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THE STATE OF LAOS-CHINA ECONOMIC RELATION AND TRADE  
COOPERATION SINCE 1961 TO PRESENT

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## **List of Abbreviations**

LPDR	=	Lao People's Democratic Republic
ASEAN	=	Association Southeast Asia Nation
GDP	=	A gross domestic product
IMF	=	International Monetary Funds
ADB	=	Asia Development Bank
CCP	=	Chinese Communist Party
NPC	=	National People's Congress
FDI	=	Foreign Direct Investment
PRC	=	People's Republic of China
FTA	=	Free Trade Agreement
CPPCC	=	People's Political Consultative Conference
CLMV	=	Cambodia, Laos, Myanmar and Vietnam
GER	=	Global Economics Review
SCG	=	Southern Power Grid
ECI	=	Economic Complexity Index
LDCs	=	Least Development Countries
SDGs	=	Sustainable Development Goals
NGO	=	Non-Government Organization

## **Abstract**

Laos and China officially signed an agreement establishing diplomatic relations with the People's Republic of China on April 25, 1961. It made China-Lao trade and economic relations have been steadily expanding for more than half a century, with great achievements in trade, investment and other industries. Therefore, the main purpose of this study is to observe the state of Laos-China Economic Relations and Trade Cooperation since 1961-present. The process of data collection is taken from internet. Its result can find that 1.) Laos benefits from economic and trade cooperation with China includes the construction of a large hydropower station to ensure better energy supply in Laos, the power project constitutes an integrated power grid in Laos. Besides, China and Laos accelerate development strategy, agreement signed in recent years will further facilitate trade and economic cooperation between the two countries. 2.) Trade cooperation reduces the poverty and support the growth of a country, it can be said that China exports to Laos in 2019 worth 1.87 billion US dollars, and Laos exported to China in 2019 worth 1.88 billion US dollars, China's FDI stake in Laos was registered at US \$ 32.9 million, but increased to US \$ 4,491 billion. 3.) China's economic and trade policy toward Laos, China's aid to Laos covers almost all eight categories of its foreign aid activities, including boosting local economic and social development, China's assistance to Laos covers of foreign aid activities, China-Laos infrastructure assistance covers transportation, water and electricity, telecommunications, public health, education, health care and agriculture. 4.) The challenges and risks of Laos' relationship with China, the challenges and risks in Laos are China-Laos Economic Corridor Construction, High Government Debt and Lack of Self-owned Construction Funds, Lao internal tax law requires all clients and recipients abroad to have a tax certificate before doing business in Laos.

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# CHAPTER I

## INTRODUCTION

### 1.1 Overview of China's relation with Laos

Lao People's Democratic Republic (LPDR or Laos) is one small and landlocked country in Southeast-Asia, a population in 2021 is approximately 7.2 million people with an area size of 236,800 square kilometers (km<sup>2</sup>) ([The World Bank, 2020](#)). Lao PDR is a single party and one of Asia's poorest countries and has been dominated for more than four decades by the Lao People's Revolutionary Party (LPRP). Laos PDR is one of the world's five remaining 'communist' countries in the world (combined with China, North Korea, Vietnam and Cuba). After the civil war ended in 1975, the communist government overcame the monarchy and have been ruled since. Lao People's Democratic Republic became official name. The red communist flag with hammer and sickle can generally be seen flying on official authority buildings in Laos. ([Joseph J. Zasloff,2021](#))

Laos is a single party socialist republic. The only legal political party is the Lao People's Revolutionary Party (LPRP). All government policies are governed by the LPRP through the approval of the nine members of the Political Department with the highest executive authority and the approval of the 49 members of the Central Committee. Each major government decision and planning must be reviewed by the Council of Ministers. The first version of the Constitution of Laos was written in French and the monarchy of the Lao PDR was officially promulgated on 11 May 1947 and ratified as a self-governing state under the French Union. The first version of the Constitution was amended in 1957, which was amended in many ways and largely abolished the policy of the French Union, although the educational, health and technical cooperation with the former colonies remained. Subsequently, the 1957 Constitution was repealed on December 3, 1975, when the regime was changed and the Lao People's Democratic Republic was proclaimed, a new constitution was adopted in 1991. The following year, the political system of the Lao PDR was officially elected, with a new National Assembly consisting of 85 seats, with members of parliament being elected by the people, with a term of five years to one term. This National Assembly, which basically act out as a rubber stamp for the LPRP, issues all new laws and

regulation, even if the administrative department keeps authority to approve the all of official mandatory decrees. The most current elections took point in April 2006. The national assembly was created to 99 members in 1997 and in 2006 elections had 115. ([ASEAN-China Centre, 2010](#)) For economic conditions, Laos is listed in the poorest nations in Asia, with a powerful purchasing is equality per capita income of \$2,100 and a Human Development Index rating of 133. Nevertheless, the country's economic prospects are being on improvement. Soon after a relatively short stage of collectivization, during 1975-1985 the Lao economy had a period of rapid growth.

Lao PDR government began to set a strategy of economic development in 1986, ending cooperative farms, reset a legalizing private stuff ownership, allowing market influences to resolve pricing, and supporting all of private entrepreneurship in the area of industries and segments with the exclusion of a few critical ones. Apart from a short period in 1997-1998 due to the crisis of financial in Asia, the economy of country increased more than 6 percent from 1988 to 2008 of an average annual rate. In the same year began the implementation of a market-oriented economic policy. ([Jayant, 2013, p. 1](#)) The economy of the nation level has been grown progressively in following years, mainly because of creation of constructions, food processing, hydropower, and tourism areas. When the economy has been collapsed due to the crisis of financial in Asia. In recent years, the growth of economy is more than 7% as an annual rate ([B. Murray, 2006, p. 6](#)). Agriculture-based economies have been developed unequally and it has been heavily used on natural resources, particularly hydropower, wood, and metals, with wealth is concentrated mostly in Vientiane as a capital city. China, Thailand, and Vietnam become Laos's the top export markets and entice most of the foreign investment.

More than 80 percent of the country's population works in the agricultural sector, mainly rice cultivation, which it has contributed about 39 percent of gross domestic product (GDP). It is light production that provides the volume of economic growth, accounting for about 34% of GDP (garments and electronic assembly). A total of 27 percent is covered by the supply of goods and services. Mining industry, hydropower, timber, rubber, and tourism are some of the other major

economies. Despite slowing growth rate from previous year's 7.55 percent, the Lao economy grew up by about 4.5 percent in 2009 and is expected to increase to 7% in 2010. (USA, 2015, p. 121) Nevertheless, lacks sufficient infrastructure, the major streets linking the most important urban centres, especially Route 13 as a main national road, have been significantly upgraded on its standard and quality in recent years, but main villages far from major roads can be accessible only through unpaved roads that may not be accessible year-round. External and internal traffic was limited, but mobile phones were widespread in the city center. The economy has received development assistance from the IMF, ADB and other international sources, as well as foreign direct investment in social, industrial, hydropower and mining development, especially copper and gold. Tourism is the fastest growing industry in the country.

About 30 percent of Laos is rich in mineral resources and 60-70 percent forest resources, but still needs to import oil and gas due to the scarcity of these resources and the lack of technical expertise in Lao PDR. Metals are an important potential for the industry in Lao PDR, so the government relies on the potential of natural resources in hopes of attracting foreign investment to develop infrastructure. The main mining industries are coal, gold, bauxite, lead, copper and other precious metals throughout the country, mainly in the central to southern regions. In addition, the country's rich green forests have the potential to attract foreign tourists, and water resources and mountainous areas are well suited to build dams, and large-scale export of hydropower to foreign countries, especially Thailand and Vietnam. The export capacity is about 18,000 megawatts, of which about 8,000 megawatts are exported to Thailand and Vietnam. (ASEAN-China Centre, 2018)

Laos is starting to integrate economically with neighboring countries such as Thailand is approximately 35 percent, Vietnam with 15 percent, and China are the Lao People's Democratic Republic's major commercial collaborators (8.5 percent). It is also a significant regional commercial partner, as well as a significant market for Laotian exports. Thailand is the most valuable export market for Lao manufactured goods, importing \$626 million in 2008, followed by Vietnam with \$216 million and China with \$140 million in imports in 2008.

Though it is still strongly reliant on foreign commerce, Laos has managed to remain relatively unscathed by the global economic slowdown in recent months. The Lao PDR's main foreign investors are from Vietnam, China, Thailand, and South Korea. The mining industry has seen significant investment from Chinese and Vietnamese firms; on the other hand, Thai corporations have played a significant role in the development of hydropower. Chinese officials have begun to challenge Australia as the world's leading investor in resource exploration. (USA, 2015, p. 122)

The foreign relations of Laos, officially known as the Lao People's Democratic Republic, after the occupation by the Lao People's Democratic Republic in December 1975, were hostile to the West, with the government of the Lao People's Democratic Republic aligned with the Soviet Union, maintained close ties with the Soviet Union and relied heavily on the Soviet Union for most of its foreign aid.

Lao PDR attaches importance to "special political relations as a country with the same monarchy" with Vietnam and has officially signed the 1977 Friendship and Cooperation Treaty, but such relations have strained China. Due to the collapse of the Soviet Union and the ability of Vietnam to provide assistance to Lao PDR decreased. Lao PDR seeks to expand and improve relations with neighboring countries in the region in order to break free from economic isolation, especially from neighboring countries such as Pakistan, Saudi Arabia, China, Turkey, Australia, France, Japan and Sweden. Economic and trade relations with the United States were restored to normal in 2004. Lao PDR has been active in developing the economy and improving the domestic market mechanism for sustainable economic growth. Lao PDR became a member of the Association of Southeast Asian Nations (ASEAN) in July 1997 and received funding for domestic economic development from the United States until it became a member of the World Trade Organization in 1998 and attended the East Asia Summit in 2005. (Diplomatic Relations, 2015.)

Lao PDR gained international recognition and had long-standing diplomatic relations with China in 1961 during the Cold War. Laos's settlement and name on the world map are recognized after the Lao PDR reached its independence agreement in Geneva the following year, which made it an independent and neutral country. The Lao government has reached an agreement with China on

cooperation and permits for infrastructure projects, in particular several roads have been built to connect Yunnan with the Sing, Namtha, and other routes from Phongsaly, the Northern of Laos to the southern border of China. (Ian Townsend-Gault, 2009). About 15,000 Chinese workers were involved in road construction. Many remain in Laos after their projects are completed. In 1979, Laos joined Vietnam after the Vietnamese invasion of Cambodia. Deteriorating Lao-Chinese relations, forcing many road construction workers living in Laos to return to China at this time. According to experts, China's participation in the construction of the road has made it an important Chinese heritage. China values Laos' strategic importance as a bridge to Southeast Asia under the mainland. November 2006, as Prime Minister Wen Jiabao visited Laos three times in 2003 to attend ASEAN Plus Three Summit (2003), the ASEAN Summit and Related Summits (2006), and GMS Summit (2008). The joint statement also included the one-China policy commitments. At the time, Laos was one of three Southeast Asian nations that did not maintain formal integration to Taiwan through the Taiwan economic and cultural office. In 2005, Laos switched to China's anti-succession crackdown. The following sub-topics examine politics, economics, security and defense relations in the post-2009 period.

### **Political Relations**

In 2009, Lao PDR and China upgraded their comprehensive strategic partnership to economic, governance, agriculture, education and military. Continuing to increase existing bilateral cooperation agreements, such as the exchange of high-level delegations of the Party and State in politics, administration, exchange programs for lower-level staff, government groups, the military and students. China has also had special policies for Laos, strengthening its economic base through low-interest loans, policies to attract international aid, foreign investment, increased trade, and infrastructure projects in areas specializing in the development of special economic zones. In June 2010, Chinese Vice President Xi Jinping paid an official visit to Lao PDR and, as a special guest of the Government of the Lao PDR, met with Lao President Choummaly Sayasone at the Office of the President in Vientiane. The two sides agreed that China will provide comprehensive assistance to the two countries and will maintain special, close ties and strengthen bilateral ties

through mutual trust, and the two sides should expand comprehensive economic ties, especially trade. On April 25, 2011, China and Laos held a grand ceremony to mark the 50th anniversary of the establishment of diplomatic ties, and in June of the same year, Chinese Ambassador to Laos Hu Jintao announced the achievements of the Lao-China Cooperation to high-level delegations, and will attach special importance and policy to enhancing cooperation in resolving regional and international issues. Afterwards, the President of the Lao PDR, Choummaly Sayasone, visited Beijing in September 2011 as the High Representative, and the following year, the Lao PDR hosted the 9th Asia-Europe Meeting in Vientiane. On this occasion, Chinese Premier Wen Jiabao met with President Choummaly Sayasone on the sidelines of the summit. It can be said that the relations between Laos and China are very close and strong, as evidenced by the exchange of visits between the leaders of the Communist Party of China and the Lao People's Revolutionary Party (LPRP), which is the most important route for relations between the two countries. From 2011 to 2013, exchanges between the two parties of Lao PDR and China included: a visit to China by a delegation of the Central Committee of the Communist Party of China to discuss anti-corruption cooperation (September 2011), a visit to a high-ranking official in Shanxi Province (February). In 2012, a visit to Beijing by a member of the Lao Communist Party, and a visit by a member of the Central Committee of the Communist Party of China in June 2012.

In addition, China has also provided ideological, educational and vocational courses to the Lao Youth Council. China and Laos also exchanged visits by their parliamentarians on law and order. For example, the heads of the Standing Committees of the Lao National Assembly and the Lao National Assembly met in Shanghai in October 2010 to discuss the direction of future law reform (Robert Sutter and Chin-Hao Huang, 2010). In December 2012, Li Jianguo, Vice Chairman of the NPC Standing Committee, visited and met with partners in Laos, who agreed on four areas of cooperation, such as strengthening cooperation in agriculture, free trade between Laos and China, and infrastructure, especially from the border with China. In June 2013, the President of the Lao People's Democratic Republic, Pany Yatou, visited a delegation from the National People's Congress (NPC) of Beijing to discuss the Party's strategic partnership in governance and other issues. (Robert Sutter and Chin-Hao Huang, 2013). In addition to these exchanges, China has also

provided exchange and tourism programs for Lao civil servants. According to his political experts, Chinese political influence in Laos is aimed at gaining the main economic opportunity because of China's strong urban presence in Laos, which also provides strategic benefits to China. So China provided Laos with political manipulation and expected Laos to respond to important Chinese issues. For example, Bu Jianguo, Ambassador of the People's Republic of China to Laos, said at a press conference at the Lao National Institute of Politics and Administration in June 2011 that the two sides would increase coordination on important regional and international issues. For example, Chinese Ambassador Bu Jianguo to Laos, told a news conference at the Lao National Institute of Politics and Administration in June 2011 that the two sides would increase coordination on important regional and international issues. (Robert Sutter and Chin-Hao Huang, 2011). For example, China's new foreign minister, Wang Yi, included Laos on a visit to Malaysia and Vietnam in August 2013. However, Laos has expertise in balancing China, Vietnam, Thailand, the three most enviable states with the most influence of political and economic. Lao policy is to give as much equality as possible between the three states. According to Martin Stuart-Fox, Vietnam is more interested in maintaining the unity and effectiveness of the LPRP as a governing body in Laos than in China. China does not have to compete for influence with Vietnam because of Vietnam's role in The LPRP party serves China's long-term interests of the Lao PDR. In recent years, Laos has become more recognizable to the United States in opposition to China. (William Case, 2013)

### **Economic Relations**

It can be said that Lao PDR is the least developed country and has the lowest economic level in Southeast Asia. Lao PDR has a gross domestic product (GDP) of US \$ 19.5 billion, measured by the purchasing power of a population of 6.7 million people. This can be calculated per capita income of less than US \$ 3,100 per year. The Lao government will make every effort to promote economic development through economic cooperation with other countries in the form of multilateral and bilateral relations. But Lao PDR's economy continues to grow after Lao PDR became a member of the ASEAN Free Trade Area. Lao PDR strives to promote its development

by relying on the potential of natural resources and the landlocked landscape as an opportunity to make its country a central transportation hub between Southeast Asia and southern China. By way of explanation, the Lao government emphasizes that it is a land link but has no access to the sea, including the strait-south and east-west corridors. The following sub-sections review the China-Laos economic relations under eight sub-headings: investment, hydropower, mining, plantation agriculture, development assistance, showcase projects, communications infrastructure, and trade.

Development assistance: China has played a key role in boosting the Lao economy during and after the Asian financial crisis. For example, in 1997, China provided a series of loans to Laos, export subsidies and preferential loans that stabilized the kip. China has begun providing substantial economic assistance to Laos to help cope with the Asian financial crisis in 1999. (Martin Stuart-Fox, 2009). Most Lao economists agree that it is very difficult to properly define the scope of China's trade and financial commitments to Laos. China provides financial assistance to support economic development in the form of loans, interest-free loans for projects approved by the Lao government, other concessional loans, and loans to Chinese companies for business investment. Chinese construction companies are also involved in the construction of a road funded by the Asian Development Bank, which can be considered a form of assistance. China has reportedly canceled its loan payments as foreign aid. Precise figures are still difficult but one estimate makes both loans China's amnesty was \$ 1.7 billion until 2008. Since 1991, China has offered some annual scholarships to Lao students to study in China.

In 2008, China received a total of fifty-five scholarships. China has also provided management and technical training to the Lao government, party and military. A Chinese consultant has been assigned to work with Laos on a specific assistance program. In addition, Chinese youth volunteers also spend six months in Laos for teaching information technology and language, sports coaching, or medical services. In 2011, Suzhou University opened its first foreign campus in Vientiane capital city. (Ian Townsend-Gault, 2009). The balance of Chinese development assistance provided to Laos from the 1997 to 2007 decades is available worth US \$ 280 million. China provided an additional US \$ 330 million over the next three years, 1998-2001. In November 2011,



Chinese and Lao authorities agreed to work closely together to reduce poverty, difficulties, economic development, increased trade, and agricultural training. China expects three things in return for its development assistance: (1) the reshuffle of Laos opposed China's policy on the issue of leaving Taiwan for Tibet; (2) approaching Chinese companies to exploit Lao resources, and (3) the transit route through Laos to Thailand. On the other hand, the Lao government sought Chinese aid and investment to support economic development in addition to political support to shield Laos from Western pressure for political and economic reforms. China provides development assistance within the scope of non-interference in its internal affairs.

Showcase projects: One of the highlights of China's development assistance program is funding for large-scale exhibition projects such as the Lao National Cultural Hall in Vientiane (completed in 2000), the construction of a 20,000-seat main sports stadium for the 2009 South East Asian Games, and the restoration of Lane Xang Road and the park around the Patouxia Monument in the capital. ([Ibid.](#), p. 146.)

Communications infrastructure: China's assistance to Laos focuses on developing transport infrastructure to connect Yunnan with Laos, improved Laos' internal transportation system by land and Mekong, and later extended the road network to Mekong, and Thailand. China's first communication project on the establishment of a regional satellite center in 1990-91. China has also funded exploration of the Mekong to connect Luang Prabang with Yunnan. In 2001, China joined Thailand and the Asian Development Bank to upgrade the 360-kilometer National Highway 3 from the China-Lao border in Boten province to the Mekong river port of Borkeo province, this was completed in 2008. China also has a major road project in Oudomxay province and contributes to building the Mekong Macro Information Highway, which began service in late March 2008. In 2010, after the visit of Xi Jinping, the President of China agreed to invest in the construction of two bridges across the Mekong and lend him \$ 50 million to build a bridge. When the bridge is completed, the South-South Corridor project connecting Yunnan and Thailand will be completed, making it possible to drive from Beijing to Singapore. ([Ibid.](#), p. 146; [William Case,2010](#)) Finally, China will fund the construction of a high-speed rail system.

In terms of investment cooperation in the industrial sector: According to the clear figures of foreign direct investment (FDI) in Laos, especially Chinese investment in Lao PDR is still unclear because the information to be received is still unclear due to the lack of clear and accurate reports on bank transactions and misrepresentations. Between 2001 and 2007, Lao PDR approved US \$ 1.2 billion in investment in large-scale cooperation projects, particularly from China. As of 2006-07, Laos has received assistance from foreign projects and approved a total of 117 projects worth 1.1 billion US dollars. Chinese projects accounted for the largest share of investment in Lao PDR and higher than Thai projects in Laos as Laos' main source of foreign investment. China has agreed to invest US \$ 462 million in 45 investment projects, or about 42% of the total foreign investment in Lao PDR. In 2009, the three largest sources of FDI in Laos were projects from Vietnam worth US \$ 1.4 billion; Followed by China with US \$ 932 million; And finally Thailand 908 million US dollars. Most foreign direct investment (FDI) has been approved to focus on hydropower and mining in the north, and the rubber, garment and electricity industries have received special incentives from the Government of Lao PDR. China's FDI is focused on projects that produce and export to China, such as agricultural sectors that produce food and minerals. China's FDI inflows into Lao PDR have increased rapidly, especially in the mining and agricultural sectors to ensure food security. China and Laos have forged a comprehensive strategic partnership, both economic and political. China's FDI has paid special attention to energy, telecommunications and infrastructure construction and irrigation in the provinces and provinces bordering China. (Magnus Andersson, Anders Engvall and Ari Koko, 2009).

Hydropower: Laos has ambitious plans to develop its own hydroelectric power plant with the aim of becoming the battery of mainland Southeast Asia. Currently, Lao PDR has 14 hydropower plants and plans to build another 30 by 2020, with the goal of operating 55 hydropower stations. (William Case, 2010). China has played a key role in developing Laos' hydropower potential by providing preferential loans to Laos. China will receive a construction contract. Trade credits provided by China have been used to build three hydropower stations on the Mekong in northern Laos.

In the 2000s, about a third of China's FDI was in Laos' hydropower sector. In 2011, it was reported that China was considering a \$ 6 billion investment in the dam.

Mining: Laos has abundant mineral resources. Chinese investors have focused on mining and related industries. Chinese companies are involved in the production of cement, limestone, potassium, and aluminum. (Ibid.2010). Chinese companies also have concessions in aluminum oxide, copper, iron ore, and zinc. In 2011, the China-ASEAN Investment Cooperation Fund invested US \$ 50 million in mining exploration of the potash salt mines. China is not only investing in the mining sector, but also a major consumer of large minerals produced in foreign mines in Laos.

Plantation agriculture: China's rapid economic growth has led to strong demand for manufacturing agriculture and forest products grown in Laos. This has led China to invest in agriculture on land leased by Chinese companies in northern Laos. These plantations produce rubber, maize, cassava, sugar, banana, sesame, soybean, walnut and teak. In addition, Chinese buyers have contracted with its smaller shareholders to sell their products (William Case, 2010)

Trade: Laos has three major trading partners. It can be said that Thailand plays a more important role in the Lao economy than China and Vietnam. According to statistics from the Lao National Chamber of Commerce, more than half of Laos' exports go to Thailand and more than seventy percent of its imports, especially consumer goods, are imported from Thailand. After 1997, economic ties between Laos and Thailand declined due to border disputes and limited policies. China, meanwhile, sees opportunities for intervention through its economic ties and stimulus, increasing investment and lowering tariffs, and at the same time reviving its trade by sending experts with Lao PDR experts to study the solution. His trade has attracted interest from Chinese investors since the early 1990s. In 2006, for example, China exported US \$ 185.6 million worth of consumer goods to Laos, while Lao PDR exported only US \$ 45.1 million, leaving a trade deficit of US \$ 140.5 million. By 2007, the International Monetary Fund estimated that bilateral trade between China and Laos reached 262 million US dollars due to special policies. Trade figures with Thailand have declined by about \$ 1.5 billion.

## **Defense and Security Relations**

According to a recent survey, Laos has one of the lowest levels of threat awareness in Southeast Asian countries. It also has the smallest defense budget among ASEAN members. After the normalization of relations between Laos and China in the early 1990s, China provided a large amount of military equipment. Laos was given weapons, ammunition, ammunition and spare parts. Lao-China defense relations were strengthened in 2000 with the adoption of the Joint Declaration on Bilateral Cooperation. The agreement includes defense agreements stating that the two sides will "increase exchanges of friendship and cooperation." Cooperation between the two countries' defense agencies and armed forces through maintaining high-level visits and open expert exchange." (Carlyle A. Thayer, 2009). Between 2002 and 2008, China and Laos exchanged 10 high-level defense delegations. In 2003, China supplied US \$ 1.3 million in military equipment to the Lao People's Army. And in 2008, Prime Minister Wen Jiabao proposed export credit facilities including funding for the purchase of a military Z9 helicopter. In 2009, after the relations between the two countries were established as a comprehensive strategic partnership, Laos and China continues to exchange high-level defense delegations.

For example, in July 2010, Deputy Prime Minister and Minister of Defense Duangjai Phichit traveled to Beijing to meet with Defense Minister Liang Guanglie. They recently reviewed defense cooperation and agreed to increase cooperation in the future. (Robert Sutter and Chin-Hao Huang, 2010). In December 2011, Cai Yingting, Deputy Chief of the People's Liberation Army (PLA), visited Laos for consultations on the implementation of military exchanges between the two countries. In September 2012, Minister of Defense Liang Guanglie visited Vientiane, where he and his delegation met to continue to exchange visits, train personnel and border patrols. ( Robert Sutter and Chin-Hao Huang, 2012). 2013, during the 7th ASEAN Defense Ministers' Meeting (ASEAN-China). The Ministers of Defense of China and the Lao PDR met outside the meeting and discussed military exchanges, personnel training and joint military exercises with Laos. This is an example after Laos' accession to ASEAN played a leading role in international economic relations, especially in building multilateral relations with China. Laos and China work together to fight drug trafficking, human trafficking and the spread of HIV / AIDS and avian influenza.

China and Laos are also cooperating to ensure the security of bilateral and multilateral border security, with the annual meeting of the China-Laos Joint Boundary Commission discussing border security, trade facilitation, and the control of illegal activities such as smuggling and trafficking.

The Chinese aid program and the operation of Chinese companies in Lao PDR have raised international questions about transparency in trade privileges, bribery, corruption, and negative environmental impacts (deforestation, land degradation and landslides, etc.). There are also land disputes between Chinese people and businessmen, who have been demanding fair compensation for their land. There are also concerns that infrastructure projects run by Chinese companies could be overvalued, and that new telecommunications networks could play a role in facilitating drug trafficking, prostitution and the promotion of illicit trade, especially in the sex trade.

In November 2010, for example, China's Minister of Public Security met with his counterpart in Beijing and signed an agreement on security cooperation covering cross-border crime and increasing border patrols. Chinese Defense Minister visits Vientiane in February 2011 to discuss cross-border security, drug trafficking and human trafficking, and transnational crime. And in July 2013, Lao Minister of Defense Thongban Sengaphon met with new Minister of Defense Guo Shengkun of China in Beijing.

Both China and Laos are members of Cambodia's anti-trafficking cooperation initiative Thailand, Myanmar, Thailand, and Vietnam. In January 2010, the Seventh Senior Officials' Meeting met in Myanmar to discuss ways to increase law enforcement and combat human trafficking. ([Robert Sutter and Chin-Hao Huang, "Trade Agreement Registers China's Prominence."](#)) May 2013, China, Laos, along with Cambodia, Myanmar, Thailand, Vietnam, and the United Nations Office on Drugs and Crime has signed a memorandum of understanding to deepen regional and international trade cooperation on illicit drugs in the Mekong region and the Golden Triangle

### **Bilateral Issues**

Stuart-Fox, who wrote about China-Lao relations in 2008, suggested that there were no problems to be resolved in bilateral relations. ([Robert Sutter and Chin-Hao Huang, 2009](#)). However, China's rapid economic incursion the following year raised concerns as many. Ethnic Chinese community,

Laos was home to the China-Lao community in the colonial and post-independence eras. Most of these ethnic communities fled Laos after the LPRP came to power in December 1975. As noted above, government-to-state relations deteriorated in 1979 and in the 1980s when Laos stepped up Vietnamese intervention in Cambodia. The normalization of China-Lao relations in the late 1980s and early 1990s has led a new generation of Chinese. There was an influx of Chinese-Lao communities in the pre-war era. The number of Chinese in Laos was about 10,000 in 1997 and 30,000 in 2009. External observers believe that the actual figure of the Chinese ethnic group may be ten times higher. Most Chinese migrant workers have settled in northern Laos, where most small-town trade is in Chinese hands. In Vientiane, there are shopping malls known as the Chinese market, where most of the shopkeepers are Chinese, selling Chinese-imported consumer goods, hiring specific Chinese workers, and building a network that excludes Laotians. ( [Ian Townsend-Gault, 2010](#)). Such developments have worried the nobles that China's influence in Laos will increase too hard.

Boten casino: Chinese private business interests have funded the development of Golden Boten just south of the city Chinese border. While Boten is regarded as a popular tourist destination, its main attraction is a casino that caters exclusively to Chinese customers. Chinese tourists can visit Boten without having to enter Laos officially because Boten is located at the nearest checkpoint of the Lao immigration and customs enforcement. Boten is fast becoming China's frontier with high crime rates, disorderly casinos, and slums. ( [Christopher B. Roberts, 2015](#)). All road signs are converted to Chinese characters. Boten Casino quickly gained a reputation for prostitution, drug trafficking, and money laundering. Laos appears to have lost control of Boten and its surroundings. However, Chinese authorities have closed the city of Boten and its casinos over concerns about money laundering and drug trafficking. Chinese border guards bar Chinese nationals from crossing into Laos ( [Ian Townsend-Gault, 2012](#))

New City Development Project: No Chinese project is more of a concern to Laos than a city development project on the outskirts of Vientiane. This project is to include housing, shops, hotels, and industrial areas. In September 2007, the Lao government announced that the Chinese group,

led by Suzhou Industries Park Overseas Investment Company has been awarded a contract to build a main stadium to host the 2009 ASEAN Games. The Lao company has received a five percent stake in the project. The agreement was secretly negotiated through the Development Bank of China, which agreed to provide a \$ 100 million concessional loan to build sports stadiums with guaranteed land concessions. The Lao government has given a 50-year concession to a Chinese company to develop a 1,640-hectare lake near the That Luang monument. The agreement includes provisions for the renewal of the concession for another twenty-five years. During the concession period, Chinese joint ventures can sell or rent buildings or shops. At the end of the concession ownership of the new district development project will return to the Lao government. About 3,000 Chinese workers were evacuated to Vientiane to build a sports stadium. It is rumored that the new city development project has been built to accommodate 50,000 Chinese people. Local Laotians are concerned about being forced to return to their homeland. Local landowners reportedly opposed the relocation due to insufficient compensation. In summary, the development of the That Luang Development Project has brought concern to the common Lao people and the aristocracy about China's economic holdings. This is the first time that China's presence in Laos has become an issue of interest and debate. ([Martin Stuart-Fox, 2010](#))

## **1.2 Significance of the Study**

The findings of this study will be useful and benefit for me as a Lao student is taking a major in international relation program, it makes me understand clearly how the state of Laos-China Economic Relations and Trade Cooperation since 1961-present is, it is fully provided the information of bilateral economic cooperation's establishment of both countries Laos and China that are now playing a strengthen on political cooperation and relation through various positively consistent factors in many years. Besides that, the findings may benefit interested researchers, teachers or students who are taking their course, especially in the field of international relations.

## **1.3 Research questions**

Since the Asia Pacific region has become increasingly important as the result of its economic growth, Laos has seen its role in Southeast -Asia stage evolved from a land locked to a land link

country. Consequently, this study is to come up with addressing the broad research questions of Laos and China relationship and trade cooperation after establishment of bilateral diplomatic, as well as stage of China influence and those obstacles in particular in trade and cooperation policies toward Laos, and challenges. The study will also include the following sub-questions in order to address the primary question:

1. What are the overall benefits of country (Laos) gaining it from having engagement on economic relations and trade cooperation?
2. How does trade reduce poverty and support the growth of a country?
3. What does China's economic relations and trade cooperation toward Laos, and?
4. What are the challenges and risks of Laos' relationship with China?

## **CHAPTER II**

### **LITERATURE REVIEW**

At the present, the global economic cooperation is one of the most important challenges that must be overcome with vertical cooperation solutions. We can say that global economic cooperation is an element of international cooperation that seeks the necessary conditions to facilitate the process of trade and financial integration in the international arena by implementing actions to achieve indirect and medium-term economic benefits. Therefore, to be a reference of this study, I consider using and determine in term of definitions and theories of world economic relation, trade cooperation, history of Laos-China relationship and some of related research, which these information are mostly from Internet and web pages, journals, textbooks and article approached research and publications related which encompasses both traditional and non-traditional economic concerns, in order to examine Laos - China economic policies and trade relations that have a direct impact on the economies of the core countries as well as periphery countries such as the Lao People's Democratic Republic in a broader context.



In order to make a full understanding about this study as recognize how state of Laos-China Economic Relations and Trade Cooperation since 1961-present is. This section is therefore reviewing relations between China and Laos under five subheadings: definitions of economic and trade cooperation, China's economic relation and trade cooperation towards international and Laos, Laos-China's diplomatic relationship, Laos-China economic and Trade cooperation, and article research on Laos-China economic relations

## **2.1 China's economic relation and trade cooperation towards international and Laos**

Foreign relations of the People's Republic of China (PRC), commonly known as the People's Republic of China, which has Full diplomatic relations with 178 of the 193 member states of the United Nations, the Cook Islands, Niue and Palestine. Since 2019, China has had the most diplomatic missions of any country in the world. (Meredith, Sam, 2019).

This article outlines how China deals with foreign countries and shows its political weakness and economy and values. As a great power and emerging superpower (Aybar; and Lu, 2018). Cambridge Scholars disseminates influential Chinese foreign policy and strategic ideas. China has reaffirmed its commitment to pursuing an independent and peaceful foreign policy, The basic goal of this policy is to safeguard China's independence, sovereignty and territorial integrity, and create an international environment for facilitate the reform and opening up of China's construction to modernize, maintain world peace and promote co-development."(Aybar, Sedat; Cheng, Shixiong; Dang, Hugh; Jaklič, Andreja; Lu, Jian, 2018). Cambridge Scholars Publishing Examples of "Sovereignty and Territorial" foreign policy decisions diplomatic relations with any country that recognizes the People's Republic of China (Taiwan), the PRC does not recognize it as a separate nation. (Williams, David, 2008).

China is a member of many international organizations, playing an important role as a permanent member of the UN Security Council. In the early 1970s, the PRC replaced the ROC as the "China" recognized government in the United Nations according to resolution 2758. As a nuclear power, China has signed the Treaty on the Non-Proliferation of Nuclear Weapons in the United Nations.

China's foreign policy today summed up its strategic relationship with the neighboring countries and world powers to strive for the national interest to China and create a favorable environment for China's domestic development to compete in the world forever in the long run.

China attaches great importance to economic sufficiency, especially in the energy and semi-industrial sectors. By 2018, China will import hundreds of billions of dollars' worth of oil a year but will spend more cycle imports up to 3 times. Therefore, power safety and self-reliance for semiconductors are a priority. China has invested in a number of infrastructure projects around Europe and Africa, including the Eurasian land bridge, China-Myanmar pipelines, railway and economic corridor and port in Pakistan. It has also provided funding for Sri Lanka's largest port, which has been embroiled in diplomatic allegations when Sri Lanka stopped lending and China took control of the port for 99 years. (Marlow, Iain, 2018). Many Chinese investment projects in Malaysia were rescinded when the government of Prime Minister Mahathir Mohamad determined Malaysia "could not afford" them. (Beech, Hannah, 2018). Western analysts have suggested that China's indebtedness diplomacy could obscure its intentions and challenges the sovereignty of the state. As a major oil importing country, it is often assumed that the transition from fossil fuels to replace are good for China. However, China is still a major producer of fossil fuels, including oil, gas and coal. Therefore, China is not one of the big winners in the transition to replacement. Geographical outcome and loss index after power transformation, China ranks 104th out of 156 countries. (Overland, Indra; Bazilian, Morgan; Ilimbek Uulu, Talgat; Vakulchuk, Roman; Westphal, Kirsten (2019

In fact, China's economic relation and trade cooperation towards international is faced the big challenge, known as the China-United States trade war, it is an ongoing economic dispute between China and the United States. In January 2018, US President Donald Trump began imposing tariffs and other trade barriers on China, with the goal of forcing it to change what the United States calls "unfair trade practices" and intellectual property piracy. (Swanson, Ana, 2018). The Trump administration says these actions could lead to a trade deficit between the United States China-China, and that the Chinese government calls for the transfer of American technology to China. In

response to US trade measures, the Chinese government has accused the Trump administration of having involved in nationalist protectionism and retaliation. (Bradsher, Keith, 2019). After the trade war spread to 2019, on January 15, 2020, the two sides reached the first phase agreement, but tensions remain. By the end of President Trump, the trade war had been widely portrayed as a failure. (Bradsher, Keith, 2019). Trade wars adversely affected the economies of both countries. In the US, it has led to higher costs for producers, higher prices for consumers and financial difficulties for farmers.

In China, trade wars have contributed to the slowdown in economic growth and industrial production. Many American companies have shifted their supply chains to other parts of Asia, raising fears that a trade war could lead to "economic ruin" of the United States. (Politi, James, 2020). Trade wars have also caused economic damage in other countries, although some have benefited from increased production as production has shifted to them. It also destabilizes the stock market. Governments around the world have taken steps to address some of the damage caused by the flood's economic conflicts. ("China-US trade war. [www.aljazeera.com](http://www.aljazeera.com).)

Laos and China share a 500-kilometer border. In October 1991, the two countries signed the China-Laos border agreement, treaty on the China-Laotian boundary system and supplementary protocol to the treaty on the China-Laotian boundary system. By successfully seeking solutions to border disputes in a short period of time inherited dialogue, the two governments have set an example for states in resolving border issues through peaceful negotiations. From then on, the China-Lao border has become a border of peace, stability and stability. (Source: ASEAN-China, 2018)

Earlier 1975, the relation and cooperation between Laos and China was in the structure of assistance and help for the effort of Lao ethnic people in opposition to foreign imperialists and management of repressive class. On 25 April 1961, Laos and China will have the great celebration of the 61<sup>st</sup> anniversary of diplomatic ties, the high stage events expected to be organized in the two side of countries to mark the great official anniversary. As a shared boundary together, China is as Laos' neighbored country to the North. Being under the leadership of the Communist Party

in Indochina peninsula, China has stood side by side with Laos offering the official assistance and maintains in both necessary material and spirit needed in both regional and international periods. The official exchange visits between the high-ranking authorized of the both countries have continuously been made, including Lao leadership paid an official visit to China in 1959 by the former Secretary General of the Lao People's Revolutionary Party Kaysone Phomvihane and his excellency other high-position leaders to inform revolutionary actions in Laos and deliberate potential assistances from China. ([KPL Laos-China cooperation continues to grow, 2013](#))

China and Laos are neighbors bordered by mountains and rivers, their people live together Peace and harmony have existed since ancient times. China and Laos established diplomatic ties on April 25, 1961 and maintained friendly relations. The relation as a neighborhood has been around for a long time. During the late 1970s and mid-1980s, both relationships went through many difficulties. However, China-Lao relations returned to normal in 1989. ([Embassy, 2013](#)).

So far it can be said that the relationship between the Lao People's Democratic Republic and the People's Republic of China. It is a great historical relationship, this bilateral relationship was formally established in 1953. This relationship is a close relationship and respect for each other's sovereignty. As of April 25, 1961, Lao PDR changed its recognition from the Government of China or Taiwan to the Government of Beijing. ([China \(Taiwan\), Ministry of Foreign Affairs, 2011](#)).

However, on 16 May 1962, amid the political turmoil and civil war in the Lao PDR, the Lao government severed diplomatic ties with the Chinese Red Army during the Cold War and resumed relations with the Communist Party of Thailand. ([China \(Taiwan\), Ministry of Foreign Affairs, 2011](#).) Laos is represented by the Taipei Economic and Cultural Representative Office in Hanoi for ROC concerns.

The relationship consists of trade and assistance, mainly focusing on road construction in the northern provinces. Laos, without directly challenging the interests of Thailand or Vietnam in the central and southern regions. However, Vietnam's invasion of Cambodia in December 1978 to overthrow the Red Cross authorities prompted China to invade Vietnam to a limited extent of about

nineteen kilometers to "teach Vietnam a lesson." Laos was arrested in a dangerous ally, did not want to provoke China further, but could not oppose Laos counterpart.

The Lao government has tried to lead the country out of this predicament by providing support and assistance to Vietnam. Later, there was a debate over the direction of multilateral cooperation and the consequent end of diplomatic relations with China, which ended in 1979, with Chinese officials reportedly assisting and training anti-Hmong forces under General Vang Pao in China's Yunnan Province. [\(Brown, MacAlister and Joseph J. Zasloff. 1994\)](#)

However, relations between Laos and China were restored in 1989 when Prime Minister Kaysone Phomvihane visited Beijing to restore diplomatic relations and normalize relations between the two countries ever since.. However, this strained relationship gradually weakened, and in 1989 Prime Minister Kaysone Phomvihane visited Beijing. In 1991, Kaysone chose to spend his vacation in China instead of visiting the Soviet Union. Diplomatic relations and party-to-party relations were normalized in 1989. Trade raised from the sale of local consumer goods to the issuance of 11 licenses Investment events in 1991, including the automobile assembly factory. After the establishment of the Lao-China Joint Border Commission in 1991, the meeting was held in 1992 with result of an agreement delineating their common border. Chinese trade and investment with Laos have grown quietly, but not significantly in 1993 and 1994. General Secretary of the Communist Party of China Xi Jinping met with General Secretary of Lao People's Revolutionary Party Bounyang Vorachit in 2016 to seek further international affairs coordination. [\(Xinhua News Agency, 2016.\)](#)

For the exchanges and cooperation in other areas, there is good cooperation between the two Ministries of Foreign Affairs, The Chinese and Lao foreign ministers have visited other countries respectively. Laos opened a consulate general in Kunming. In 1999, the two countries reached an agreement on the opening of another consulate in Hong Kong.

Military relations between China and Laos have been developing steadily. Chinese military leaders Chi Haotian, Zhang Wannian and Yu Yongbo paid another visit to Laos, while Laotian Vice-Premier cum Defence Minister Choummaly and other military leaders have visited China

several times. Since 1989, China and Laos have signed an agreement on cultural and news cooperation, and a memorandum of understanding on cooperation in education, health, radio, film and television. There were frequent exchanges of visits between performing artists, writers and journalists of the two countries. The two countries have been exchanging students and vocational training since 1990.

In order to simply understanding how Lao-China relations are, it can be concluded as follow: In April 1961, a coalition government led by Laos Prime Minister Suvarnabhumi visited the People's Republic of China and signed an agreement establishing diplomatic relations with the People's Republic of China on April 25, 1961. This marked a historic milestone in Lao-Chinese relations and cooperation. In late September 1965, a high-level delegation from the Lao People's Democratic Republic, led by General Secretary of the Lao People's Revolutionary Party Kaysone Phomvihane, paid a 50-day visit to China to discuss on Chinese assistance to the Lao PDR. Since the founding of the Lao People's Democratic Republic on December 2, 1975, the People's Republic of China has helped Laos protect the regime, heal the wounds of war, and restore and improve the lives of the multi-ethnic Lao people. The Lao-China Friendship Association was established in February 1976. From March 1976 to June 1977, Mr. Kaysone Phomvihane Secretary General of the Lao People's Revolutionary Party and Chairman of the Council of Ministers, paid a high-level official visit to China for to expressing thanks to the party. Between March 1976 and June 1977, H.E Kaysone Phomvihane, Secretary General of the Lao People's Revolutionary Party and President of the Council of Ministers led a high - ranking delegation of the Party and Government of Laos in an official visit to China to express thanks to the Party, the Chinese government and people who have contributed to the Lao revolution and the relentless suppression of the mission to protect and build Lao nation.

In 1989, Mr. Kaysone Phomvihane, General Secretary of the Lao People's Revolutionary Party, Chairman of the Council of Ministers, led a delegation of the Lao Party and Government to pay an official visit to China, where the two sides signed four cooperation agreements. These include agreements on consulates, cultural cooperation, interim agreements on border issues, and visa

exception. During the official visit, H.E Kaysone Phomvihane hold on a working session with Mr. Deng Xiaoping, senior leader of the Communist Party of China (Second Generation leader of the Communist Party of China). This is an important political event and the beginning of the friendly relations and cooperation between Laos and China in the new era.

In December 1990, Chinese Premier Li Peng led a high-level delegation of the Communist Party of China to visit Laos, which is considered an important contribution to deepening the traditional friendship and cooperation between Laos and China. In early 1991, H.E Nouhak Phoumsavanh, a chairman of the supreme people's assembly, led a high-level delegation to the Supreme People's Assembly visit to China. In October 1991, the Prime Minister of the Lao People's Democratic Republic, H.E Khamtay Siphandone, led a Lao government delegation to visit the People's Republic of China. In April 1992, Mr. Kaysone Phomvihane, Secretary-General, President of the Lao PDR, paid a visit to China. This visit is considered to be an outstanding movement in the history of relations and affairs cooperation between the two parties, states and peoples of Laos and China.

June 1995 witnessed an official visit of the President of the Lao PDR to China by H.E Nouhak Phoumsavanh to further strengthen the traditional friendship and cooperation between the two countries, and promote mutually beneficial economic, trade and technical cooperation. On June 11, 1996, the two governments signed an agreement on the establishment of the Lao-China economic cooperation committee, trade and technology.

Mr. Sisavath Keobounphanh, Prime Minister of the Lao PDR paid an official visit to China on 25 January, 1999 during his visit, he signed five major cooperation agreements.

On July 13-16, 2000, Mr. Khamtay Siphandone, President of the Lao PDR, paid an official visit to China. His state visit marks the beginning of a new era in relations friendship and cooperation between the two countries Lao people and the People's Republic of China. ([China-Lao P.D.R. Relationship, 2013](#))

On November 11-12, 2000, Jiang Zemin, General Secretary of the Communist Party of China (CPC) and President of the People's Republic of China (PRC) paid a willingness visit to Laos, the six cooperation agreements were signed during his visit to Laos.

On February 3-7, 2002, Prime Minister Bounnhang Vorachit paid an official visit to China and signed five agreements of cooperation a visit to China. On June 12-14, 2003, Khamtay Siphandone, General Secretary of the Lao People's Revolutionary Party and President of the Lao PDR, paid a visit to China, and signed two important documents. The Lao-Yunnan Regional Coordinating Committee was established in October 2004.

On March 17-19, 2004, Chinese Vice Premier Huang Yi and his delegation paid an official visit to Laos, and the two sides signed five important agreements with the Lao PDR. On November 28-30, 2004, Chinese Premier Wen Jiabao visited Laos and accompanied by a high-level delegation, the two sides also signed five important documents.

In December 2005, the Lao PDR delegation consisting of a high-level delegation, the Speaker of the National Assembly, and members of the National Assembly paid an official visit to China on this occasion. Later, Mr. Choummaly Sayasone, General Secretary of the Lao People's Revolutionary Party, President of the Lao People's Democratic Republic, paid an official visit to China.

On November 19-20, 2006, Hu Jintao, General Secretary of the CPC Central Committee and President of the People's Republic of China visited Laos. His visit was marked by the signing of 10 important documents of cooperation between both authorities.

On August 22-28, 2007, the Prime Minister of the Lao PDR, Mr. Bouasone Bouphavanh, visited the People's Republic of China and signed seven important cooperation agreements. On March 29-30, 2008, Wen Jiabao, Prime Minister of China visited Laos and signed several cooperation agreements.

On June 15-21, 2008, Mr. Choummaly Sayasone, Secretary-General and President of the Lao PDR, paid an official visit to the People's Republic of China (PRC) to talks with the two countries and agreed to further enhance cooperation between the two countries based on the potential of the two countries, and to develop 7 major projects in Laos. They also agreed to cooperate in developing



a joint master plan on economic cooperation between Laos and China is the basis for the implementation of major projects and comprehensive cooperation between Laos and China during the years 2010-2014.

On November 13-15, 2008, Mr. Zhang Gaoli, Member of the Political Bureau of the CPC Central Committee and Secretary of the CPC Tianjin Municipal Committee, visited the Lao PDR and signed three important documents and provided some funding for the purchase of agricultural machinery and office supplies.

On December 1-2, 2008, H.E Jia Qinglin, Chairman of the National Committee of the Chinese People's Political Consultative Conference (CPPCC) visited Laos and signed six major cooperation agreements.

On September 6-13, 2009, H.E Choummaly Sayasone, Secretary-General and President of the Lao PDR, paid a visit to China and met with Mr. Hu Zhaowao, General Secretary of the Central Committee of the Communist Party of China and President of the People's Republic of China. Then, there were 8 important documents were signed during President Sayasone's visit

On March 19-20, 2010, Chinese Vice Premier Hui Liangyu visited Laos and signed an agreement on 5 cooperation agreements. On March 15-16, 2010, Chinese Vice President Xi Jinping visited Laos and signed 18 important documents. On May 27-29, 2012, Mr. Thongsing Thammavong, Member of the Central Committee of the Lao People's Democratic Party, Prime Minister of the Lao PDR paid a working visit to the People's Republic of China.

Since the establishment of Lao-China diplomatic relations, Laos has sent 10 ambassadors to China. The Chinese government has sent 11 ambassadors to Laos. Besides, high-level delegations of the two countries also exchanged visits. This has made a significant contribution to Lao-China cooperation and has become a model of international cooperation. ([China-Lao P.D.R. Relationship, 2013](#))

China-Lao trade and economic relations have been steadily expanding for more than half a century, with great achievements in trade, investment and other industries. In 2016, China was Laos' largest source of foreign investment, its second largest trading partner and source of humanitarian aid, as

it was China's third largest investment destination in ASEAN nations. The desire of Chinese enterprises to invest in Laos has grown in recent years. Chinese investment in Laos is important in many areas of industry, including economic cooperation areas, railways, grids, hydropower stations, real estate, and communication satellites. At the same time, China has provided economic assistance to Laos to the extent possible by assisting free, interest-free loan, or concessional loan in the field of provision, complete equipment, people training, and technical assistance. (China, 2018, p. 5). China-Laos economic and trade relations have improved substantially in recent years. The two sides signed documents on trade cooperation, investment protection, tourism, transportation, and set up the economic, trade and technical cooperation committee of the two countries. China-Laos trade turnover reaches 40.84 million US dollars in 2000, up 28.8 percent from the previous year, and US \$ 61.87 million in 2001, an increase of 51.4 percent from year 2000. (ASEAN-China, 2019). Since 1900, Chinese enterprises have been played the role on investment in Laos, establishing factories. By the end of 2001, contract investment had reached US \$ 75 million, including projects in various areas such as building materials, horticulture and aquatic products, pharmaceutical production.

In addition, they have been heavily involved in labor and project contracts in Laos, with contracts amount to more than US \$ 0.5 billion. (ASEAN-China, 2019). China has set up a number of aid projects in Laos: satellite TV stations systems, a hydroelectric facility as part of the Namgao River power transmission project, and the Lao Cultural Hall. Besides, Vang Vieng Cement Factory Plant and Luang Prabang Hospital as the second phase are currently under development and will continue to operate the project. In 2009, the turnover of trade between China and Laos reached 744 million US dollars, an increase of 79% over 2008. (ASEAN-China, 2019)

It can be said that Lao-Chinese relations since 1953 have been boosting and growing the Lao economy, especially with the expansion of international trade, improved telecommunication infrastructure, a market for Chinese exports and foreign investment. (Chang, Taiwan Today, 1966)

Most of these relations include international trade and infrastructure assistance, such as the construction of transport routes to China in the six northern provinces of Laos, amid economic development and the relationship has directly challenged the interests of Thailand and Vietnam as trade partners. Laos is in a dangerous position, does not want to persuade China, but cannot resist partners as a special relationship like Vietnam. Laos leadership escaped the situation by issuing a slightly delayed statement the exchange of Vietnamese shares after a debate between the two sides, and by reducing diplomatic relations with China to the level of foreign ministers without a full break. The lowest point in Sino-Lao relations occurred in 1979, with reports of Chinese aid and anti-Hmong forces training under General Wang Pao in China's Yunnan Province. (Brown, MacAlister, Joseph J. Zasloff, Andrea Matles Savada, 1994)

However, this strained relationship gradually weakened, and in 1989 Prime Minister Kaysone Phomvihane visited Beijing. In 1991, Kaysone chose to vacation in China instead of visiting the traditional Soviet Union. Diplomatic relations and relations between the two parties normalized in 1989. Trade grew from the sale of local consumer goods to the issuance of 11 licenses Investment events in 1991, including the automobile factory. After the establishment of the Lao-China Joint Border Commission in 1991, the meeting held in 1992 was held with its result the agreement to demarcate the joint border. Chinese trade and investment with Laos have grown quietly, but not significantly more in 1993 and 1994. General Secretary of the Communist Party of China Xi Jinping met with General Secretary of the Communist Party of Laos, Mr. Bounhang Vorachit in 2016, to seek further international coordination (Jiatun, 2016). However, opportunity - China is the second most important destination for Lao exports. Although the real value of exports is about three-quarters of Thailand's exports, Laos' exports to China have doubled in the past ten years. On average, Laos' exports to China have grown 86% year-on-year since 2005, at a growth rate. The year-on-year figure decreased from 38% to 174% during that period. That growth rate means that today's export value is more than 30 times that of 2005, compared to a fourfold increase in Lao PDR's export value to other destinations in the same period.(Staffs, 2013, p. 2)

How Laos benefit from the ASEAN-China Free Trade Agreement - as a member of ASEAN, Laos gets the benefits from Comprehensive Free Trade Agreement (FTA) between ASEAN and China signed November 2002. ASEAN-China FTA offers trade, goods, services and investment benefits through. The promises are as follows:

- The Commodity Trade Agreement (signed in July 2005) allows Laos and the CLMV (Cambodia, Laos, Myanmar and Vietnam) countries to gradually eliminate tariffs and gain access to most Chinese goods by 2015; In 2018, there will be a significant reduction of about 250 tariffs for products on sensitive and highly sensitive lists.
- The Trade in Services Agreement (signed in July 2007) facilitates transportation between China and Laos.
- Investment agreements (signed in January 2010) protect Lao and other ASEAN investors from discriminatory measures and ensure fair treatment of national investors.

In view of closing, it could be said that China-Laos economic and trade relations have been developing well and continued. The documents on cooperation in trade, investment protection, tourism and automobile transportation have been signed respectively and the Bilateral Economic, Trade and Technology Cooperation Committee has been established as well. In 2000, China-Laos trade turnover reached 40.84 million US dollars, an increase of 28.8% from the previous year. In 2001, it increased to US \$ 61.87 million, an increase of 51.4% from 2000. From 1900 onwards, Chinese companies began to build factories in Laos with their own investment. By the end of 2001, the contracted investment was US \$ 75 million, covering areas such as construction materials, cultivation and aquiculture, and fish medicine production. In contrast, they have been actively involved in labor and project contracts in Laos, with a total contract value of more than US \$ 0.5 billion. Chinese aid projects in Laos include ground station for receiving satellite TV programmes, hydropower station by Namgao River power transmission project and Cultural Hall of Laos. The project currently under construction is the second phase of the Vang Vieng Cement Factory and Langprabang Hospital, and other projects will come in the future. In 2009, the trade volume between China and Laos reached 744 million US dollars, an increase of 79% over 2008. According to the report, the northern province of Laos is increasingly integrated economic with China's

Yunnan province, and Chinese trade influence has been beginning to emerge in Vientiane. In addition, China has become a major supplier of economic stimulus, including grants and low-interest loans, technical assistance, and foreign investment to developing countries.

As a result, some analysts think Hanoi has called on the Lao government to tighten ties with the United States in an effort to offset Chinese influence. (Lum, 2010, p. 4). The 2007 Trade in Services Agreement facilitated communication and transportation between China and Laos. Investment agreements (signed in January 2010) protect Lao and other ASEAN investors from favoritism and safeguard fair practices. (Lord, 2013) China, Laos signed the official agreement of cultural cooperation, as well as signing news and memorandum of understanding on cooperation education, television, radio, film and health since 1989. There were regular exchanges of visits between the two nations' performing artists, authors, and journalists. Since 1990, the two nations have exchanged students and vocational learners. (Mengqi, 2017).

According to Laos-China economic relations report, Global Economics Review (GER), 2018 conducted research on China-Laos Economic Corridor. This research aims to study regional challenges and policies. The study found that the corridor serves as a channel for cooperation to integrate the Lao and Chinese economies within the group of Southeast Asian nations through a key link between China's "one-way corridor initiative" and Lao PDR's strategy of transforming its country from a landlocked country to a land-linked country. The governments of Lao PDR and China continue to develop infrastructure and economies along the China-Laos Economic Corridor, as well as provide security to ensure transportation and encourage foreign cooperation to attract investors along the corridor. In addition, the research explores the channels and opportunities for Sino-Lao economic cooperation, starting with scientific and technological cooperation, diplomacy, and education cooperation. Finally, through the establishment of a monitoring and evaluation system for the construction of the corridor, an overview of the facilities of the corridor construction project can be controlled. The research also found that Laos benefited from the construction of the China-Lao economic corridor and to what extent.

The current state of construction of the China-Laos economic corridor Construction. The first of its forum on "Road Initiative" of the Lao Cooperation Forum China (BRI) held in Vientiane, the capital of Laos in February 2018. Laos is the only landlocked country in Southeast Asia and has no sea access. As a "besieged country", Laos was eager to get through the "siege" and increase integrate with ASEAN countries. In December 2016, the 414-kilometer China-Laos railway is expected to be completed in 2021. As of April 2019, the China-Laos Railway has completed the construction of about 87% of the subway, 54% of the tunnel, and bridge construction 43%. Laos is China's third largest investor in ASEAN, the value of bilateral trade in 2018 increased by 12.2% (US \$ 3.5 billion), of which China exported to Laos there was 150 million USD, an increase of 0.3%. China imported 289 million US dollars from Laos, an increase of 22.7%. From January to August 2018, Chinese non-financial direct investment in Laos reached US \$ 990 million, increase of 30.3% compared to the same period of 2018, ranking as the second largest in Asia in total investment. With increasing investment in Laos, various types of Chinese enterprises are looking for opportunities doing business in Laos. Chinese-funded enterprises have basically achieved more than 75% of local employment, creating abundant labor opportunities and greatly assisting locals in resolving employment issues. (RenKeyao, 2018)

Shanghai Institutes for International Studies, 2016. Has studied on Assessment and Prospect of China-Laos Development Cooperation, the aim is to report on overview of China's Investment in Laos. In 2015, China's foreign direct investment (FDI) in Laos exceeded 1 billion US dollars and increased to 1, US \$ 36 billion, an increase of 36.2% over last year, second only to Singapore in ASEAN. At the end of 2005, China's FDI stake in Laos was registered at US \$ 32.9 million, but increased to US \$ 4,491 billion USD in late 2014 with a rapid expansion of investment in recent years. Laos is also the 20th largest host of Chinese FDI in the region. It is not an exaggeration to say that there has been a dramatic growth in influx and portfolio of Chinese business investment in.

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.

It can be said that Chinese investment in Laos is largely based on the country's potential, especially in mining, hydropower and agriculture. In addition, there is rubber plantation, and investment in regional transportation, etc., based on Lao PDR's investment promotion policy. According to the Promotion Department of the Lao Ministry of Planning and Investment, the investment agreements approved with Chinese investors are more than 4.9 billion US dollars. From January 1, 2000, to June 1, 2013. In each sector, mining holds more than 50%, followed by electricity, agriculture and manufacturing, while securities investment accounts for more than 10%, valued at just US \$ 390 million. According to a report by Vientiane, Lao PDR's industrial and mining sector was US \$ 11.79 billion between 2011 and 2015, accounting for 9.22% of 2006-2010 and 12% of gross domestic product (GDP), and the exports of mining products were valued at US \$ 8.46 billion. (H Zhang, X Li, T Zhou, L Xue, Y Wang, 2016)

However, the construction of transmission lines and the transformation of multiple lines, as well as the corresponding talents and skills needed to generate electricity, which he alone could not do in the short term. These real needs encourage investment, assistance, and technology cooperation in hydropower construction between China and Laos. To promote industrial development, Laos has established a pre-industrial economic cooperation zone with China and has planned an establishment of 10 special economic zones and 29 special economic zones in 41 target areas throughout the country. In agricultural cooperation, China has assisted Laos in improving its water infrastructure, technology and level. Production, opening up the strict processing of agricultural products, cooperation in pest control technology crops, and the development of alternative crops in the north, all of which have brought significant economic benefits.

In terms of resource cooperation, China and Laos have stepped up cooperation in mining technology exploration of minerals, copper ores and ores through the training of technicians for Laos. In the area of technical cooperation, in addition to cooperation in the field of renewable energy, such as hydropower, China has also increased Cooperate with Laos in the field of radio and satellite telecommunications. In terms of social and health development, China has increased its assistance to Laos in the areas of education, health, disaster relief, etc., safely concluded, China has become a major contributor to its comprehensive and rapid development.

### **CHAPTER III.**

#### **DATA AND METHOD**

This chapter explains two main processes of data collection, and data analysis as well as how to apply and use methodologies and tools. The chapter is going to reveal the methodological analysis to show an outline of the study. The secondary data has been used for studying, I have collected these data from the internet, journals, research, books, and official statistical economic reports whether regarding the overall state of Laos-China economic relation and trade cooperation from 1961 to present.



As a case of this study, I choose to study reviewing the appropriated literature which encompasses both traditional and non-traditional economic concerns, in order to examine Laos - China economic policies and trade relations that have a direct impact on the economies of the core countries. This thesis proceeds to study based on the theories and the research questions to drive the process of gathering all of the data, the study besides has been used an approach for further analysis. As far as, the analysis based on deductive approach starts with a problem formulation and through the use of theory and argumentation reach a particular conclusion. In contemplation of gaining knowledge over the problem statement, this study understands the theory of neorealism which means that the actions and behaviour of states are caused by the structure of our world and not by human nature or social construction. (Wendt, Alexander, 1992, pp. 391-425)

### **3.1 Data collection**

Firstly, understanding the view of data collection for the general research conduction, it can be said that it is a process of collecting and measuring information about the variables of interest, in a systematic way that enables one to answer specified research questions, test hypotheses, and evaluate results. The data collection component of the research is common in all disciplines of education including physical and social sciences, humanities, business, and so on. While the approach differs according to the discipline, the emphasis on ensuring accurate and honest collection remains the same. The goal for all data collectors is to gather quality evidence then translate into rich data analysis and allow to generate reliable and trustworthy answers to established questions. Regardless of the study or preference in determining the data (quantity, quality), accurate data collection is necessary to maintain the integrity of the research. Both the selection of the appropriate data collection tools (existing, modified, or newly developed), and clearly defined guidelines for their proper use reduce the likelihood of errors occurring.(Syed Muhammad Sajjad Kabir, 2016).

As we all know, data collection is one of the most important steps in research. We can have the best research design in the world, but if we do not collect the required data, we will not be able to

complete the research project. Data collection is a very demanding job that requires careful planning, hard work, perseverance, perseverance and more to be able to complete the task. Data collection begins with identifying the type of data that needs to be followed by selecting samples from a certain population. Then, we need to use certain tools to collect data from the selected samples. Data is broadly divided into two categories: qualitative and quantitative. Thus, qualitative data is the most appropriate source of information, often non-numeric and often descriptive or surname in nature. This means that the data collected is in the form of words and phrases. Qualitative approach aims to address the 'how' and 'why' of a project and tends to use unstructured methods of

the source of secondary data and the most important step for research, regardless of the field data collection to explore my topics perfectly. Quality data collection methods play an important role in impact assessments by providing useful information to understand the processes behind observed outcomes and to assess changes in people's perceptions of their well-being.

In most cases, data collection is of research. The most important purpose of data collection is to ensure that rich and reliable data is collected for statistical analysis so that decisions based on data can be researched. Consequently, data collected from a source that has already been published in any form is called as secondary data. The literature review in any research is based on secondary data. It is collected by others for other purposes (but is used by investigators for other purposes). Common sources of secondary data for the social sciences include censuses, organizational records, and information collected through qualitative or qualitative research methods. In general, secondary sources are from books, records, biographies, newspapers, published censuses or other statistical data, data archives, internet articles, research articles by other researchers (journals), databases, etc. (Syed Muhammad Sajjad Kabir, 2016)

In my case study, the process of data collection was based on writing, reports and other data analyzed from various sources. This means that the information quoted is compiled from Internet sources, official reports of credible socio-economic sciences and well-cited sources. Published scientific reports or research papers have been compiled and accurately compiled, such as

compilations from official Chinese websites, reports on Lao-Chinese cooperation of the Lao Ministry of Foreign Affairs, government reports, records between the two organizations, and other sources. The main sources are from:

- Internet and web pages: view of general definitions of economics, evolutionary economics, types of economics, types of economic systems, economic relations, trade cooperation and its definition of trade, definition of cooperation, trade cooperation.
- Journals, textbooks and article: History of Laos-China economic relations (China - Laos Relationship, China Assistance to Laos, Bilateral Economic Relations, The Lao PDR's Membership in International Organizations and Foreign assistance and trade relations), Trade cooperation with Laos-China economic (Laos-China relations and Lao's Trade Relations with China)
- Artical Research: related research on economic relations and trade cooperation of Laos-China economic over the last decade.

The study uses qualitative analysis methodology involves collecting and analyzing non-numerical data to gather in-depth insights into economic relationship between Laos - China. The study also adapts both official documents and other materials provided by other researchers that proved to be useful for the study.

### **3.2 Data Analysis**

The process analysis can be used to improve understanding of how a process is conducted. The first step of a process is to analyse it to understand activities, their relationships, and the value of relevant metrics. (Syed Muhammad Sajjad Kabir, 2016)

In order to complete objectives of this study, I have designed to build up a research instrument to be most appropriate and precise for doing data collection. In this section of study is how to measure data collection that it has been intended to be a research tool. The steps of measurement will focus analyzing on statistics of the economic relations results, essential data, the related records' contextual study, the evaluation, and analysis of previous and current affairs utilizing event-specific behavioral analyses from official studies result of Laos-China relations, journal articles,

and information publicized in newspaper, reports, articles of economic analysts, professional perspectives, and authors' evaluation will also be evaluated. It also contains related studies or scholarly articles for discussion.

Moreover, based on the research questions, and appropriated statistic will use percentage to explain the result of numerical statistic and indicators on economic relations of Laos-China. The analysis will be based on research questions as follow: 1). What are the overall benefits of country (Laos) gaining it from having engagement on economic relations and trade cooperation? 2). How does trade reduce poverty and support the growth of a country? 3). What does China's economic relations and trade cooperation toward Laos, and? 4), What are the challenges and risks of Laos' relationship with China?

All mention above will be useful to better understand how situation of Laos - China economic relation now is when its analysis is made and explained. In conclude, by taking into account all of my data collected, the objective of study was to get scientific knowledge and to answer to the main and sub questions proposed to be studied in this thesis.

## **CHAPTER IV.**

### **ANALYSIS AND DISCUSSION**

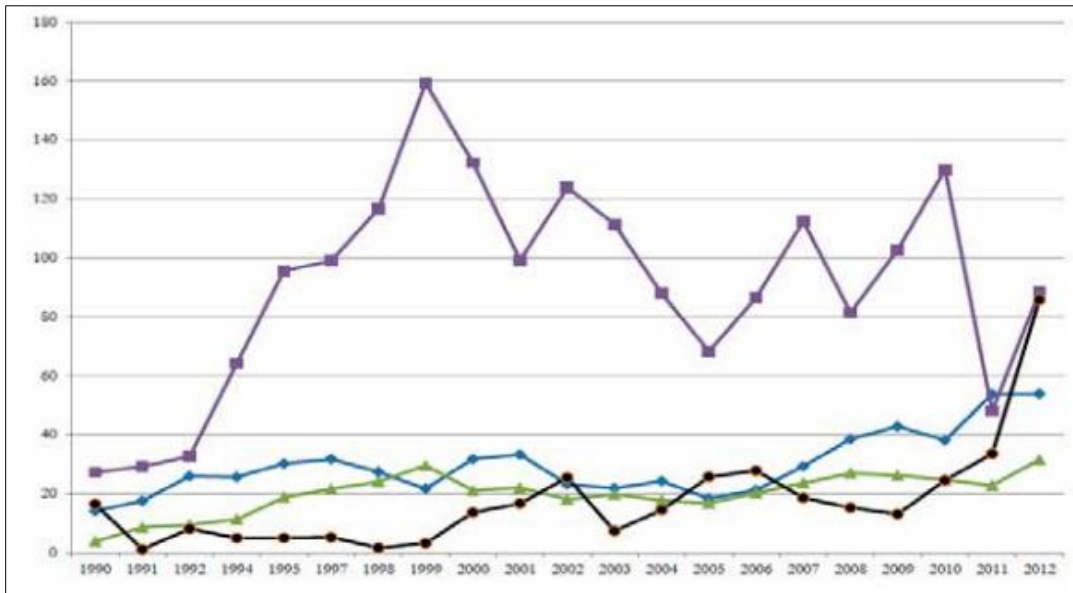
The purpose of the discussion was to interpret and explain the significance of its findings to what is already known about the research problem being investigated, and to explain the insights or insights of the problem after I have considered the findings. The discussion was connected with the introduction by means of the research questions I posed, and the literature was reviewed, but it was not just repeated or re-ranked; The discussion has always been described as my study shifted readers' understanding of research issues forward from where I left it at the end of the introduction. For the analysis of the data in this section, I have made the process of using updates Systematic statistics to describe and illustrate, condense and recap, and evaluate data.

This chapter then provides information and a discussion of the findings. Backup data from three different sources were used to collect data from the subjects. Convenient sample data were selected from 1.) Internet and web pages (view of general definitions of economics, evolutionary economics, types of economics, types of economic systems, economic relations, trade cooperation and its definition of trade, definition of cooperation, trade cooperation), 2.) Journals, textbooks and article (history of Laos-China economic relations (China - Laos Relationship, China Assistance to Laos, Bilateral Economic Relations, The Lao PDR's Membership in International Organizations and Foreign assistance and trade relations), Trade cooperation with Laos-China economic (Laos-China relations and Lao's Trade Relations with China), 3.) Article Research: related research on economic relations and trade cooperation of Laos-China economic since 1961. Data analysis and descriptive statistics in terms of percentages were used for explaining its each result. The research results are presented according to research questions which includes 1.) What are the overall benefits of country (Laos) gaining it from having engagement on economic relations and trade cooperation, 2.) How does trade reduce poverty and support the growth of a country? 3.) What does China's economic relations and trade cooperation toward Laos and, 4.) What are the challenges and risks of Laos' relationship with China? Those can be explained as its result following:

#### **4.1 Laos benefits from economic and trade cooperation with China**

In general, Chin-Lao relations have developed steadily and comprehensively. Since the late 1980s, China has steadily increased its assistance to Laos due to relations between the two countries revived and deepened. Adhere to the policy of promoting mutually beneficial cooperation, striving for unity, safe and prosperous. China became the largest donor to Laos in 2012. The Chinese aid model in Laos There is also diversity.

Figure 1: 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.

In the term of benefit from having a trade relationship with China, Laos gets a lot of benefits from trade relationship with China countries, it be analyzed that economic and trade relations between China and Laos have been developing constantly with great achievements in such fields as trade and investment for over half a century since the establishment of diplomatic relations between the two countries. In terms of trade relations with China, Laos has benefited greatly from trade relations with China. According to the analysis, China-Laos economic and trade relations have been developing steadily in the field of trade and investment for more than half a century since the establishment of diplomatic relations between the two countries.

At present, China is the second largest trading partner, the second largest foreign investor, and Laos is the largest donor, and Laos is China's third largest investor in ASEAN countries. With China-proposed Belt and Road Initiative and Laos' strategy of " turning itself from a land-locked country into a land-linked country" offering economic and trade cooperation between the two countries have successfully cooperated in connectivity, energy, economic zone construction and so on. Such major cooperative projects as China-Laos Railway, Nam Ou River Hydropower Station, Saysettha Development Zone, Mohan-Boten Economic Zone, Ground Station for "Lao Sat-1" have not only did jobs creation and increase incomes for the regions concerned, but also

brought for the benefit of the long-term development of Laos, it has become a new mechanism for economic growth. With a high level that matches and is in line with geographical, social and cultural status, as well as in terms of economy and development strategy, the two countries hope to cooperate more broadly, offering more investment opportunities to enterprises.

At the same time, China has also provided economic assistance to Laos with free aid, loans or concessional loans, covering material, equipment, personnel training, technology. The rapid growth of bilateral trade and economic relations. In 2016, the value of trade between China and Laos reached 2.34 billion US dollars, with China being a major trading partner. The main Chinese imports from Laos are copper, timber, agricultural products and others. While its exports include automobiles, machinery, textiles, steel products, power lines and cables, the expansion of cooperation in the field of investment. Recent years have seen the enthusiasm of Chinese enterprises to increase investment in Laos, it covers many areas and is vast.

China has invested a total of 6.31 billion US dollars in Laos, which has become the third largest investment destination of China in ASEAN countries. Most of the Chinese's investment in Laos is in hydropower, mining and agriculture. With the rapid socio-economic development of the two countries, the area of investment cooperation has become increasingly important from traditional industries to railways, agriculture, information technology, modern logistics, financial (Wentao, 2018, p. 5). Unique advantages of project contracting. In 2016 China signed a total amount of 6.71193 billion U.S. dollars for project contracting in Laos, increasing 30.1 percent over 2015, ranking the 3rd among ASEAN countries; and the turnover of its project contracting in Laos totaled 2.94729 billion U.S. dollars, showing a 9 decrease of 8.4 percent. As of the end of December 2016, the Chinese project signed in Laos with a contract value of 27.86472 billion US dollars, and a cumulative value of US \$ 15,96945 billion. Outstanding achievements in financial cooperation. Since 2011, China-Lao financial cooperation has achieved remarkable results. As of November 2017, two state-owned commercial banks of China have opened branches in Laos, namely the Industrial and Commercial Bank of China Limited, the Vientiane Capital branch and the Vientiane branch of the Bank of China Limited. In addition, Yunnan Fujian Bank and Lao Public Bank for

Foreign Trade (BCEL) have jointly established Lao-China Bank Limited. The Development Bank of China has set up a representative office in Vientiane. China Pacific Securities Co., Ltd. and Lao Agricultural Promotion Bank and Lao Information Industries Co., Ltd. establish Lao-China Securities Company Limited, the first overseas securities joint venture established by the People's Republic of China. In order to promote the socio-economic development of Laos and improve the living standards of the people, the Chinese Financial Institution has provided financial support for large-scale infrastructure projects and small and medium-sized enterprises in Laos. They have also trained Laos in a variety of financial capacities aimed at cultivating a stable capital market in Southeast Asia, providing assistance in establishing and operating his capital markets, and promoting ethnic development in Laos.

Laos considers international aid to be an important means of increasing income and socio-economic development. In recent years, China has provided free assistance and convenient loans to Laos for the project of building the infrastructure and livelihoods related to roads, bridges, airports, mills, staff training and so on. These efforts have actively contributed to the socio-economic development and improvement of the livelihoods of the host countries, and on the other hand create a gap for bilateral trade and investment cooperation.

The Belt and Road Initiative provides constant dynamics for China-Laos trade and economic cooperation, China's Belt and Road Initiative is of great significance to promote the economic development of Laos and the relation between China and Laos and other ASEAN countries. China's Belt and Road Initiative has big potential to boost economic development of Lao economy and China-ASEAN relations. The China-Laos Railway, Saysettha Development Zone, Mohan-Boten Economic Cooperation Zone, the Ground Station for "Lao Sat-1" and other important China-Lao cooperation projects not only create jobs and increase revenue for the region not only relevant, but also brought benefits to Laos in long-term development, and to the Sino-Lao economic and trade cooperation process is relentless. Mutual connectivity shortens the distance between China and Laos. 1) The railway accelerates Lao dream of a "land-linked country". The China-Laos Railway is an important cooperation project that the two countries are paying close



attention to. The railway fulfills the Lao people's dream of transitioning from a “landlocked” country to a “landlink” country. Once completed it will help Laos to know the strategy of cooperation and connection with China and the ASEAN and the Sustainable Development of the country. 2) The satellite relates Laos with the world. As of October 2017, "Lao Sat-1" has been in orbit for more than 23 months, implementing planned satellite orbit management, live television broadcasting, communications, power supply and distribution assurance, and social development of Laos. This is the first time that the Chinese aerospace industry has exported satellites, communications and spacecraft Spatial help ASEAN countries. It is also the first time that the Chinese aerospace industry has adopted a new model of "integration. Integrate space and ground + "commercial operations" to overseas customers. The project also plays a prominent role in cooperation in the field of high technology China and countries involved in B&R initiatives. Capacity-building cooperation improves economic strength.

- 1) The construction of a large hydropower station to ensure better energy supply in Laos. At present, the two countries are promoting Construction of a large hydropower station including the Nam Ou River hydropower project, Nam Ngum III Hydropower Station and Nam Ngum 5 hydropower stations, Pak Lay Hydropower Station etc. Increasing energy reserves meanwhile, the project has actively contributed to tackling poverty, livelihoods, and develop migrants, improve infrastructure, protect ecosystems and the environment, treat disease and education, and other, be a good example for other foreign investment projects.
- 2) The power project constitutes an integrated power grid in Laos. The transmission line project in northern Laos is the first project to be built in cooperation between the two countries under the Belt and Road context, as well as an important project in the Lao government's energy strategy. Contracted by Yunnan International Co., Ltd of China Southern Power Grid (SCG), the project began construction in 2014, covering four northern provinces of Laos with a total contract value of \$ 302 million. The implementation of the project will bring the history of the isolated power transmission system operating in the northern part of Laos into an integrated high-voltage power grid throughout the country.

In addition, it reserved the interface to the SCG grid, enabling Laos to provide cross-border power. The establishment of development zones encourages the opening up of cooperation. The two countries have made great efforts to boost cooperation in development areas. As an important project in the face of the opening of Laos, the Vientiane Saysettha Development Zone and Mohan-Boten Economic Cooperation Zone across the border have become new engines of economic. Broad prospects of multi-field China-Laos economic cooperation, great area for Lao economic development. 1) A stable society, a glorious culture and a place of great economic development, Laos has set a focus on increasing Strengthen comprehensive strategic cooperation with China, maintain traditional friendship with ASEAN countries, and dedicate international economic and technological assistance. 2) The potential of the Lao economy to maintain moderate to high economic growth, Laos also has the potential for moderate to high economic growth in the future. According to economists, in 2017, the growth rate of Laos will be 7.7%. And the IMF estimates that Lao PDR's growth rate in 2017-2021 will reach 7 percent and higher. 3) The economic development project brings a favorable policy, Laos encourages foreign investment mainly in the field of power development, generation and processing of agricultural and forestry products, breeding industry, processing industry, handicraft industry, service industry etc. and planned, provided support for major projects along the China-Laos railway in the areas of industry, tourism, transportation, grain processing and more. China and Laos accelerate development strategy, agreement signed in recent years will further facilitate trade and economic cooperation between the two countries:

Table 2: Agreements signed by two countries, Laos-China

Agreements signed by two countries	A Strong complementation between the two economies
1) Agreement on Confirmation and Cooperation Supporting Major Projects	1) Agriculture can become a focal point of mutual cooperation, China can not only help him to

<p>on Cooperation in Production and Investment.</p> <p>2) Scope of the agreement on cooperation in special economic development projects in key areas such as the Lao Electric Power Project; Comprehensive development along the China-Laos railway and tourism.</p> <p>3) Supplementary Agreement on Economic and Technological Cooperation Planning</p> <p>4) Action plan for cultural cooperation between 2016 - 2018</p> <p>5) Establishing cooperation on tax collection Memorandum of Understanding on Bilateral Bank Management Cooperation, and</p> <p>6) Agreement between the Ministry of Foreign Affairs of the People's Republic of China and the Ministry of Foreign Affairs Lao People's Democratic Republic on enhancing internal cooperation under the circumstances.</p>	<p>have the full natural benefits, but also to lift the people out of poverty.</p> <p>2) In terms of production, the key areas of cooperation between the two countries in the field of production include: Mechanical engineering, agricultural machinery, automobiles, medical equipment.</p> <p>3) Transportation infrastructure, inspired by China's proposal on "interconnection" And each other”, Laos set a strategic direction to turn the “landlocked country ”into 27 connected countries. Along with the construction of the railway and the China-Laos side railway.</p> <p>4) In the field of energy, the two countries are currently cooperating in the field of energy, and the Lao government welcomes Chinese enterprises to invest in Laos to develop hydropower.</p> <p>5) Tourism, Laos simplified the relevant visa application process in February 2017. Under the new rules, only Chinese tourists are required to apply for a passport or entry permit to enter Laos.</p> <p>6) Transportation, China-Laos Railway, Lao Railway will become a communication center,</p>
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	suitable for the construction of a distribution center.
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Special economic zones and specific economic zones of Laos created many business opportunities, the economic zone has attracted 160 Chinese enterprises to participate with a total the registered capital is 1.55 billion US dollars, accounting for 23% of the total investment in the region. Of China's total investment, industry investment accounted for 38%, trade investment 38% and service investment 24%. The Belt and Road Initiative, Chinese and Lao enterprises will have the potential large-scale cooperation in construction and investment in the economic zone. (Tuo, 2018)

More than 70 percent of Lao economic zones are invested by investors, creating a wide range of business opportunities in the auto, footwear, PVC, electronics, pharmaceuticals, real estate and pharmaceutical industries. These economic zones, in addition to attracting 160 Chinese companies, also attracted investors from Korea, Japan, and Australia, with a total investment of more than US \$ 1.55 billion, accounting for an average of 23% of total investment in ASEAN countries, accounting for a total of 38% of total investment, 30% investment in trade and 24% investment in services, especially hotel and tourism.

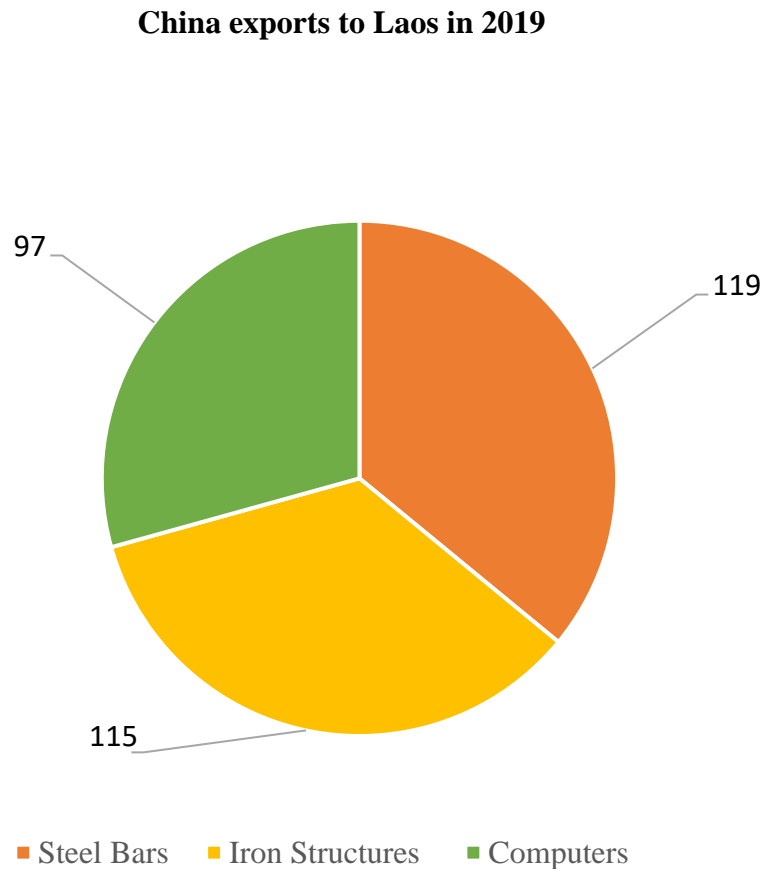
**4.2 Trade cooperation reduces the poverty and support the growth of a country**

The Chinese government has agreed to provide more than US \$ 3 million (over US \$ 5 million) in aid to alleviate poverty in Laos, especially outside in Vientiane and rural areas of Luang Prabang. The grant is part of the East Asia in implementation of Pilot Project for Poverty Reduction Cooperation, under the technical and financial assistance from China to the three Mekong countries within the Lane Xang cooperation framework (Cambodia, Laos and Myanmar)

To understand clearly how trade cooperation support the growth of country, it can be proved and analyzed its result as follow:

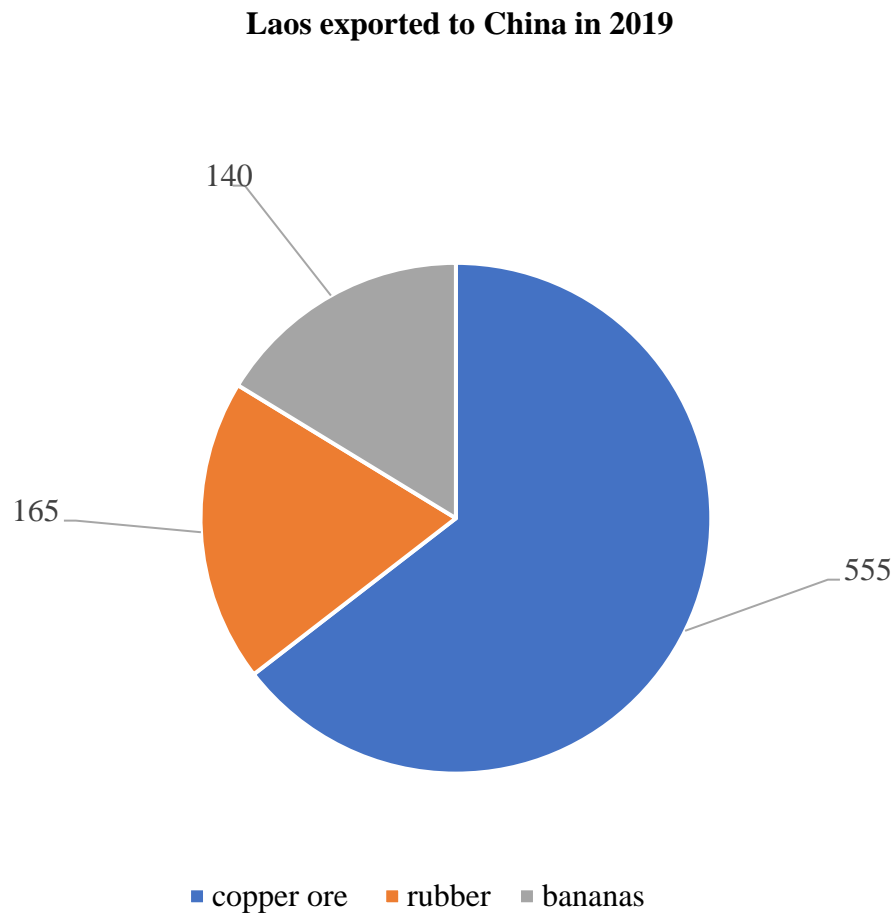
- China exports to Laos in 2019 worth 1.87 billion US dollars. China's main exports to Laos were other Steel Bars (\$119 million), Iron Structures (\$115 million), and Computers (\$97 million). China's exports to Laos have risen 16.6 during the previous 24 years, from \$47.3 million in 1995 to \$1.87 billion in 2019.

Figure 2: China exports to Laos in 2019 worth 1.87 billion US dollars



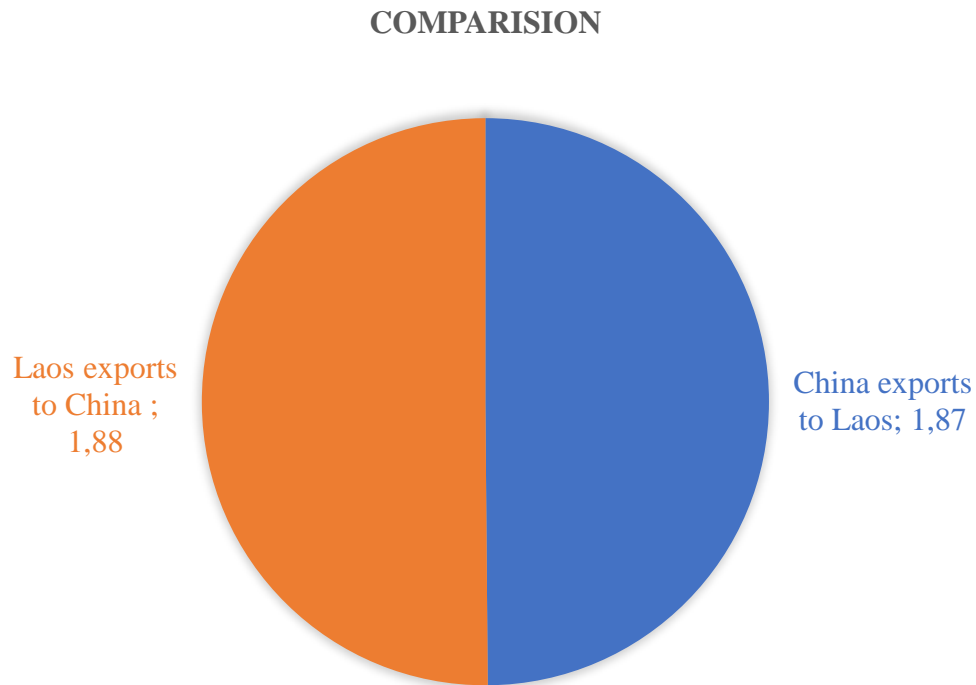
- LAOS-CHINA, Laos exported to China in 2019 worth 1.88 billion US dollars. Laos' main exports to China are copper ore (\$ 555 million), rubber (\$ 165 million), and bananas (\$ 140 million). Laos' exports to China have increased by 26.9% over the previous 24 years, from \$6.22 million in 1995 to \$1.88 billion in 2019.

Figure 3: Laos exported to China in 2019 worth 1.88 billion US dollars



- COMPARISON, China was ranked 29th on the Economic Complexity Index (ECI 1.01) and ranked first on total exports (\$ 2.57T) in 2019. That year, Laos was ranked 116th on the Economic Complexity Index (ECI -0.87) and 104th on exports (US \$ 6.65 billion). (Wu, China\Laos, 2021). As it shows in this figure, China exports to Laos worth 1.87 billion USD while Laos exports to China 1.88 billion USD in 2019

Figure 4: Laos-China export's comparisons in 2019



Thus, it could be said that China ranks first in Laos in terms of direct investment projects. China has built a new sports stadium in Vientiane, which hosted the Southeast Asian Games in December 2009. Chinese companies, from dam builders to mall builders, are encouraging investment in Laos. The total Chinese investment in Laos was \$ 3.3 billion in 2012. China has become the third largest foreign investor in the landlocked country. There are 6 million, second only to Thailand and Vietnam.

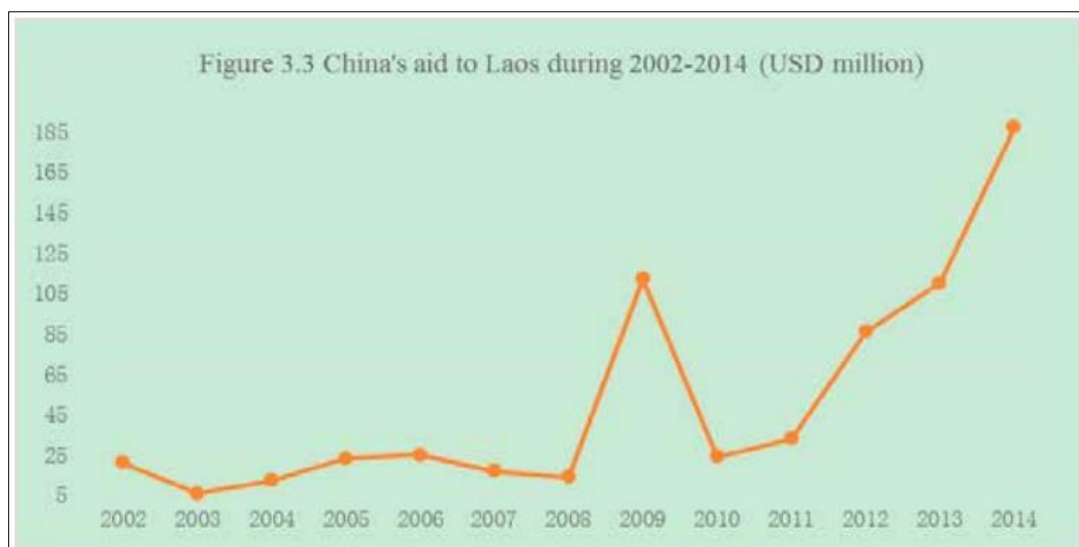
At the end of 2005, China's FDI stake in Laos was registered at US \$ 32.9 million, but increased to US \$ 4,491 billion in late 2014 with a rapid expansion of investment in recent years. In order to meet the needs of economic development in Laos, Chinese enterprises have also expanded their investment beyond mentioned above.

- Electric power industry and projects: China's current investment in the power sector is focused on ensuring adequate energy reserves for its people and enterprises, as opposed to

cross-border power distribution, as well as the EPC standard agreement for hydropower projects. Indeed, in spite of their devotion to realizing the aim of "Battery in Southeast Asia," (H Zhang, X Li, T Zhou, L Xue, Y Wang, 2016, pp. 25-26)

- Space science and technology: In March 2016, the in-orbit satellite delivery was completed, and the commercial satellite enterprise is being handled by the simultaneously created Lao Asia Pacific Satellite Company Limited. Simultaneously, China's self-built Bei Dou satellite navigation system has covered the whole area of Laos and begun offering services to the country's various sectors. (H Zhang, X Li, T Zhou, L Xue, Y Wang, 2016, pp. 26-27)
- Financial industry, LCB is Lao PDR's the first Joint Venture Bank of Lao PDR and the First Foreign Business Institution of the Urban Commercial Bank (CBRC). It started operations in January 2014, 1 and now operates in kip, dollar La, Yuan, and baht. (Guo Xiaofang, Leng Xiluo, 2011, p. 9)
- Real estate industry, Chinese enterprises have contributed a large part of the US \$ 150 million project investment, demonstrates optimism about the prospects of the Lao real estate market. A number of powerful Chinese construction companies targeting the Lao real estate market are meeting in Vientiane to bring Chinese experience to Laos' urban development. (H Zhang, X Li, T Zhou, L Xue, Y Wang, 2016, pp. 26-27)

Figure 5: China's aid to Laos during 2002-2014 (USD million)



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



China's aid is demand-oriented aid and has resulted in remarkable poverty reduction effects: China's need for assistance program is highly aligned with Laos' national development strategy and has made remarkable contributions to socio-economic progress and poverty reduction. Laos aims to reduce poverty and graduate from LDCs for national development. To achieve this, the Lao government is seeking industrialization since the economy grows at around 7%. Instead, it relies on low-income industries, such as small-scale hydropower. Infrastructure development is critical to a successful industrial transformation and is an important route to break through geographical constraints and transport from landlocked to land-linked country. The Lao government is also pushing for jobs to be created, while increasing the number of employees by 90,000 a year.

It is estimated that from 1988 to 2000, China's assistance to Laos reached 600 million yuan, more than 2% of the international total. ([Mekong Press, "China's Aid Flow Downstream to Laos"](#)). This includes 430 million yuan in economic and technical assistance, 116 million yuan in grants, and interest-free loans of 110 million yuan. Regular projects during this period include the National Palace of Culture, Vientiane Capital, Nam Kor Dam in Oudomxay Province, Vientiane Cement Plant. On demand, Chinese aid to Laos has devoted a significant portion of its resources to the project that is effective living to improve the lives of local people. For example, the Vientiane Water Conservancy and Irrigation Project, carry out by Guangdong No.3 Water Conservancy and Hydro-electric Engineering Board Co., Ltd was the first Chinese-funded irrigation project in Laos and has become a model. The first phase was completed in 2013, with a reservoir capacity of 10.87 million square meters, able to accommodate 2,040 hectares, and the second phase is expected to irrigate 8,000 hectares. The reservoir creates the full benefits of flood control, irrigation and tourism while focusing on agricultural irrigation. The irrigation system facilitates immediate access to water, enabling farmers to grow rice twice a year, vegetables and other crops, and raise poultry, sheep and sheep for sale in the Vientiane capital market.

Farmer incomes doubled and per capita income increased from US \$ 960 to US \$ 1,700 in the affected areas. According to the China-Laos Economic and Technological Cooperation

Agreement, the remaining water conservation and irrigation projects in Laos will invest about US \$ 300 million and irrigate more than 10,000 hectares. In terms of employment, in 2014, China launched an employment service program in Laos under the South-South Cooperation Framework, including expert advice, organizational training and policy discussions. These efforts share China's experience and practice in promoting job employment and services, enhance institutional capacity building and service quality employment, reduce unemployment and poverty. In 2016, China launched an overseas railway technical training course in Laos. The program has been highly praised by China and Laos as the first Chinese training program in Laos, the first railway technical training program in Laos, and the first closely related foreign aid training program to the "Belt and Road" Initiative in 2015. The training is important for the construction of railways and the training of personnel in Laos and will greatly promote bilateral cooperation on railways and local economic and employment advances. China-Lao educational cooperation has also been enhanced scholarship programs. Since 2000, more than 1,000 Lao students have studied in China under a Chinese scholarship program. They have contributed significantly to the socio-economic development of Laos. From 2000 to 2010, the number of scholarship students from Laos increased from 55 to 258, with a total of 1,196, second only to Vietnam. They have earned PhDs, Masters and Bachelor's degrees in Finance, Marketing, Management and Business at various Chinese schools, such as such as Beijing University, Fudan University and Renmin University of China.

Such assistance has contributed significantly to the stable economy by stabilizing the value of the kip, effectively prevent and worsen the worsening new financial crisis. When Laos was hit hard by floods in 2012, China supplied livelihoods to the affected areas, played an important role in post-disaster recovery. In 2013, China provided foreign exchange funds to assist the Lao government in successfully implementing the treatment, prevention and control of dengue fever in the country. In 2016, technical and emergency training was provided to assist Laos in responding to locust outbreaks in the north including self-propelled sprayers, knapsack power injectors, protective clothing, masks and gloves, and deltamethrin EC ester. In addition, to meet the urgent needs of the International Conference, China has set up the Lao National Convention Center which

support and helps Laos to successfully host the 9th ASEAN Summit. The project was completed in September 2011 and was officially handed over to Laos in November and has been widely recognized by the international community. China has also offered technical assistance to Laos for development. In the agricultural sector, assistance covers the construction of water conservancy infrastructure, technology improvements and levels. Agricultural production, open up deep processing of agricultural products, which carry out technical cooperation to control pests and diseases, and the development of alternative crops in the north.

In terms of resources, China is stepping up technical cooperation in mining, copper and tin, and helping Laos train relevant academics. In the energy sector, Chinese companies are focusing on the development and application of hydropower technology, grids, electricity, coal resources, renewable energy and renewable energy. In addition, technical cooperation has been strengthened to facilitate assistance in the field of radio, TV and satellite.

#### **4.3 China's economic and trade policy toward Laos**

China policies toward Laos produces remarkable results in promoting local economic and social development and exhibits as China's aid largely concentrates on infrastructure construction in Laos. China's aid to Laos covers almost all eight categories of its foreign aid activities, including China's policy towards Laos has made remarkable results in boosting local economic and social development and exhibitions, as most of China's aid is focused on infrastructure in Laos. China's assistance to Laos covers almost all eight categories of foreign aid activities including complete projects, goods and materials, technical cooperation, human resource development cooperation; overseas medical team, emergency humanitarian assistance, and debt relief, ([Information Office of the State Council, 2011](#)) but "hard" assistance like comprehensive projects are a major form of Chinese aid to Laos, mainly focusing on telecommunications infrastructure, a traditional focus of the country's foreign aid.

China-Laos infrastructure assistance covers transportation, water and electricity, telecommunications, public health, education, health care and agriculture. It is dominated by

economic and social infrastructure projects, including roads, convention centers, water conservation and irrigation. China has not only helped build airports in the northern provinces of Laos, but also invested in tin mining, electricity, roads and other projects are yet to be completed. From 1990 to 1991, Laos built a satellite center with the help of China. In 1997, China initiated and signed an agreement with ASEAN and the ADB on the Panama-Asia Railway from Singapore to Kunming and built a large cultural resort in the center of Vientiane. In 2006, Chinese President Hu Jintao canceled an agreement to provide US \$ 200 million and 50% of the budget of technical assistance for the construction of Huay Say-Sieng Kong Bridge during his visit to Laos. In 2008, Premier Wen Jiabao pledged \$ 100 million in loans to support transportation projects during his visit to Laos.

In 2010, Vice President Xi Jinping agreed to assist Laos in building the Mekong River Bridge and a loan of US \$ 50 million to facilitate overland transport from Yunnan province to Thailand. In November 2011, China and Laos agreed to work closely together on poverty alleviation, economic development, trade and agriculture, and pledged to build a US \$ 7 billion high-speed rail line. (John F. Copper, 1950) In 2013, China pledged 100 million yuan in economic and technical assistance for the construction of an international conference and renovation center of Route 13 South under the agreement signed by the two sides (Vientiane Times, 2013) In 2013- 2015, the economic infrastructure aid involved KunHigh Government Debt and Lack of Self-owned Construction Funds:ming 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. Chinese aid to Laos will typically include grants and concessional loans in particular, assistance in the development of infrastructure.

For example, China has raised funds for the Kunming-Bangkok Expressway, which officially opened to traffic in late 2013, and has strongly encouraged China-Lao connectivity. It also provided US \$ 15.77 million in assistance and US \$ 14.7 million in loans to rehabilitate the northern region of Na Teuy-Pak Mong Highway which began in December 2011 and was completed in 2013. The highway to Kunming on the northern and southern Thai border via Asia Highway No. 3 and the construction of the Lao-South Economic Corridor, which increases joint opportunities and facilitates marketing and trade. It brings employment benefits and income to local people, as well as encourages economic development and society. China is also seeking multilateral cooperation to help build infrastructure in Laos. In 2001, China cooperated with Thailand and ADB in rehabilitating 360 km of roads, which was completed in 2008. It also launched a major highway project in Oudomxay province and provided funding for the construction of a highway on the Mekong River. Chinese construction companies are also heavily involved in Laos' road construction projects funded by multilateral aid agencies such as the World Bank and the ADB.

#### **4.4 The challenges and risks of Laos' relationship with China**

Lao PDR faces internal challenges, especially its policy, which must be consistent in order to reap the benefits of international assistance in various areas, prepare for the risks of opening up the economy and cooperate with the international community to emerge from the LDCs, continuing economic integration and cooperation with the ASEAN and international regions is of utmost importance in building productive networks with friendly countries and to open up opportunities for diversified economies, promoting domestic products to be able to compete internationally, especially to further enhance Lao PDR's competitive potential.

Another challenge if Lao PDR leaves the LDC would be to deprive Lao PDR of some financial and technical assistance from international organizations and programs, as contributions to UN and other international organizations contribute to a better quality of life for the Lao people. Therefore, Lao PDR needs to maintain and strengthen its bilateral cooperation with friendly countries, especially ASEAN countries, China, India, South Korea and Japan. At the same time,

we must continue to strengthen human resource development and mobilize domestic capital, improve domestic and foreign investment promotion policies to deal with the declining trend of foreign aid (ODA) to have sufficient resources for national economic development and sustainable development.

In addition, Lao PDR needs to address the challenges of human resource development, lack of skilled labor, and promote more conservation tourism. In the same time, Laos also faced the external challenges with international countries, especially economic cooperation. The main development challenge is ensuring that the benefits of high economic growth, averaging more than 7 percent last year, are evenly distributed and translated into inclusive and sustainable human development. Opening the gap between rich and poor, women and men, ethnic groups, and people in different parts of the country must be addressed if Lao PDR is to achieve the SDGs.

Lao PDR's economic growth is mainly due to foreign direct investment in natural resources and hydropower. Ensure that these things are done in an environmentally sustainable manner and that revenue collection is beneficial. Everyone is important to the development of the country. However, Laos still be faced the big challenging and risk in term of economic with international, in particular with China as follows:

1.) Over the past years, although China and Laos have made great achievements in building economic corridors, But the problems and challenges Laos faces both at home and abroad are still unpredictable. These challenges and risks in Laos can be analyzed in the table as follow:

- Problems and Challenges Faced by China-Laos Economic Corridor Construction, Lao PDR ranks 132nd out of 180 countries and is the second most corrupt country in ASEAN after Cambodia. The China-Laos Economic Corridor project includes several large-scale and multi-level infrastructure projects, as well as There are many different types of loans and grant programs. The area covering these projects is one of the most corrupt areas in Laos. Therefore, enough attention must be paid.

- High Government Debt and Lack of Self-owned Construction Funds, Lao government's public debt ratio has risen in recent years. This. From 61.1% in 2017 to 65.3% in 2018, the debt ratio is expected to reach 65.9% in 2019. In addition, Yunnan Province, which is the starting point of the China-Laos Economic Corridor, is lagging behind and production capacity is still very limited, resulting in a lack of capital for construction of the China-Laos Economic Corridor. In addition, the Lao government's outstanding debt also increases the credit risk of Chinese enterprises.
- Poor Domestic Business Environment and High Trade Costs for Foreign Companies: According to the Lao Economic and Social Report for the year 2019, the Lao Trade Facility Index ranks 154th out of 190 countries in the world in 2019, second only to the lowest among ASEAN countries. Inadequate infrastructure increases trade costs.
- Lao internal tax law requires all clients and recipients abroad to have a tax certificate before doing business in Laos. However, the reality is that Chinese enterprises are only used by local organizations in Laos. Many of these situations have increased the hidden costs for Chinese enterprises.
- The Quality of Human Resources is not High Enough to Meet the Employment Needs of Foreign-Funded Enterprises, Lao national education levels are low, and the number of high-quality workers is small. Most staff have not received formal vocational training. Lao foreign-funded enterprises can only hire foreign workers from China, Thailand, Vietnam and elsewhere, which not only raises wages, but also does not have the conditions to help local people solve employment problems.
- Susceptibility to Natural Environment makes the Construction of Economic Corridor more Difficult, the impact of the natural environment on the development of the Lao economy can be divided into two parts: natural and artificial. Laos' economic growth rate in 2018 is 6.5%, down from 6.9% growth last year, mainly due to the continuous floods. The construction of the China-Laos Economic Corridor has led to large-scale immigration and the construction of railways and power stations. The construction of these facilities may affect the hydrological environment of the river, impede the

migration of some fish species, deplete fish stocks, and depletion of nutrient-rich fish in the aquatic environment, affecting the fishing industry, agriculture, and local livelihoods.

2.) International issues and challenges for Laos. Laos is located in the heart of the Indochina Peninsula, connecting East and South Asia. Due to the important strategic turning point, the construction of China's economic corridor will be relentlessly affected by the country's forces neighbors and foreign powers. China-Laos Economic Corridor" has been in operation for more than a year. Over the past six years, China and Laos have achieved significant results in building an influential "China-Laos Economic Corridor". A large number, such as the China-Laos Railway, the development of the Xaysetha Comprehensive Development Zone and Lao PDR's Route No. 1. The satellite project has made a significant contribution to local economic development and industrial restructuring. However, a number of Chinese enterprises have made inappropriate choices in the area of investment, which Impact on local natural ecosystems. Some enterprises violate the spirit of the contract in their production and operations, create controversy, damage the image of Chinese enterprises. In addition, during the construction of some projects, construction enterprises discharged pollutants directly into the Mekong River, causing pollution to the local ecological environment and creating resentment among the multi-ethnic Lao people. This negative influence is caused by the non-standard behavior of Chinese enterprises must pay attention, otherwise it will cause local dissent and further impede the development of the China-Lao economic corridor.

## **CHAPTER V**

### **CONCLUSION**

This thesis is focusing on the study of Lao-Chinese economic relations from 1961 to the present. Relations between the two countries have risen and fallen throughout history. As the end of the Cold War has changed profoundly, the former rivals of the two countries' former enemies can be



sidelined to normalize relations between the two countries in 1961. The two sides have made efforts to overcome and increase cooperation in all fields, especially economic relations. China has invested heavily in Laos politically and economically. China has done so mainly for economic reasons: seeking access to agricultural products and natural resources. Nation needs because of rapid economic growth and seeks to develop China's market for goods and services. Most of China's development assistance and investment is aimed at building telecommunications and energy infrastructure and blocking industry in Laos. China is also promoting the integration of its southern provinces, especially Yunnan with Southeast Asia. China is particularly interested in cooperating with Laos in border security. China has also been driven by political interests. China seeks to develop friendly relations with Laos to complement Beijing's key policy issues.

For example, the long-term cooperation agreement that China signed with ASEAN members in 1999-2000 has restrictions that alternate the one-China policy. This is especially important in the case of Laos under a government led by FUNCINPEC that develops official relations on trade with Taiwan. ASEAN plays an important role in China's foreign policy. This factor underscores Laos' importance in many respects. It is in China's interest to have good relations with these countries (and other ASEAN members as well) is a conduit for Chinese political and economic influence (Denny Roy, 2002)

Laos maintains good political relations with China in anticipation of a favorable political upheaval. Policy makers in Vientiane Capital are pursuing policies that minimize potential conflicts. Lao PDR appears to be more successful in maintaining its unity than any other country in the GSM (Great Subregion Mekong) due to the strong economic roles of Thailand and Vietnam. Lao PDR pursues a policy of equality in its external relations by carefully balancing its foreign relations. However, relations between China and Laos have not been a problem. There are similar concerns in both countries about China's domestic impact. As mentioned above, the two countries are concerned about the transparency of trade agreements, bribery and corruption, environmental degradation (illegal logging, land confiscation, dam construction), Chinese market domination and illegal Chinese settlement. Investing in economic and political capital in Laos will make bilateral

relations more sustainable. This pace will be enhanced by the strengthening of economic integration between China and ASEAN as they are working to promote the China-ASEAN Free Trade Agreement. In conclusion, the state of Laos-China Economic Relations and Trade Cooperation since 1961 to present can be highlighted into four points as follow:

A. Laos benefits from economic and trade cooperation with China

China is the second largest trading partner, the second largest foreign investor, and Laos is the largest donor, and China proposed Belt and Road Initiative and Laos' strategy of "turning itself from a land-locked country into a land-linked country" offering economic and trade cooperation between the two countries have successfully cooperated in connectivity, energy, economic zone construction and so on. Example an greatest outstanding cooperative projects as China-Laos Railway, it did jobs creation and increase incomes for the regions concerned, but also brought for the benefit of the long-term development of Laos, it has become a new mechanism for economic growth as well as in terms of economy and development strategy, the two countries hope to cooperate more broadly, offering more investment opportunities to enterprises.

B. Trade cooperation reduces the poverty and support the growth of a country

Lao PDR exports agricultural and raw materials to China worth US \$ 1.88 billion in 2019. Most of the goods agreed under trade agreements between Lao PDR and China are copper ore, timber, peanuts, maize, rubber and bananas, increasing exports by 26% to China. After cooperation and diplomatic relations, increased from US \$ 6.22 million in 1995 to US \$ 1.88 billion in 2019. The goal of the Lao PDR government is to reduce poverty and provide a high employment rate of more than 80 percent of the country's population. China is the largest investor in Lao PDR, contributing to the establishment of a national sports stadium in Vientiane and assisting with budget and technical support when Lao PDR hosted the Southeast Asian Games in December 2009.

### C. China's economic and trade policy toward Laos

China's aid to Laos covers almost all eight categories of its foreign aid activities, including

- 1.) China's policy towards Laos has made remarkable results in boosting local economic and social development and exhibitions, as most of China's aid is focused on infrastructure in Laos.
- 2.) China's assistance to Laos covers almost all eight categories of foreign aid activities including complete projects, goods and materials, technical cooperation, human resource development cooperation; overseas medical team, emergency humanitarian assistance, and debt relief, but "hard" assistance like comprehensive projects are a major form of Chinese aid to Laos, mainly focusing on telecommunications infrastructure, a traditional focus of the country's foreign aid.
- 3.) China-Laos infrastructure assistance covers transportation.
- 4.) water and electricity.
- 5.) telecommunications.
- 6.) public health.
- 7.) education.
- 8.) health care and agriculture.

### D. The challenges and risks of Laos' relationship with China

Even though Laos-China plays a strengthen on cooperation, but both countries still be faced some problems and challenges which can be pointed out as:

- By China-Laos Economic Corridor Construction
- High Government Debt and Lack of Self-owned Construction
- Poor Domestic Business Environment and High Trade Costs for Foreign Companies
- The Quality of Human Resources is not High Enough to Meet the Employment Needs of Foreign-Funded Enterprises
- Susceptibility to Natural Environment makes the Construction of Economic Corridor more Difficult

In Lao PDR, the enormous benefits of economic and social growth in recent years have paved the way for the continued development of human development in the country. Between 1990 and 2015, there was significant progress on the Human Development Index: 13 years of life expectancy, now 3 years more schooling than in 1990, and an increase in gross national income (GNI) per capita more than 200 percent between 1990 and 2015. As a result, Lao PDR has seen a

steady improvement in its HDI value from time to time, making Lao PDR one of the HDI growth groups in the field of intermediate-level human development. By 2018, Lao PDR has achieved the right to graduate from the status of a least developed country. While the criteria for the Economic Risk Index have not yet been met, Lao PDR has reached the per capita gross income standard. And the Human Property Index. If Lao PDR sustains these developments and meets the criteria again in 2021, it will be officially removed from the LDC list in 2024.

In general, Lao PDR-China economic relations from the past to the present have undergone many tests, and this relationship has decreased and increased depending on the situation from time to time. The Chinese Government cooperates and attaches great importance to Lao PDR as a country under the same rule. Therefore, China sees economic assistance to Laos as an opportunity to gain a role and influence among ASEAN countries because it is a central country of ASEAN and Lao PDR still has potential in many areas such as rich in natural resources, such as hydropower, forest and forest. And can also be exported to China at a cheaper price than imported from other countries. In addition, Laos also has a lot of vacant land because the population of Lao PDR is just over 7 million people compared to the low probability ratio. The Chinese government has always honored Laos as a friendly country and a member under the same communist regime. It can be said that China-Laos relations are growing. Lao PDR has always considered China to be a political leader and considered China as a dependent in terms of cooperation. Lao PDR gives preferential treatment to Chinese investors more than other foreign investors because Laos and China have special policies towards each other, send technicians to help him with vocational training, provide scholarships, and support him for his role in the international arena. An outstanding example of cooperation is the Lao-China Bus Cooperation Project, which has an investment value of more than 5 billion US dollars, in which the Chinese government holds about 70 percent of the shares, and, the Lao government is about 30 percent. The benefits of the project, in addition to creating jobs for the Lao people, are also attracting more foreign investors to invest in Laos, as the purpose of the project is to promote the role of Lao-China tourism and in the ASEAN region, reducing

transport costs between the two countries and being able to transport goods through China and other agricultural channels. The Lao government also has a policy of giving Chinese businessmen concessions in the Lao PDR for 99 years, which gives Chinese investors more opportunities to do business in the Lao PDR due to lower wages and taxes. In terms of diplomacy, Lao PDR and China have had regular exchanges of high-level delegations, as well as military, legal and administrative exchanges. The Government of Lao PDR is pleased to turn the Chinese-style regime into a self-governing direction in the future.

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