suspension of issuing river sand mining license in respect of mineral resources, allowance for continued exploration, mining or processing for mineral projects that have been approved, and in principle, suspension of approval until completion of agricultural land survey and division for projects requiring a large area of land such as rubber and eucalyptus cultivation.<sup>2</sup> Investors can also obtain land tenure for residential purpose. According to Article 58 of *Law on Investment Promotion* of Laos, foreign investors with registered investment capital of 500,000 US dollars or above shall be entitled to buy

<sup>1</sup> Heike Baumüller and Kate Lazarus: *Agribusiness Investments in Lao PDR: Opportunities and Challenges for Poverty Reduction*, Yunnan Science and Technology Press, 2012 edition, pp. 8.

<sup>2</sup> "Lao Government Suspends the Approval of Land Concession", May 30, 2012, <http://la.mofcom.gov.cn/article/sqfb/201205/20120508153903.shtml>, accessed on July 25, 2016.

land tenure for residential purpose from the Government under the following conditions: a) agreement with the local authorities, b) land for residential or commercial purposes no more than 800 m<sup>2</sup>, and c) land tenure allocation consistent with investment timeframe.<sup>1</sup> The strict control and management of land use imposes a hard constraint on Chinese companies. Land use disputes involving Chinese enterprises in Laos, more often than not, are not serious or caused by the Chinese side.

### 2.3.3 Environmental protection

The environment in Laos is subject to the impact of investment in energy resources, hydropower stations, road and infrastructure construction and agriculture where Chinese investors concentrate. Environmental protection is one of the most concerned issues of local non-governmental organizations (NGOs). Hence, the destruction of the natural environment arising from Chinese investment is often discussed in Laos.

The Research Team noted the conflicts between environmental protection and economic development in Laos by visiting large Chinese investors in hydropower stations and energy resources and international civil organizations. For example, according to the survey of local civil society organizations, the construction of hydropower stations on the Mekong River has a direct negative environmental impact, reflected in destruction of natural vegetation and forests and resulting temperature rise. However, hydropower stations are of strategic importance in economic development in the plan rectified by the Lao Government. The interview and survey found that large Chinese investors such as China Hydroelectric Corporation engage in hydropower stations as contract issuer or mostly construction contractor. In the former case, the

<sup>1</sup> Phonethavong Singhalath, "Current Investment Regime of the PDR", March 27-28, 2012, Phnom Penh, <http://www.oecd.org/investment/investmentfordevelopment/50075285.pdf>, accessed on July 7, 2016.

hydropower construction projects in Laos as in other countries are subject to legal environmental impact assessment before approved. In the latter case, Chinese enterprises serve only as contractor. The reality is that the strong competitive advantages in technology and cost enable Chinese companies to build the vast majority of hydropower stations in Laos. The Lao society naturally believes that the environmental problem is caused by Chinese companies with Chinese employees.

China's investment in Laos has entered a period of rapid growth with the release of "Belt and Road" initiative, China-ASEAN joint statement on production capacity cooperation and joint statement on production capacity cooperation among Lancang-Mekong countries. Represented by G20 global infrastructure initiative, the new round of China's foreign investment will focus on infrastructure development to enhance regional connectivity. Laos is expected to seize the major opportunity provided to boost its economy. At the same time, there are potential adjustments in the overall investment and business environment, labor employment and land tenure management system for Chinese enterprises in Laos. To this end, the Lao Government and Chinese enterprises need to strengthen dialogue and cooperation and work together to promote laws, regulations and policies for more efficient foreign investment management. The continuous inflow of Chinese capital and the increasing standardization of legal and management system will be favorable for a more open market economy in Laos. This will promote balanced and stable economic growth and contribute to economic development that lifts Laos out of the LDCs ranks.

### 2.3.4 Business environment in Laos

In the past three decades, the Lao Government has made great efforts in market-oriented reform, regulation relaxation and power devolution. This paves a favorable foundation for

improving the foreign investment and business environment in Laos, however, in such a world's least developed economy, the improvement has also been seriously hampered by government capacity and resource availability. According to the World Bank (WB) report *Doing Business 2016*, Laos continues its rearward position in the ease of doing business ranking, staying at 134 despite an increase over last year. The country ranks much front in certain indicators, implying a strong competitive edge in these fields. Specifically, Laos ranks 42 and 66 in terms of construction permits and property registration respectively. It takes 83 days and costs only 0.5% of warehouse value to deal with construction permits, and it requires 53 days and 1.1% of property value to register property. The ranking reaches 70 in getting credit and 92 in enforcing contracts. In some other indicators, the country stays in an inferior position, ranking 153 in starting a business which requires 73 days and 4.9% of income per capita; ranking 158 in getting electricity which costs 134 days and 1522.6% of income per capita; ranking 189 in solving insolvency with a recovery rate of zero.<sup>1</sup> On the whole, the unsatisfactory business environment also has a negative impact on China's investment. The corruption problems arising from China's investment in Laos, in fact, are associated with the Lao institutional environment.

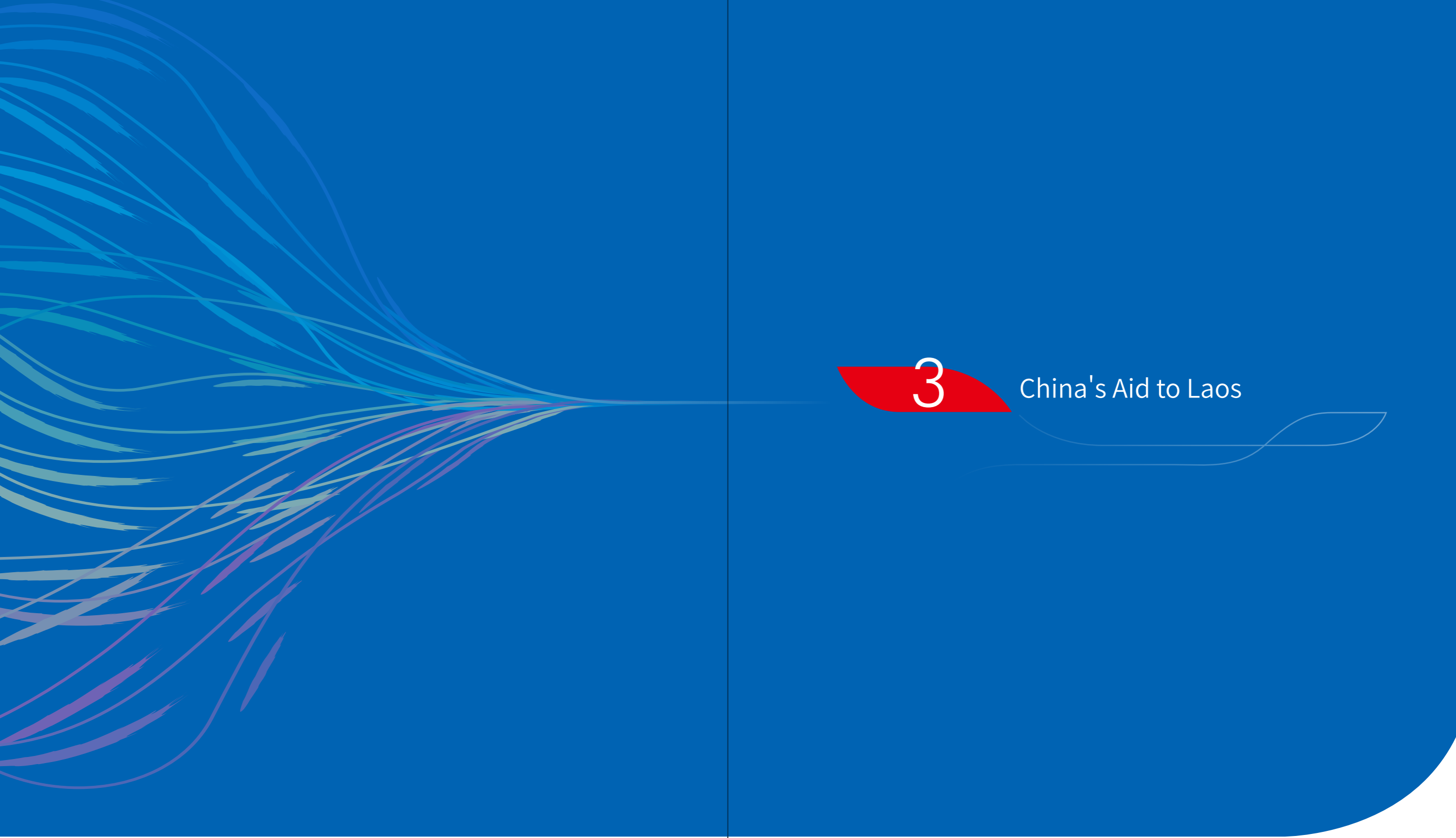
To improve the business and investment environment, in 2009, the Lao National Assembly passed the *Law on Investment Promotion* which is an important legislation for foreign investment in Laos. Currently, the Lao Government is soliciting views and discussions on the draft amendment to the Law. The Law marks an important step forward in the legal and standardized management of foreign investment in Laos. Article 3 of the Law clearly states that the Lao Government promotes both domestic and foreign investments in all economic sectors through policies to create enabling environment and facilitating conditions, for instance, providing guidelines and

<sup>1</sup> World Bank Group: *Doing Business 2016: Measuring Regulatory Quality and Efficiency*, International Bank for Reconstruction and Development, 2016, pp.213.

necessary information regarding customs management, tax policy, labor and land tenure, offering one-stop-services and assuring the Government's recognition and protection of lawful ownership, rights and benefits of investors.<sup>1</sup> The Law also specifies the role of the Government in investment protection. The Government fully acknowledges and protects the investment of investors against seizure, confiscation or nationalization by administration processes. In the case that the Government has the need for public interests, the investors shall be compensated with an actual value based on market price at the time of transferring money and paid in a method agreed by both parties.<sup>2</sup> The continued improvement of the investment environment in Laos will be conducive to the investment and development of Chinese enterprises in Laos.

<sup>1</sup> Article 3 of Law on Investment Promotion, National Assembly, Lao PDR, No.02/NA, July 08, 2009.

<sup>2</sup> Article 61 of Law on Investment Promotion, National Assembly, Lao PDR, No.02/NA, July 08, 2009.



3

China's Aid to Laos



## Chapter III China's Aid to Laos

China's aid to Laos can be traced back to the late 1950s and early 1960s. Despite a short standstill amid twists and turns in the late 1970s and mid-1980s, China-Laos relations generally develop in a proactive and all-round way. With comprehensive development and deepening of bilateral relations since the 1990s, China's aid to Laos has also rapidly expanded and China became the largest donor of Laos in 2012.

### 3.1 An Overview of International Aid to Laos

International aid is the main source of external financing for the development of Laos, one of the LDCs in Asia. Laos has received assistance since the 1950s as a French colony and military aid from the United States for defeating communism. During 1955-1971, the United States was the largest donor to Laos, providing 770 million US dollars or 83.5% of the total foreign aid of Laos (Table 3.1). The US per capita aid to Laos was far higher than that of any other Southeast Asian countries. With the end of French Indochina, the United States tried to prevent Laos from becoming a communist country. It worried that South Vietnam, Thailand and Burma would follow suit if Laos became a communist country. To avoid falling into the hands of the Communist Party of Vientiane, the US aid was more used for the "secret war"<sup>1</sup>, rather than livelihood improvement of the Lao people.

<sup>1</sup> It refers to the Lao civil war between the Soviet-backed communist Pathet Lao and the US-backed Royal Lao during 1953-1975.

Table 3.1 Major donors of Laos during 1955-1971

| Donor          | Amount (USD million) | Proportion (%) |
|----------------|----------------------|----------------|
| United States  | 770.1                | 83.5           |
| France         | 67.5                 | 7.3            |
| United Kingdom | 33.9                 | 3.6            |
| Japan          | 24.5                 | 2.7            |
| Australia      | 10.5                 | 1.1            |
| United Nations | 10.2                 | 1.1            |
| Others         | 8.5                  | 0.7            |
| Total          | 925.0                | 100            |

Source: Francois Guegan (2005). *Historical Perspectives on Development Assistance to the Lao PDR*, University of Rennes2, France.

With the establishment of the Lao People's Democratic Republic in 1975, the Soviet Union and Vietnam began to provide assistance to Laos and the Soviet Union replaced the United States as the primary donor. The Soviet Union contributed half of the foreign aid to Laos during 1975-1985, according to the Organization for Economic Cooperation and Development (OECD). In the mid-1980s, the Soviet Union dispatched more than 1,500 experts in the forms of military and technical assistance to Laos and helped draft the first five-year plan (1981-1985). During this period, international financial assistance to Laos amounted to 1.16 billion US dollars (Table 3.2). Among them, the Soviet Union carried out more than 50 aid projects and trained over 100 Lao students and technical personnel.<sup>1</sup> In 1977, Laos and Vietnam signed the *Laos-Vietnam Friendship and Cooperation Agreement* which allowed Vietnamese troops to station in Laos. Lao party members began to receive ideological training in Vietnam and Vietnamese technicians provided support for the Lao economic projects.<sup>2</sup>

<sup>1</sup> Martin Stuart-Fox (2008), *Historical Dictionary of Laos*, The Scarecrow Press, Inc. pp. 175.

<sup>2</sup> Martin Stuart-Fox (2008), *Historical Dictionary of Laos*, The Scarecrow Press, Inc.

Table 3.2 Major donors of Laos during 1975-1985

| Donor  | Amount (USD million) | Proportion (%) |
|--|----------------------|----------------|
| Soviet Union   | 547                  | 47.11          |
| Vietnam  | 133                  | 11.45          |
| United Nations agencies                              | 105.01               | 9.04           |
| Sweden   | 85.11                | 7.33           |
| Japan  | 50.27                | 4.33           |
| Netherlands  | 37.57                | 3.24           |
| WB   | 31.11                | 2.68           |
| Asian Development Bank (ADB)                         | 24.21                | 2.09           |
| Australia  | 21.85                | 1.88           |
| Federal Republic of Germany                          | 21.28                | 1.83           |
| IMF  | 16.23                | 1.4            |
| United States  | 14                   | 1.21           |
| Organization of Petroleum Exporting Countries (OPEC) | 9.17                 | 0.79           |
| Poland   | 9.02                 | 0.78           |
| France   | 7.42                 | 0.64           |
| European Economic Community (EEC)                    | 5.82                 | 0.5            |
| Other OECD countries                                 | 11.46                | 0.98           |
| Other non-OECD countries                             | 31.55                | 2.72           |
| Total  | 1161.08              | 100            |

Source: [www.aidflows.org](http://www.aidflows.org); table made by the author.

In 1986, development assistance began to play an important role as Laos implemented a market economy system to promote social and economic development. Prior to 1990, Laos received approximately 50 million US dollars aid from OECD Development Assistance Committee (DAC) member countries and international organizations each year. Before and after 1992, approximately 90% of official development aid was derived from OECD-DAC, but in the late 1990s, the proportion dropped to about 60-70%. The major DAC donors of Laos included Japan, Australia, South Korea and Germany. In 1986-2002, Japan rose as the largest bilateral donor of Laos, accounting for more than 40% of all international

aid to Laos, followed by Sweden (11%), Australia (8%), Germany (8%) and France (6%). After the Cold War, the US bilateral aid to Laos was reduced substantially and accounted for only about 3% during 1986-2003. The Soviet aid to Laos came to an end with the disintegration of the Soviet Union in 1991.

Table 3.3 Top 10 bilateral donors of Laos in 2013 (OECD-DAC member states)

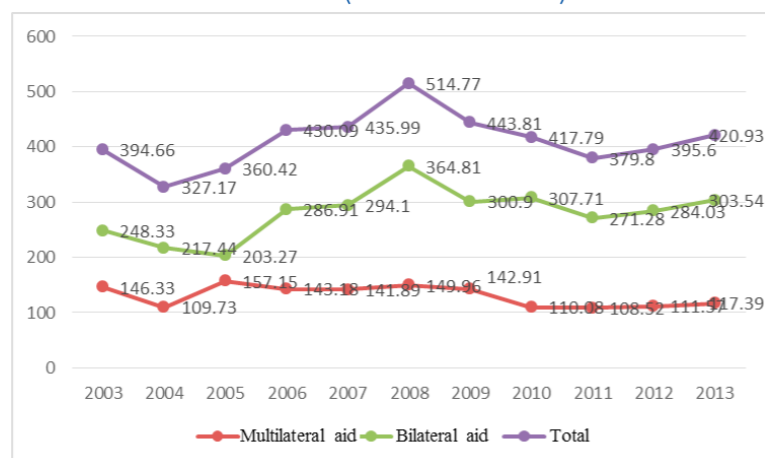
| SN | Country               | Amount (USD million) |
|----|-----------------------|----------------------|
| 1  | Japan                 | 75.96                |
| 2  | Australia             | 49.22                |
| 3  | Thailand <sup>1</sup> | 34.72                |
| 4  | Korea                 | 27.07                |
| 5  | Germany               | 25.84                |
| 6  | Switzerland           | 24.55                |
| 7  | Luxembourg            | 17.76                |
| 8  | France                | 16.93                |
| 9  | United States         | 9.34                 |
| 10 | Finland               | 7.6                  |

Source: [www.aidflows.org](http://www.aidflows.org); table made by the author.

The DAC aid to Laos amounted to 395 million US dollars in 2003 and surpassed 500 million US dollars in 2008, but fell to 420 million US dollars in 2013 (Figure 3.1). Generally, due to the rapid economic development of Laos, the ratio of official development assistance to GDP continues to decline, down from 16% in 2002 to 4% in 2013 (Figure 3.2). Therefore, Laos has graduated from "aid-dependent countries". Meanwhile, international NGOs have become increasingly active in Laos, with the number up to more than 160 in 2009 from zero in 1975. They provide about 35 million US dollars in aid a year, mainly for education, public health, environmental protection, community and rural development, disaster relief, and clearing unexploded ordnance.

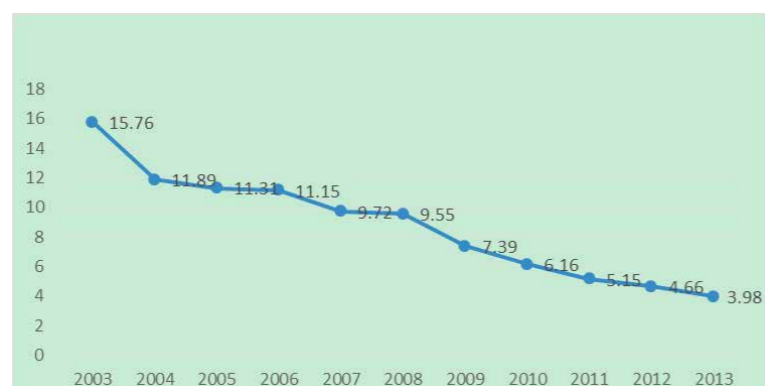
<sup>1</sup> Thailand began to report foreign aid data although it was not an OECD-DAC member state.

Figure 3.1 Multilateral and bilateral aid to Laos during 2003-2013 (unit: USD million)



Source: [www.aidflows.org](http://www.aidflows.org); table made by the author.

Figure 3.2 Ratio of development assistance to GDP in Laos during 2003-2013



Source: [www.aidflows.org](http://www.aidflows.org); table made by the author.

The historical overview of international aid to Laos shows two prominent features. First, major powers played a leading role in provision of aid to Laos, such as the United States before the 1970s, the Soviet Union in the 1980s and Japan after the 1990s. Their dominance reflects the passive position of small countries and the important position of Laos in geo-strategies and politics. Second, aid channels are becoming more diversified, as shown by increasing aid volume from international organizations, NGOs and multilateral agencies.

## 3.2 Evolution of China's Aid to Laos

China's aid to Laos can be broadly divided into three stages according to the characteristics of the different periods. From the founding of the People's Republic of China to late 1970s, China's assistance primarily supported the struggle for independence and neutrality against colonial domination. From late 1970s to the mid-1980s, China suspended the assistance to Laos due to the deterioration of bilateral relations. From the late 1980s onwards, China has steadily increased the assistance to Laos as the bilateral relations recover and deepen. It persists in the policy of fostering an amicable, secure and prosperous neighborhood based on mutually beneficial cooperation and win-win. China rose to become the largest donor to Laos in 2012 (Figure 3.4). China's aid forms and projects in Laos have also become diversified.

### 3.2.1. Stage I: from the founding of the People's Republic of China to late 1970s (1954-1978)

In this stage, with the rapid development of China-Laos relations, the Chinese Government and people provided massive support for anti-colonial struggle for independence in Laos. The financial assistance dated back to the mid-1950s has played an important role in the national independence and construction of Laos. In early 1960s, China helped Laos build roads that stretched from Yunnan Province of China to Muang sing, Luang Namtha and Phongsali of Laos. In 1971, thousands of Chinese workers were sent to Laos for road construction in the cause of independence of the Lao people, and in 1973, there were more than 20,000 Chinese workers in Laos to build and maintain roads and bridges and support the local economic development. In 1974, China announced an assistance of 25 million US dollars to the coalition government in Laos. In 1975, as the Lao communists unified the country, China promised more assistance in roads,

construction, conference rooms and hospitals in Luang Prabang and provided funds to the Lao Government for the purchase of Chinese goods and Thai rice. In June 1975, Laos entered to an agreement with China that specified China-to-Laos assistance of 20 million US dollars for road construction and 8 million US dollars for the purchase of supplies. It is reported that in 1977, China funded 5-20 million US dollars for the Lao communist government to support water conservancy and printing projects. In addition, it also offered technical training and scholarships for Lao students studying in China and technical support of engineers in cross-border road connection.

According to incomplete statistics, the financial assistance from China to Laos amounted to 965 million yuan during 1959-1975, including 86.6 billion yuan of grants and 99 million yuan of interest-free loans. A total of 38 assistance projects were kicked off and 29 completed in China. The assistance focused on building roads and bridges, mainly in a "design - construction - delivery" approach.

### 2. Stage II: from late 1970s to mid-1980s (1978-1986)

From late 1970s to mid-1980s, China-Laos relations witnessed tension and even hostility as the then Lao Government supported Vietnam's invasion and occupation of Cambodia. In June 1977, Laos and Vietnam signed a 25-year treaty of friendship which established special comrades and fraternal relations between the two countries. This special relationship exerted a profound impact on China policy of Laos since late 1970s. Laos stood together with Vietnam against China in 1978 with Vietnam's invasion of Cambodia that worsened China-Vietnam relations. In February 1979, Laos published a statement on China's self-defense war, accusing China of "invasion of Vietnam", and adopted an unfriendly policy in many ways, including the cessation of aid projects undertaken by China and

withdrawal of Chinese technical experts and workers in Laos. China's assistance to Laos was therefore interrupted.<sup>1</sup>

### 3. Stage III: from late 1980s to date (1987-present)

In the late 1980s and early 1990s, China's assistance to Laos entered a stage of rapid development and growth as the bilateral relations were restored. Especially after 2000, China began to diversify its aid following Chinese President Jiang Zemin's visit to Laos, which is the first time for Chinese head of state. From 2002 to 2012, China offered a total of 260 million US dollars in grants and interest-free loans and carried out at least 44 projects involving health, education, human resources, agriculture, and supplies. In addition, about 110 million US dollars of concessional loans with a 2%-3% interest rate were provided to support 11 projects, largely in infrastructure, including road and bridge construction and irrigation. In 2003, Yunnan Provincial Government actively assisted the Lao Government in development plan formulation for the northern region by dispatching experts and training Lao officials in Kunming. In 2004, China reached an agreement with the Lao Government that exempted some products exported to China from tariffs and specified an assistance of 10 million yuan in repairing Triumphal Arch Park. Since introduction in 1991, China had given scholarships to 55 Lao students by 2008. Assistance in this stage also included management and training courses to government, party and military officials and dispatched technical assistance personnel and volunteers in information technology and language education and medical services.<sup>2</sup>

There is no doubt that China has provided a lot of grants, interest-free loans and concessional loans to Laos for economic development although it is difficult to accurately estimate

1 Hao Yong, et al, Introduction to Laos, China Publishing Group, 2012 edition, pp. 310-311.

2 Martin Stuart-Fox, "Laos: The Chinese Connection". Daljit Singh (ed.), Southeast Asian Affairs 2009, Institute of Southeast Asian Studies, pp. 146.

the amount. It was reported that China became the second largest donor to Laos in 2001-2002. The financial assistance totaled nearly 1.2 billion yuan during 2001-2004, consisting of 400 million yuan in grants, 230 million yuan in interest-free loans and 500 million yuan in concessional loans. According to a report of China-Laos Economic, Trade and Technical Cooperation Committee, China's assistance to Laos reached 2.7-3.5 billion yuan during 1989-2008, including 230 million US dollars in concessional loans for infrastructure construction.<sup>1</sup> The number registered about 760 million yuan in 2005-2006, including 100 million yuan in grants, 100 million yuan in interest-free loans and 560 million yuan in concessional loans.

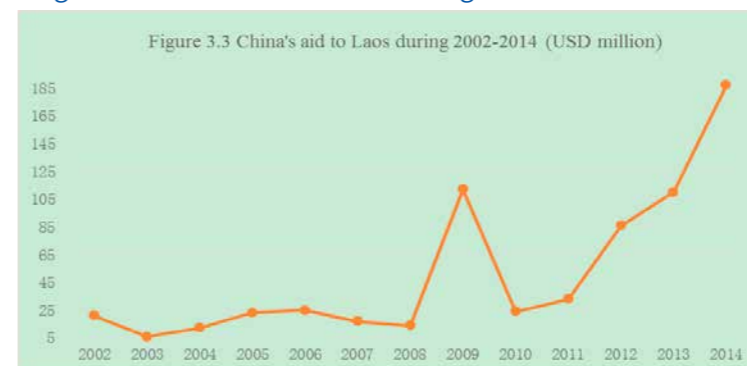
In 2010, during the then Vice President Xi Jinping's visit to Laos, China agreed to assist Laos in the construction of two bridges over Mekong and loan 50 million US dollars for the bridge that smoothed overland transportation from Yunnan to Thailand. In November 2011, the two countries agreed on closer cooperation in poverty reduction, economic development, trade and agriculture and committed to building a high-speed railway line involving 7 billion US dollars.<sup>2</sup> The same year, Suzhou University created its first overseas campus in Vientiane. The grants provided by China to Laos were not much in 2011 and 2012, numbering 25 million and 42 million US dollars respectively (Figure 3), according to the Overseas Development Institute (ODI) (Mustapha & Greenhill 2016).<sup>3</sup>

In 2013, China committed an economic and technical assistance of 100 million yuan for the construction of International Conference Centre and repair of Route 13 under the

1 Zhu Zheming, China's Economic Aid to CLMV and its Economic Cooperation with Them.  
 2 John F. Copper, China's Foreign Aid and Investment Diplomacy: History and Practice in Asia, 1950-Present, vol. II, Palgrave Macmillan.  
 3 Mustapha, S. and Greenhill, 2016, "Age of Choice: Lao People's Democratic Republic in the New Development Finance Landscape", Overseas Development Institute, London.

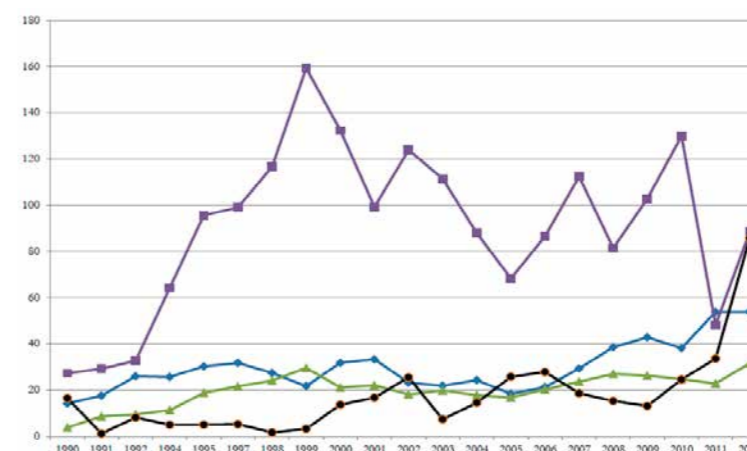
signed China-Laos agreement.<sup>1</sup> China also agreed to donate two MA60 aircrafts and 200,000 US dollars to defense dengue fever. In 2014, China promised grants of 49 million US dollars and interest-free loans of 32.6 million US dollars. In the fiscal year 2013-2014, China's official development assistance (ODA) to Laos reached 187 million US dollars, making China the largest donor for two consecutive years, according to the Ministry of Planning and Investment of Laos.<sup>2</sup>

Figure 3.3 China's aid to Laos during 2002-2014 (USD million)



Source: Aid Data; Khennavong (2014); Note: The data are committed amount.

Figure 3.4 Comparison of Aid to Laos: China, Japan, Australia and Germany (at 2012 constant prices, unit: USD million)



Source: Khennavong (2014); Japan in purple, Australia in blue, Germany in green, China in brown.

1 Vientiane Times, "China woos Laos with grants, aid", 1 November, 2013.  
 2 The top five donors in this fiscal year were China, Japan (USD 97.79 million), Australia (USD 47.52 million), Thailand (USD 39.85 million), and Vietnam (USD 28.29 million).

### 3.3 Characteristics of China's Aid to Laos

China's aid to Laos produces remarkable results in promoting local economic and social development and exhibits the following three characteristics:

#### 3.3.1 China's aid largely concentrates on infrastructure construction

China's aid to Laos covers almost all eight categories of its foreign aid activities, including complete projects, goods and materials, technical cooperation, human resource development cooperation; medical teams sent abroad, emergency humanitarian aid, volunteer programs in foreign countries and debt relief,<sup>1</sup> but "hard" assistance like complete projects is the major form.

China's aid to Laos largely concentrates on transportation infrastructure, a traditional focus area of the country's foreign aid. China-to-Laos infrastructure assistance covers transportation, water and electricity, telecommunications, public utilities, education, health care and agriculture. It is dominated by economic and social infrastructure projects, including roads, conference centers, water conservancy and irrigation. China has not only assisted airport construction in the northern provinces of Laos, but also invested in tin mine, electric power, road and other unfinished projects. In 1990-1991, Laos built a satellite reception center with China's assistance. In 1997, China initiated and signed an agreement with ASEAN and ADB on "Pan-Asian" Railway from Singapore to Kunming and built a large cultural leisure square in downtown Vientiane. In 2006, Chinese President Hu Jintao committed 200 million US dollars and 50% of technical assistance for the HuaySay-SiengKong

<sup>1</sup> Information Office of the State Council: China's Foreign Aid (2011 Edition), April

Bridge construction during the visit to Laos. In 2008, Premier Wen Jiabao pledged to provide a loan of 100 million US dollars to support telecommunications projects, transportation routes, and transportation infrastructure construction during his visit to Laos. In 2010, the then Vice President Xi Jinping agreed to assist Laos in the construction of two bridges over Mekong and loan 50 million US dollars for the one that smoothed overland transportation from Yunnan to Thailand. In November 2011, China and Laos agreed on closer cooperation in poverty reduction, economic development, trade and agriculture and pledged to build a high-speed railway involving 7 billion US dollars.<sup>1</sup> In 2013, China committed an economic and technical assistance of 100 million yuan for the construction of International Conference Centre and repair of Route 13 under the signed bilateral agreement.<sup>2</sup> In 2013-2015, the economic infrastructure assistance included Kunming-Bangkok Expressway Project, Muang Xai-Pa Mong Section Rehabilitation Project of Route 13, Xesalalong Irrigation Project, Northern Section Rehabilitation Project of Na Teuy-Pak Mong Highway, and the social infrastructure assistance included Lao National Cultural Hall Renovation and Maintenance Project, Lao Front for National Construction Training Center Project, and Lao International Conference Center Project.

China's aid to Laos usually adopts a combination of grants and concessional loans, particularly for development assistance in infrastructure. By mobilizing to the largest extent resources for development, the approach is effective to solve the bottleneck of funds in local economic development. For example, China pooled funds for the Kunming-Bangkok Expressway across Mekong which officially opened to traffic at the end of 2013 and injected a strong impetus to China-Laos connectivity. It also provided 15.77

<sup>1</sup> John F. Copper, *China's Foreign Aid and Investment Diplomacy: History and Practice in Asia, 1950-Present*, vol. II, Palgrave Macmillan.

<sup>2</sup> Vientiane Times, "China Woos Laos with Grants, Aid", 1 November, 2013.

million US dollars of grants and 14.7 million US dollars of loans to restore the northern section of Na Teuy-Pak Mong Highway which was started in December 2011 and completed in 2013. The highway reaches Kunming in the north and the Thai border in the south through Asian Highway No.3 and creates the north-south economic corridor of Laos which increases shared opportunities and market and trade facilitation. It has brought tangible benefits in employment and income for the local people while boosting the development of the local economy and society.

China also seeks multilateral cooperation to assist infrastructure construction in Laos. In 2001, China joined hands with Thailand and ADB on the rehabilitation of 360 km Route 3 which completed in 2008. It also launched large-scale road construction projects in Oudomxay Province and financed for the info-superhighway in the Greater Mekong. Chinese construction companies are also heavily involved in Lao road construction projects funded by multilateral aid agencies, such as the World Bank and ADB.

### **3.3.2 China's aid is demand-oriented aid and has resulted in remarkable poverty reduction effects**

China's demand-oriented aid projects are highly consistent with Laos' national development strategies and has produced remarkable results in economic and social progress and poverty reduction.

Laos aims to reduce poverty and graduate from LDCs in its national development. To achieve this, the Lao Government seeks industrialization since its economic growth, staying around 7%, but relies on low-employment industries, such as small hydropower utilities. Infrastructure development is of critical importance to successful industrialization and is an

important pathway to break through geographical restrictions and transit from a land-locked to land-linked country. The Lao government is also committed to employment creation, in view of an annual increase of 90,000 employees.

The demand-oriented assistance provided by China to Laos not only meets the urgent industrial needs of economic development of the recipient, but also plays an effective role in promoting employment and economy in Laos. For example, built with China's assistance during 1992-1994, Vang Vieng No. 2 Cement Plant has realized for the first time cement production in Laos. It was co-funded by China Yunnan Corporation for International Technical and Economic Cooperation and Lao Agro-industrial Development Corporation. The plant has made tremendous contributions to economic and social development of Laos by creating jobs, meeting cement demand, and exporting to international markets that saved domestic foreign exchange and earned foreign exchange. It is estimated that from 1988 to 2000, China's aid to Laos reached 600 million yuan, less than 2% of the international total.<sup>1</sup> It consisted of economic and technical assistance of 430 million yuan, grants of 116 million yuan, and interest-free loans of 110 million yuan. Typical projects during this period included the National Cultural Hall in the capital city Vientiane, Nam Kor Dam in Oudomxay Province, Vientiane Cement Plant.

In a demand-oriented manner, China's aid to Laos dedicates a very important portion to livelihood projects that effectively improve the lives of the local people. For example, the Vientiane Water Conservancy and Irrigation Project, undertaken by Guangdong No.3 Water Conservancy and Hydro-electric Engineering Board Co., Ltd, was the first China-aided irrigation project in Laos and became a model. The Phase I, completed

<sup>1</sup> Mekong Press, "China's Aid Flow Downstream to Laos".

in 2013, has a reservoir capacity of 10.87 million m<sup>3</sup>, able to support 2,040 hectares and the Phase II is expected to irrigate an area of 8,000 hectares. The reservoir generates comprehensive benefits of flood control, irrigation and tourism while focusing on agricultural irrigation. The aided water systems facilitate instant access to water that enables farmers to plant rice twice a year, vegetables and other cash crops and raise poultry, swine and sheep sold in the Vientiane market. Farmers' income has doubled and per capita income increased from 960 to 1700 US dollars in benefited areas. According to China-Laos economic and technological cooperation agreements, the ongoing and prospective water conservancy and irrigation projects in Laos will approximately involve a total investment of 300 million US dollars and support irrigation of more than 10,000 hectares.

With regard to employment, in 2014, China launched employment service projects in Laos under the framework of South-South Cooperation, including expert advice, organizational training and policy dialogue activities. These efforts share China's experiences and practices in employment promotion and services, strengthen institutional capacity building and quality of employment services, and reduce unemployment and poverty. In 2016, China offered overseas training courses on railway technology in Laos. The program is highly valued by the Chinese and Lao sides as China's first training project in Laos, first railway technology training project in Laos, and first foreign aid training project closely related to the "Belt and Road" Initiative in 2015. The training is important to railway construction and personnel training in Laos and will significantly promote bilateral cooperation on railways and local economic progress and employment.

China-Laos bilateral cooperation in education is also fruitful

with increasing scholarship programs. Since 2000, more than 1,000 Lao students have studied in China under the Chinese scholarship programs. They have made important contributions to Lao economic and social development. From 2000 to 2010, the scholarship students from Laos increased from 55 to 258 and totaled 1,196, second only to Vietnam.<sup>1</sup> They received doctorate, master's and bachelor's education in finance, marketing, management and business in diverse Chinese schools, such as Beijing University, Fudan University and Renmin University of China. It is no exaggeration to say that China's aid to Laos covers all aspects of the people's lives, ranging from health care, infrastructure to social culture. In 2003, China-Laos Luang Prabang Friendship Hospital was completed and China offered 5 million US dollars and 500,000 yuan for dredging Mekong waterway. In June, the Chinese Government announced a debt relief of 49.2 million yuan.<sup>2</sup>

### 3.3.3 China also provided massive emergency assistance to help the Lao people

A friend in need is a friend indeed. China attaches high importance to emergency assistance to Laos in times of crisis. For example, during the Asian financial crisis in 1997, China provided a package of financial assistance to Laos, including very generous export subsidies and preferential loans. The assistance significantly contributed to a stable economy by effectively stabilizing the value of Kip and preventing a new round of more serious financial crisis. When Laos was severely flooded in 2012, China provided requested living materials based to the affected areas, playing an important role in post-disaster reconstruction. In 2013, China provided funds in the form of foreign exchange to

1 Vietnam offered scholarships to 4,898 Lao students during 2000-2010, far more than China, Thailand (1125), Japan (615) and Australia (463).

2 Martin Stuart-Fox, "Laos: The Chinese Connection". Daljit Singh (ed.), Southeast Asian Affairs 2009, Institute of Southeast Asian Studies, pp. 146



help the Lao Government to successfully complete the treatment, prevention and control of dengue fever in the country. In 2016, technical training and emergency supplies were offered to help Laos to cope with the locust infestations in northern areas, including self-propelled sprayers, knapsack power sprayers, protective clothes, masks and gloves, and deltamethrin EC ester. In addition, to meet the urgent needs of international conferences, China built for free the Lao International Conference Center which enabled the Lao Government to successfully host the 9th ASEM Summit. The project was completed in September 2011 and formally handed over to Laos in November and widely recognized by the international community.

Furthermore, China offered a range of development support to Laos in the form of technical assistance. In agriculture, the assistance covers building water conservancy infrastructure, improving agricultural production technologies and levels, expanding deep processing of agricultural products, conducting technical cooperation for plant pest and disease control, and developing northern alternative planting. In resources, China strengthens technical cooperation in mining potassium, copper and tin and helps Laos train related technicians. In the energy sector, Chinese companies provide support in the development and utilization of technologies in hydropower, power grids, coal resources, new energy and renewable energy. In addition, technical cooperation is strengthened to facilitate assistance in the fields of radio, television and satellite communications.<sup>1</sup>

### 3.4 Problems associated with China's aid to Laos

At the government level, Laos highly values China's aid. "China provides noticeable support to Laos in social, cultural,

<sup>1</sup> Wang Mingde. Research on China-Laos Bilateral Trade, Economic and Technical Cooperation [D]. East China Normal University, 2013.

economic and medical fields overall. The assistance helps to lift the Lao people out of poverty, for which the Lao people are very grateful. Laos also hopes to march into prosperity like China. We hope that China continues assistance to Laos and provides the necessary support for development, so that Laos as a traditional friendly neighbor of China can share the results of China's economic development and build China-Laos relations into a model for bilateral friendly relations", said Secretary General of China-Laos Friendship Association.<sup>1</sup> "Laos is less developed and Chinese aid, considerable to Laos, is conducive to the local development. The projects of Chinese enterprises tailored to the Lao national conditions promote economic development. Thank China!" commented Deputy Director of Water Resources, Ministry of Agriculture and Forestry of Laos in an interview with the People's Daily.<sup>2</sup> China's aid was highly valued by the different government departments because so far, China-aided hospitals, roads, schools, sports facilities and meeting places have been delivered in a shorter time.

Lao think tanks also very welcome China's aid and do not consider it a threat. They believe China's aid and development model opens up a third path different from the Western one. After the failure in seeking assistance and development experience from the Soviet Union, the Lao Government turned to traditional donors for alternatives and recommendations. However, the global financial crisis in recent years led to doubt about the Western economic policy and one-size-fits-all model of development. China's rise and aid in different forms helps Laos reduce the reliance on the Western development model and draw valuable nutrients from China's development experience. The tangible results yielded in economic assistance and technical

<sup>1</sup> Xinhua, "Roundup: China's Aid Has Brought Tangible Benefits to the Lao People", August 26,

<sup>2</sup> People's Daily, "Chinese Brothers Change Our Lives", November 25, 2014.

support have impressed the Lao People and consolidated the friendly relations between the two countries.

The Lao people, especially the benefited people, are positive about China's aid projects. For example, the 78.8 km-long road from the important northern hub Oudomxay to the border town Na Teuyan, which is locally known as "road to prosperity", was constructed by Yunnan Sunny Road and Bridge Corporation as an aid project. During the construction period, the company hired nearly 500 Lao workers for technical training and construction, including ditches, culvert structures and pouring concrete. The daily wage of local workers increased from pre-construction 30,000 kip to 80,000 kip, twice more than the local average. "Working for Chinese enterprises, (we can) get payment on time and learn construction technologies useful to future life", said Lao workers involved in the road construction.<sup>1</sup> The road once built also leads the local residents engaged in the transportation to wealth. In addition, the projects directly associated with the lives of the masses are highly recognized, such as the widely appreciated Chinese hospitals in Luang Prabang.

Though the overall evaluation is positive, the research team also identified some major issues associated with China's aid to Laos:

#### **3.4.1 Large-scale infrastructure aid projects involving such social problems as land expropriation and resettlement are prone to discontents of the local people.**

As discussed in the preceding analysis, land and relocation problems cannot be solely attributed to the Chinese side. In fact, in many cases, they may arise from the Laos side such as the failure

<sup>1</sup> "Thank China for Building the Road to Richness", People's Daily(Overseas Edition), September 10, 2013, <http://money.163.com/13/0910/03/98CMK9JA00253B0H.html>.

of making timely and full payment of relocation fees. Many Laos people consider that it is China that should take responsibility for any aided or involved programs, which is surely biased. For example, there were reports that China's infrastructure projects were over-priced and the new transportation networks would facilitate illegal trade in drugs and diseases.<sup>1</sup> In fact, China's aid in the field of infrastructure has always been known for high efficiency and low cost, compared to those assisted by Western countries. As such, these reports are definitely prejudiced. In terms of infrastructure, the construction period plays a dominant role in construction costs and shortening construction period can lead to reduced costs. The employment of Chinese workers in infrastructure projects is largely resulted from shortage of local skilled workers. As for concerns about drug smuggling, trafficking in people and disease, we admit that transportation produces new social security issues while facilitating life. However, it seems unreasonable if transportation construction is abandoned due to such concerns. It is noteworthy that these issues do require improved governance in Laos and China can share its experience and assist Laos to improve governance capacity-building in this regard.

#### **3.4.2 Some Laos farmers may feel discontented about planting alternative economic crops as they take longer cycles and larger investment, but produces less results in poverty reduction in comparison to poppy plantation.**

Alternative plantation which cultivates economic crops other than poppy is a move to address the drug problem in the Golden Triangle, including China and Laos. In the early 1990s, the Chinese Government and businesses began to provide substantial technical support to help the Golden

<sup>1</sup> Carlyle A. Thayer, "China's Relations with Laos and Cambodia", China's International and External Relations and Lessons for Korea and Asia, p.217.

Triangle to develop alternative plantations which turned 400,000-mu poppy land to rice and rubber fields. The United Nations Office on Drugs and Crime hailed the anti-drug green project in the Golden Triangle as an "initiative in the global anti-drug history". Chinese companies in Laos often adopted the "2+3" investment model for alternative plantation, in which farmers contributed land and labor and investors provided capital, technology and marketing channels. In this mode, the Lao farmers are highly dependent on the production and sales network of Chinese investors and relatively easy to breed discontent. The complaint is even evident and inevitable in the cultivation of rubber whose maturity takes about 7-8 years. Rubber fails to solve the immediate problem of poverty, or quickly produce income effect as poppy. Yet, the Lao Government is highly attentive and affirmative of alternative cultivation. Lao President Choummaly Sayasone and Deputy Prime Minister Somsavat Lengsavad, during their inspections to Phongsaly Province, paid special visit to Yunnan CSD Coffee Plantation and Roast Co. Ltd which carried out coffee planting projects in Laos. Lao leaders asked in detail about the progress of the 180,000-mu coffee planting project and product research and development. "The development of Laos needs entrepreneurs like you. Your large-scale alternative planting project covers six counties in Phongsaly Province and has wide social influence. The raw materials (coffee beans) are all produced in the project area and demonstrate the result of the project and the outcome of friendly cooperation between the two peoples", said Lao President Choummaly Sayasone. He added that the Lao government departments at all levels will proactively support such projects of Yunnan enterprises in Laos.<sup>1</sup> The project solves the employment and living problems of nearly 30,000 residents in 126 villages and repairs for free roads of more than 100 km in

1 MOFCOM, January 4, 2015, <http://www.mofcom.gov.cn/article/resume/n/201501/20150100855981.shtml>.

the project area. The project performance has also attracted the attention of international anti-drug organizations, International Poverty Reduction Center in China (IPRCC) and Chinese Ministry of Agriculture (MOA).

### **3.4.3 The mix of grants and concessional loans arouses concerns about rising debt burden even though it can effectively mobilize additional resources for development.**

Laos has shown more concerns as mounting debts lead to rising financing costs. Due to lagging infrastructure construction, especially road construction, coupled with the unfavorable land-locked position, Laos implements the national policy of accelerating transportation capacity building with a vision of land-linked country. As China's support in road and railway construction in Laos mostly comes with the form of concessional loans, it brings along the worries and concerns of the Lao Government and people about China's aid. The most typical case is the China-Laos Railway Project. China and Laos co-funded a joint venture to alleviate the concern of China's dominance in railway construction, but it has increased financing and debt pressure on Laos. Laos is concerned that too high debt will lead to higher financing costs. In addition, railway construction involves more human resources in operations and more sales by rail to the international market. Without advantages in neither aspects, Laos is afraid of ending up with a "passing country" rather than a "land-linked country".

In fact, the Chinese Government has carried out technical assistance projects to address limited technical personnel for railway construction. The "2016 Overseas Training on Railway Technologies in Laos", sponsored by Chinese Ministry of Commerce and jointly organized by Southwest Jiaotong

University and Academy for International Business Officials (AIBO), is such an example. The 30-day training program opened on September 12, 2016 in Vientiane to 30 officials and technicians from the Lao public works and transportation system. In terms of professional technical personnel, Wuhan High-Speed Rail Training Segment,<sup>1</sup> known as "high-speed railway driver school", embraced for the first time 22 Lao students on October 24, 2016, who are all Lao railway executives and will serve for China-Laos Railway under construction after return to Laos. The training adopts intensive classes, on-site teaching, practice and communication and covers communications, power supply, public works, drivers, mechanics and dispatchers, as well as video watch. Laos has a shortage of railway personnel and the training will greatly enhance the country's railway management level, said Deputy Director of Training Center of the Lao Ministry of Public Works and Transportation. Following this training session, more technical personnel will be invited to study in Wuhan.

#### **3.4.4 Inadequate transparency of China's aid remains a matter of concern.**

The fact that China has been the largest donor to Laos is poorly understood among the Lao people and civil society organizations as well as international organizations. One of the most prominent opinions raised is China's rare involvement in local multilateral aid dialogue mechanisms. International aid agencies such as Japan International Cooperation Agency (JICA) in Laos expressed doubts and concerns about China's aid activities and remained unclear about China's aid considerations. This long-standing problem has impeded mutual understanding and recognition. Some international institutions and social

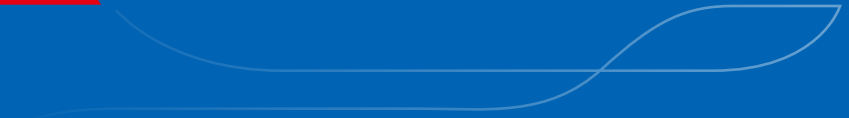
<sup>1</sup> Wuhan High-Speed Railway Training Segment is China's only practice-centered training institution for major high-speed railway workers.

organizations in Laos even believe that China provides aid to Laos for access to local natural resources. Another common perception is that China has disclosed little aid information to the Lao public. For example, the Lao people complained that the access to scholarship provided by the Chinese Government is easier for children of officials and elites than ordinary people. China is very much expected to strengthen student selection supervision and improve the transparency of scholarship programs.



4

## Policy Recommendations



## Chapter IV Policy Recommendations

China has become the major source of aid and investment of Laos. The bilateral economic and trade relations between the two countries have become closer. The recently-proposed "Belt and Road" initiative and the Lancang-Mekong Cooperation Mechanism further create broader space for future cooperation. To tackle upon the issues associated with China's investment and assistance in Laos discussed in previous sections, we put forward the following policy recommendations.

**Firstly, to use sustainable development as the guide for future development cooperation and build a model of joint implementation of the 2030 Agenda for Sustainable Development.**

2016 is the first year of implementing the 2030 Agenda for Sustainable Development and a collective action plan was agreed upon at the G20 Hangzhou Summit. The Chinese government has also published its country implementation programme. It is recommended that the two countries should strengthen development cooperation and increase exchange and sharing of experience in sustainable development under the framework of the 2030 Agenda. Given the diverse assistance and investment projects and noticeable poverty reduction effects, the two countries can identify some model projects to provide support and examples for future bilateral sustainable development cooperation as well as worldwide South-South cooperation. These cases can involve such fields as

environmental protection, infrastructure construction, human resources development, and healthcare. Recognized as a model for equal cooperation between large and small countries in South-South Cooperation, Laos and China have built trust in the long-term development cooperation and achieved desired results in poverty reduction and development. China and Laos have the capability and foundation to make joint contributions to the implementation of the 2030 Sustainable Development Goals and become a model partnership in this respect.

**Secondly, to strengthen cooperation in fields of cultural exchanges and education to consolidate people-to-people connectivity.**

People-to-people connectivity is one of the five connectivities proposed by the "Belt and Road" initiative and one of the three pillars of the Lancang-Mekong Cooperation Mechanism. China and Laos should strengthen cultural exchanges and cooperation and China should pay more attention to soft infrastructure investment and assistance, particularly in the field of education. Education improvement plays a key role in Laos' development and poverty reduction. The increase of assistance in education will not only bring along the development of human resources, but lay a solid civil foundation for time-enduring bilateral ties. As the educational going-out "beach-goer", Soochow University in Laos is therefore of vital strategic significance. The two governments should provide more financial and policy support to university establishment and development and help successfully complete campus construction and subject configuration, in order to make up the huge talent shortage in local economic development. The entry of such Chinese educational institutions into Laos will not only directly cultivate more technical personnel in the interest of local sustainable economic development, but also lay a solid cultural foundation for time-honored bilateral friendship. In

addition, Laos is a Buddhist country where Buddhism is the state religion. 85% of the population believes in Theravada Buddhism and each man should have experience as a Buddhist monk.<sup>1</sup> Given this, the strengthened communication of Buddhist community will deepen the mutual connection and understanding between the two peoples.

Educational cooperation should also allow more Lao students to study and exchange in China, especially for the purpose of vocational and technical education. Due to the shortage of well-trained technical workers, Chinese investors in Laos cannot find qualified local labor, while a large proportion of Chinese employees may lead to new social problems, such as local complaints about little effect on employment promotion. Facing the challenge of employment localization, Chinese enterprises in Laos should make use of domestic educational resources oriented to nurture of local employees in the staff building process. In addition, Chinese entrepreneurs and workers overseas commonly have family concerns and seek career development at the expense of family and children's education. Although Laos has a variety of Chinese training schools, the basic education in the true sense is still far from achieved. Educational "going-out" for the service of Chinese enterprises is also urgently needed.

**Thirdly, to push forward the reform of China's foreign aid management system to constantly improve and enhance the visibility and influence of foreign aid projects.**

China's aid and investment projects in Laos have yielded sound economic and social results, but there are still a lot of negative perceptions in reality, reflecting deficiencies prominently represented by inability to "tell a good story". It is recommended that the Chinese Government improve the information

<sup>1</sup> Chai Shangjin: Laos: Take-off in Innovations, Social Science Academic Press, 2015 edition, pp.8.

disclosure mechanism for foreign aid. The Chinese government should systematically disclose information about foreign aid projects through annual reports and project participation and implementation information via media of host countries, while increasing international exchanges on foreign aid. The Chinese and Lao governments are expected to strengthen cooperation in assessment of assistance and investment projects and publish assessment reports to the media and the public on a regular basis. It will not only effectively increase project transparency, but also help institutionalize development cooperation between the two countries and bring along demonstration effects.

**Fourthly, to play a leading role in mobilizing resources for development cooperation and promoting multilateral cooperation, in addition to enhancing communication and coordination with other major donors.**

China, over recent years, has within its capacity rendered support to the assistance programs initiated by multilateral development organizations and has exchanged experience and explored practical cooperation in an increasingly open-minded manner. In 2006, the Lao Government signed the *Vientiane Declaration on Aid Effectiveness* with 22 partners and international organizations, which specified the principles of ownership, alignment, harmonization and simplification, managing for results and mutual accountability, and formulated an Action Plan and associated indicators including a framework for monitoring progress and outcomes of implementation. To improve decision-making results and resource management as well as aid effectiveness, the Lao Government and its partners are committed to harmonize and simplify procedures to implement common arrangements and make more effective division of labor. China and Thailand as non-OECD countries have signed the Declaration, but failed to produce desired effects in practice. China, as the top donor to Laos, should assume more

leading responsibilities in international multilateral cooperation of Laos and make efforts to promote the sharing and exchange of its foreign aid experience.

**Last but not least, to increase engagement of Chinese and Lao civil society organizations in the development cooperation with Laos.**

Emergency humanitarian assistance rises as an important going-out attempt of Chinese civil society organizations and has an important and positive significance in fostering a favorable image of the country. China should establish a tripartite cooperation platform for the government, business and civil society organizations to strengthen the role civil society organizations in such sectors as emergency humanitarian assistance, environmental protection and health care. This will not only enhance social resilience in Laos, but also lay a social foundation for cooperation at the government level. We propose that the Chinese government should accelerate the legislation process and increase funding support to push forward the "going-out" of Chinese civil society organizations and promote civil society exchanges between the two countries.

### Annex: China's Aid Projects in Laos (1990-2016)

| No. | Year | Project  | Sponsor  | Amount                  | Description  | Notes |
|-----|------|--|--|-------------------------|--|-------|
| 1   | 2016 | Emergency materials supply in response to locust plague in the north of Laos   | Government of China  | N/A                     | The project provides Laos with various material supplies, including self-propelled sprayer, knapsack power sprayer, protective suit, deltamethrin emulsifiable concentrates, etc. Besides, experts were dispatched to Laos for field investigation and skill training immediately after the outbreak.  |       |
| 2   | 2016 | Loan for and construction of 500kV Saravan–Sekong transmission line project    | China Exim Bank (loan);<br>China National Heavy Machinery Corporation (Engineering Procurement Construction) | N/A                     | The project transmits electricity from a number of power plants in northern Laos to Khammouane Province and Savannakhet Province in central Laos. The main project involves constructions of two 500kV transformer substations and a 72km, 500kV transmission line.  |       |
| 3   | 2015 | Training on railway engineering, technology, and operation management for Laos | Government of China  | N/A                     | The 35-day program invites 30 officials of Laos transportation systems to get trained in China. It is not only the first training project China initiated in Laos, but also the first of its kind domestically. As the first strategic foreign-aid training program under the "Belt and Road" Initiative, this project is believed to further promote economic and technical cooperation in the field of rail industry and boost the friendship and multinational ties between China and Laos. |       |
| 4   | 2015 | China-Laos railway project   | Government of China;<br>China Railway International Group  | 70% of 37.4 billion RMB | The railway connects Kunming, the capital city of southwestern China's Yunnan Province, with Laos' capital city, Vientiane, in the total length of 418 miles. This line is part of the Kunming-Singapore Railway Project which starts from Kunming and ends in Singapore, passing through Laos, Thailand and Malaysia. It is jointly funded by the Chinese and Lao governments in the ratio of 70% to 30%.   |       |



| No. | Year | Project   | Sponsor   | Amount          | Description   | Notes   |
|-----|------|---|---|-----------------|---|---|
| 5   | 2013 | Grant for construction of bridge across the Mekong River from Chiangrai to Laos | Government of China; CR 5 – KT Joint Venture(Construction)                                  | 200 million USD | The bridge over Mekong River connects Housyay in Laos with Chiang Rai in Thailand in a total length of 11.6 miles. The main section of the bridge stretches for 630m with 14.7m in width. The project also covers the development of road facilities and housing constructions on both sides of the road. Thailand and China agree to pay 50% of expenses each for the construction part. The Chinese government offers \$200 million grant to Laos for bridge construction within its territory, which includes the main bridge and the culvert, road construction, housing construction, and traffic conversion zone etc. This project has hired CR 5 – KT Joint Venture, a joint venture between China Railway Engineering Group No.5 Engineering Limited Company of China and Thailand, Krung-Thon Engineering Ltd. | The project has been widely applauded by Lao government and its people. The Chinese counterpart was awarded a first-class development medal by the Lao government. Somsavat Lengsavad, then vice prime minister of Laos, pointed out the great contribution of this project to Lao's socio-economic development, and highlighted its significance to China-ASEAN infrastructure connectivity. |
| 6   | 2015 | Renewal and maintenance of National Culture Center of Laos                      | The 23rd Metallurgical Construction Group Co., Ltd of Minerals                              |                 | The project contains decoration and fitment engineering, installment of air-conditioners and stage lights, roof maintenance, etc.   | Starting date of project: Jun, 2014; Completion date of project: Feb, 2015  |
| 7   | 2015 | Preferential loan for Laos Xesalalong Irrigation project                        | Government of China China Gezhouba Group International Engineering Company Ltd.(Contractor) | 350 million RMB | The project consists of Xesalalong and Saige irrigation projects. Once completed, it is capable of meeting 2000 hectares of farmlands' water supply as well as drinking water for people and livestock in 18 local villages.  | Starting date of project: March, 2012; Completion date of project: Feb, 2015  |
| 8   | 2015 | Grant for establishing card payment system in Laos                              | Government of China China Development Bank(Contractor)                                      | 50 million RMB  | The project, started in January 2015 and completed in January 2016, aims to build and operate a trans-bank information exchange center covering all Laos, which takes over information transfer and capital settlement of inter-bank transactions in the whole country. A network of all domestic cards in Laos will be established accordingly.  | It is notable that by December 2015, Laos has issued 600,000 Unionpay cards, taking up more than 70% of the total amount of cards issued in Laos.   |

|    |      |   |   |               |  |   |
|----|------|---|---|---------------|--|---|
| 9  | 2014 | Preferential loan for refurbishment of north section of Pak Mong- Oudomxai highway (Route 13) | Government of China Yunnan Sunny Road & Bridge Co., Ltd. (Contractor)   | N/A           | The project starts at Pak Mong in Luang Prabang Province and terminates in Muang Xay in Oudomasay Province with a total length of 81.5 miles. It was carried out in accordance with highway standards Level 4 in Laos, by paving an asphalt and concrete road surface.   | Construction period: 3 years  |
| 10 | 2014 | Construction of Lao Front for National Construction (LFNC) training center                    | Government of China; China Railway Engineering Consulting Group Co., Ltd (Design) Hebei Jianshe Construction Group Co., Ltd. (contractor) |               | The project includes constructions of classrooms, meeting rooms, dormitories, etc., with a total construction area of about 3600 square meters.  | Construction period: 17 months  |
| 11 | 2014 | Prevention and control of transboundary animal diseases in Laos                               | Government of China (Ministry of Agriculture)   | 6 million USD | The grant was used to build a national animal epidemic disease monitoring laboratory in Vientiane as well as transboundary animal disease monitoring stations in Luang Namtha and Phongsaly provinces. Some of the grant were used to provide necessary apparatus and sewage treatment systems for labs and monitoring stations, set up an animal epidemic disease information system and provide training for Lao staff.  | The project aims to prevent and control the passage of animal diseases across borders, and contribute to a development strategy for the production of foodstuff and food security in Laos. It will also facilitate the purchase of live animals and animal products between Laos and China. |
| 12 | 2014 | South-South cooperation on employment promotion   | Government of China   | 1 million USD | The project shares China's development experience and practice with the neighboring countries on employment promotion and employment service through experts consultation, training sessions and policy dialogues, etc. Laos and Cambodia, as the beneficiary countries of the project, are expected to enhance the capacity building of their employment service agencies and promote the quality of employment service so as to reduce unemployment and poverty. | project period: 3 years   |

| No. | Year | Project   | Sponsor   | Amount | Description  | Notes  |
|-----|------|---|---|--------|--|--|
| 13  | 2014 | Construction of President's Guest House of Laos   | Government of China; China Railway Engineering Consulting Group Co., Ltd (Design); Jiangsu Jiangdu Construction Group Co., Ltd. (Construction); Shenyang Engineering Supervision & Consultation Co., Ltd. (Supervision) | N/A    | As part of the Presidential palace in Vientiane, the Guest House consists of presidential suite, prime minister suite and ministerial suites, as well as suites for accompanying officials, kitchen and dining room with a total area of 3,495.5 square meters. The construction of the House includes guest house, subsidiary space (pump room, fire pool, distribution room, diesel generator room), concierge and outdoor decoration (enclosure, gate, pathway, septic tank, etc.). The cornice of this two-story building reaches up to 10.2 meters in height. | The Guest House will become the major place where Lao government holds foreign affair activities and reception works.  |
| 14  | 2013 | Renewal and maintenance of National Culture Center of Laos  |   | N/A    | The International Conference Center covers an area of 7 hectares with three main buildings, including multifunctional zone, VIP zone, 500-seat conference hall, bilateral meeting rooms, press room, secretariat, reception hall and so on. The project absorbed the new architectural style and integrated itself with the latest technology, representing the highest level of architecture in Laos. The project started on 31 December 2011 and was completed before September 2012   | The 9th ASEAN meeting was successfully held in this center by the Lao government. The center was widely praised by all walks of life in Laos, and was regarded as a symbol of China-Laos friendship and their all-round cooperation. |
| 15  | 2012 | Preferential and commercial loans for Laos satellite project  | Government of China   |        | The satellite was successfully launched on 21st Nov, 2015.   |  |
| 16  | 2012 | Commodity aid to the 7th Asia-Europe Parliamentary Partnership Meeting and the 9th Asia-Europe Summit | Government of China   |        | The assistance consists of 10 coaches, 4 police escorting vehicles, electronic office equipment, etc.  |  |

|    |      |   |   |                  |   |  |
|----|------|---|---|------------------|---|--|
| 17 | 2012 | Preferential loan for construction of Laos airline maintenance hangar and training center | Government of China; Consortium of Xi'an Aircraft Industry (Group) Company Ltd.; and Yunnan Construction Engineering Group Co., Ltd. (contractor) | 1.67 million USD | The project covers an area of 36,400 square meters with a total construction area of about 15,000 square meters. It involves constructions of maintenance hangar, training center, corridors, parking lot, outdoor facilities and landscaping, etc. The project is designed to promote the development of aviation industries in Laos, and provide a solid foundation for its route expansion in developed countries.   | In 2012, this project, together with Wattay International Airport expansion project, was in service for the 9th Asia-Europe Summit held in Vientiane.  |
| 18 | 2012 | Provision of disaster-relief material and equipment for Laos                              | Government of China   | 2 million RMB    | In the second half of 2011, Typhoon Haima swept through the northern and central provinces of Laos, causing damage to 96 counties and cities in 12 provinces, and some 430,000 people were dreadfully affected. The disaster caused damages to a lot of roads and local infrastructures, with the direct economic losses estimated to reach over 20 million USD (details of the materials remain unknown).  |  |
| 19 | 2012 | Establishing of Agricultural demonstration center   | Government of China (Ministry of Agriculture); Yunnan products import & export Co., Ltd. (contractor)   | 40 million RMB   | The project plans to 1) build a training center, a nursery garden, and a demonstration zone; 2) provide improved varieties; and 3) deliver training in fine variety breeding, plantation, and usage of farm implements. The implementation of this project was broken down into three phases: infrastructure construction, staff training, and technology cooperation. On 14 Dec, 2007, the two countries exchanged notes on this project. The construction of this project was integrated with Laos Agricultural Extension Center. | Once completed, the project will become the agricultural technology demonstration and extension center in northern Laos. The first phrase of the project has been completed in August 2011, and the second phrase for staff training is currently ongoing. |

| No. | Year | Project   | Sponsor  | Amount            | Description   | Notes   |
|-----|------|---|--|-------------------|---|---|
| 20  | 2009 | Emergency assistance for disaster relief                                | Government of China  | 0.2 million USD   | In Sept 2009, tropical storm Ketsana hit Lao southern provinces. 19 people were killed and property losses in the storm-hit provinces were estimated at about 100 million USD. The grant was used in support of recovery and reconstruction in the stricken area.   |   |
| 21  | 2009 | Construction of Laos New National Stadium                               | China Development Bank; Yunnan Construction Engineering Group Co., Ltd. (contractor) | 79.96 million USD | The project was agreed by both sides to adopt the resources-for-funds mode for project financing cooperation. It covers an area of 94,298 square meters with multiple venues, including a main stadium with a seating capacity of 20000 spectators, two 3000-seat gymnasium, swimming pool, tennis center, shooting hall and outdoor training fields.                 | The Government of China also dispatched coaches and provided a variety of sports equipment to Laos. |
| 22  | 2009 | Construction of Laos National Television 3 project                      | Government of China; Fujian Jiangong Group (contractor)                              | 79 million RMB    | The upgraded TV3 is equipped with advanced TV OB (outside broadcast) van, television studio, automation control system and editing system in TV program production. It was later used for TV series production, and more importantly, for the live TV broadcast of the 25th Southeast Asian Game in Dec 2009.   |   |
| 23  | 2009 | Road extension for north section of Pak Mong-Na Teuy highway (Route 13) | Government of China; Yunnan Sunny Road & Bridge Co., Ltd. (Contractor)               | 270 million RMB   | Length of extension: 78.8 miles.  | Construction period: 31 months  |
| 24  | 2008 | Food aid to Laos  | Government of China; World Food Program (WFP) (implementation)                       | 0.5 million USD   | To confront with the global rise in food prices, this project was planned to promote the agricultural and socio-economic development in certain developing countries through food aid. The Government of China provided extra \$2.5 million to WFP as emergency aid funds. The grant is designated to be used for assistance to Laos, Lesotho, Ethiopia, and Burundi. |   |

|    |           |  |   |                  |   |  |
|----|-----------|--|---|------------------|---|--|
| 25 | 2008      | Emergency aid for flood relief   | Government of China   | 0.1 million USD  | The flood caused damage to 675 villages in 8 provinces and 380,000-hectare farmlands, affecting more than 200,000 people.   |  |
| 26 | 2007      | Construction of additional project for Lao-China Friendship Hospital in Luang Prabang                    | Government of China ; Yunnan Construction Engineering Group Co., Ltd. (contractor)      | 10 million USD   | The additional project covers constructions of senior officials inpatient wards, roads and bridges. It took only 9 months for construction.   |  |
| 27 | 2006      | Grant for construction of Oudomxay drug rehabilitation center  | Government of China   | 0.5 million USD  | The drug rehabilitation center was composed of 10 one-story buildings equipped with 200 beds in total. The center was officially handed over to the Lao government in Jan 2007 and started to receive drug users in February 2007 for mandatory drug treatment. |  |
| 28 | 2004      | Construction of Triumphal Arch Park in Vientiane   | Guangdong Hydro Bureau 3 Co., Ltd. (contractor)   | 1.25 million USD |   |  |
| 29 | 2004-2006 | Mixed credit for construction of Mohan-Nanlun Bridge as part of the Kunming - Bangkok highway (80 miles) | Government of China; Yunnan Highway & Bridge Co., Ltd. (contractor)                     | 30 million USD   |   |  |
| 30 | 2003      | Construction of Vientiane Central Street   | Guangdong Hydro Bureau 3 Co., Ltd. (contractor)   | N/A              |   |  |
| 31 | 2002-2008 | China youth volunteer abroad project in Laos   | Central Communist Youth League; Ministry of Commerce; China Youth Volunteer Association | N/A              | 5 Chinese youth volunteers were dispatched to Laos to provide volunteer service in terms of Chinese teaching, English teaching, computer training and health care. From 2002 to 2008, the Government of China has sent a total of 83 youth volunteers to Laos.  | In 2002, Central Communist Youth League and China Youth Volunteer Association jointly launched China Youth Volunteer Abroad Project. |

|    |           |   |   |  |  |  |
|----|-----------|---|---|--|--|--|
| 32 | 2002-2003 | Construction of Lao-China Friendship Hospital in Luang Prabang                  | Yunnan Construction Engineering Group (contractor)  | 5 million USD                                | The hospital is a polyclinic with 100 beds and over 300 daily outpatient visits. The project started on 20 July, 2002 and completed on 31 Oct, 2003, took only 13 months for construction. |  |
| 33 | 2000-2002 | Loan and investment for construction of Vang Vieng Cement Plant Phrase II       | Government of China; Yunnan International Corporation of Techno-economic Cooperation (contractor) | 36 million USD                               |  |  |
| 34 | 2003      | Administration of Mekong waterway   | Government of China   | 5 million USD loan; 0.5 million RMB in grant | The grant was used to harness waterways stretching for 230 miles from the border of China-Laos to the Golden Triangle. The 0.5 million RMB was used for port construction.                 |  |
| 35 | 2002-2004 | Credit loan for Nam Mang No. 3 hydropower station                               | China North Industries Group Corporation; Sinohydro Group Ltd.                                    | 200 million USD                              |  |  |
| 36 | 2000      | Construction of radio station and transmission tower in nine northern provinces |   | 1.3 million USD                              |  |  |
| 37 | 2000      | Small-sized TV station  |   | 0.75 million USD                             |  |  |
| 38 | 2000      | Loan for expansion of telecommunications network                                |   | 6.6 million USD                              |  |  |
| 39 | 1998-2000 | Grant for construction of Laos National Culture Museum                          | Yunnan International Corporation of Techno-economic Cooperation (contractor)                      | 7 million USD                                |  |  |

|    |           |  |  |                  |  |  |
|----|-----------|--|--|------------------|--|--|
| 40 | 1992-1994 | Grant for construction of Vang Vieng cement plant phrase I | Yunnan International Corporation of Techno-economic Cooperation (contractor) | 13.9 million USD |  |  |
| 41 | 1990-1991 | Construction of satellite station                          | China Radio and TV Co. for International Techno-Economic Cooperation         |                  |  |  |

### China's OOF-like projects in Lao PDR (source: AidData)

|   |      |   |   |                   |
|---|------|---|---|-------------------|
| 1 | 2006 | Loan for construction of Nam Khan 2 and 3 hydropower plants                         | China Exim Bank                                 | 308.5 million USD |
| 2 | 2007 | Loan for construction of sports stadium   | China Development Bank                          | 90 million USD    |
| 3 | 2007 | Loan for rebuilding Luang Prabang Airport   | China Exim Bank                                 | 57.8 million USD  |
| 4 | 2010 | Loan for construction of Mekong Bridge  |   | 50 million USD    |
| 5 | 2010 | Preferential loan for a Lao Airlines hangar and maintenance training centre project | Chinese Yunnan Construction Co.                 | 16.7 million USD  |
| 6 | 2010 | Loan for construction of Nam Theun 2 irrigation system                              | Norinco, state-owned company                    | 103 million USD   |
| 7 | 2011 | Loan for and investment in construction of Nam Ngiep Hydropower plant               | China Development Bank (loan); CWE (investment) | 345 million USD   |

## The Authors

|    |      |  |                        |                  |
|----|------|--|------------------------|------------------|
| 8  | 2011 | Loan for construction of Nam Ou hydropower project phase 2 (Nam Ou 1, 3, 4, 7)       | China Development Bank | 1000 million USD |
| 9  | 2013 | Loan for the expansion of the Dongmarkkhai water supply project                      | Government of China    | 92.8 million USD |
| 10 | 2015 | Preferential loan for construction of China-Laos railway project (under negotiation) |                        |                  |

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