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Laos in 2014: Deepening Chinese Influence

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## Laos in 2014

### *Deepening Chinese Influence*

#### ABSTRACT

Laos improved its economy in 2014, although its human rights record continues to receive critiques from international society. With frequent visits of Lao leaders to China and the opening of the fourth Thai-Lao Friendship Bridge, Laos deepened its relations with China in 2014, despite the emerging challenges that China faces.

**KEYWORDS:** Laos, China, political influence, economic influence, cultural influence

#### INTRODUCTION

The Lao People's Democratic Republic (Lao PDR) in 2014 experienced a high economic growth rate of 8.2% (the highest in Southeast Asia), a high inflation rate of 6.9% (the second highest in the region), a low unemployment rate (1.9%), an increasing per capita gross domestic product (GDP) of US\$1,505 from a growing GDP of US\$10 billion in 2013,<sup>1</sup> and a slightly improving corruption perceptions index (just higher than that of Myanmar and Cambodia in 2013).<sup>2</sup> The Lao PDR suffered the highest inflation rate (6.4%) in Southeast Asia in 2013, but this dropped to 5.5% in 2014 (the fourth highest in the region), next to Myanmar (6.6%), Vietnam (6.2%), and Indonesia (5.7%).<sup>3</sup> With increasing international tourist arrivals in recent years, Laos attracted more foreign investment for hotels, restaurant, casinos, and shopping centers, making its service industry grow by 9% in 2013 (the highest in Southeast Asia).<sup>4</sup>

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1. ASEAN Macroeconomic Indicators (as of August 15, 2014), <<http://www.asean.org/component/zoo/item/macroeconomic-indicators>>.

2. For details, visit <<http://cpi.transparency.org/cpi2013/results/>>.

3. <[http://www.adb.org/sites/default/files/publication/31241/ado2014-statistical-appendix\\_1.pdf](http://www.adb.org/sites/default/files/publication/31241/ado2014-statistical-appendix_1.pdf)>.

4. Ibid.

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Human rights violations, however, continue to draw international criticism, despite the fact that the Lao PDR ratified the International Covenant on Civil and Political Rights in September 2009. While the Lao government has long discriminated against the minority Hmong people along the Lao-China-Thailand borders, now political activists, religious dissidents, and human rights advocates are being swept up by military and security forces. Sombath Somphone, a widely known activist and Ramon Magsaysay Award Laureate, for example, disappeared in December 2012 after being questioned by Lao security forces in Vientiane. Phil Robertson, deputy director of Human Rights Watch's Asia Division, released a report in June 2014, asking that international society pay more attention to this issue. The Lao PDR, having been ruled by the authoritarian Lao People's Revolutionary Party since 1975, is not likely to improve its human rights record in the years ahead.

The Lao relationship with China, however, has entered a new stage that indicates a deepening influence of the Asian giant over the landlocked country in Southeast Asia, which can be seen in two major events.

#### VISITS AND POLITICAL INFLUENCE

Visits between high-level officials of the Lao PDR and China have become common since 2009, when both countries established a comprehensive strategic partnership. However, it was unusual for Lao President Choummaly Sayasone, also the secretary-general of the ruling Lao People's Revolutionary Party, to visit China twice within a year, as he did in September 2013 and July 2014.

During the first talks between Choummaly Sayasone and his Chinese counterpart, President Xi Jinping, both leaders expressed a willingness to upgrade their bilateral partnership. They issued a joint statement to strengthen cooperation between their legislative bodies and to focus on priority areas including infrastructure, agriculture, natural resources, energy, mining, tourism, and poverty reduction. During their second meeting in July 2014, both leaders signed seven cooperative agreements.

Prime Minister Thongsing Thammavong visited China in April for the Boao Forum for Asia (BFA) in Boao, Hainan Province. Thongsing held talks with his Chinese counterpart Li Keqiang, signing exchange notes to promote cooperation on several projects. Afterward, Thongsing visited Beijing and met with Xi, who proposed continuing high-level exchanges, enhancing

strategic coordination, sharing governance experience, and expanding cultural and people-to-people exchanges. The Lao prime minister acknowledged China's sustained support. Xi urged both sides to complete a railway cooperation deal at an early date. The frequency of visits by Lao leaders to China has prompted speculation over the possible revival of a tributary relationship between the Asian giant and its weak southern neighbor.<sup>5</sup>

### THE BRIDGE AND ECONOMIC INFLUENCE

The Thai-Lao Friendship Bridge across the Mekong River, the fourth such bridge,<sup>6</sup> was inaugurated in December 2013, linking Huayxay in Bokeo Province in Laos with the Chiang Khong District of Chiang Rai in Thailand. This bridge represents an economic connection that is expected to increase Chinese economic influence in Laos, Thailand, and other neighboring countries. It is part of China's extensive transportation infrastructure plan, which includes a China-Lao railway link of 421 kilometers from Vientiane to the border that will connect China's railway system to lines in mainland Southeast Asia. Construction of this railway is likely to leave Laos more economically dependent on China. However, one Lao senior official indicated in an interview in September 2014 that construction of the controversial railway is uncertain,<sup>7</sup> because of the possible threat of environmental damage in northern Laos.

The Lao PDR is not a crucial trade partner with China; Laos shares only 0.004% of China's total trade volume. But China has become one of Vientiane's top five trading partners since the mid-2000s. The proportion of the trade volume relative to the Lao PDR's total trade increased from 11.77% in 2011 to 15.97% in 2012,<sup>8</sup> making China its second-largest trading partner, after Thailand.

5. Ho Khai Leong, "Threat, Trade, and Tribe: PRC's Challenges in Southeast Asia," in Chen Wen-chun, ed., *China and the Asia-Pacific Region: Evolving Interactions and Emerging Trends* (Taiwan: National Sun Yat-sen University, 2001), pp. 301–09.

6. The first bridge over the Mekong River, mainly funded by the Australian government, was opened in April 1994, connecting Vientiane, Laos, and Nong Khai, Thailand.

7. Interview with Somphone Phanousith (secretary-general of the Lao Union of Science and Engineering Associations), Vientiane, September 14, 2014.

8. Calculated using data from the website of the Lao National Statistics Center, <[http://www.nsc.gov.la/index.php?option=com\\_content&view=article&id=27&Itemid=147](http://www.nsc.gov.la/index.php?option=com_content&view=article&id=27&Itemid=147)>.

China has also become the largest foreign investor (US\$5 billion) in Laos since November 2013.<sup>9</sup> The focus is on three major industries: mining, dams, and tourism. According to one study, the mining industry received over half of China's foreign direct investment (FDI) in Laos during the 2000s, spearheaded by gold and copper mines, then potash, then bauxite.<sup>10</sup>

Chinese investment in the dam industry accounted for 32% of China's FDI in Laos. According to Danielle Tan, in February 2014, Chinese enterprises, mostly state-owned and financed by the China EXIM Bank and the China Development Bank (CDB), were involved in 14 hydropower projects, six in operation and eight under construction.<sup>11</sup> Several years ago, William Case noted China's growing influence, as seen in the 2010 completion of the Nam Theun 2 Dam (NT2).<sup>12</sup>

In the 21st century, tourism has become the third-largest area of Chinese investment in Laos, including construction projects for hotels, casinos, restaurants, convention centers, shopping centers, and recreation complexes. In February 2014, China CAMC Engineering Corporation, a subsidiary of China National Machinery Industry Corporation, began constructing a huge commercial complex, Vientiane New World, on the banks of the Mekong River. This US\$800 million project includes shopping malls, department stores, supermarkets, a Lao-style shopping avenue, and amusement parks, which are expected not only to "strongly contribute to the Lao economy" but to "greatly improve the quality of life of local residents and change the landscape of Vientiane," in the words of a top China CAMC official.<sup>13</sup> The firm is also developing a spa and resort in Luang Prabang.<sup>14</sup>

9. Guan Huabing, China's ambassador to Laos, said in November 2013 that China's investment in Laos, as of November 2013, has reached US\$5 billion, becoming the largest foreign investor in Laos, <[http://big5.xinhuanet.com/gate/big5/news.xinhuanet.com/world/2014-01/30/c\\_119188661.htm](http://big5.xinhuanet.com/gate/big5/news.xinhuanet.com/world/2014-01/30/c_119188661.htm)>.

10. Danielle Tan, "China in Laos: Is There Cause for Worry?" *ISEAS Perspective*, no. 31, May 16, 2014, originally from K. Goto, "Implications for Laos' Development of Its Increasing Regional Integration and China Influence," *Asian-Pacific Economic Literature* 25:2, pp. 66–68.

11. Danielle Tan, "China in Laos," pp. 6–9.

12. William Case, "Laos in 2010," *Asian Survey* 51:1 (January/February 2011), pp. 202–07.

13. "Feature: World-class Commercial Complex to Sustain Lao Economic Growth," May 15, 2014, at <[http://news.xinhuanet.com/english/business/2014-05/15/c\\_133335807.htm](http://news.xinhuanet.com/english/business/2014-05/15/c_133335807.htm)>[http://news.xinhuanet.com/english/business/2014-05/15/c\\_133335807.htm](http://news.xinhuanet.com/english/business/2014-05/15/c_133335807.htm).

14. "China CAMC Engineering: The Groundbreaking Ceremony of CAMCE Laos Luang Prabang Anantara Resort and SPA," July 14, 2014, at <<http://www.4-traders.com/CHINA-CAMC-ENGINEERING-CO-6498867/news/China-CAMC-Engineering—The-Groundbreaking-Ceremony-of-CAMCE-Laos-Luang-Prabang-Anantara-18733543/>>.

As Chinese investment in Laos has increased, the number of Chinese tourists has increased. According to the Lao government, China has become the largest and fast-growing source of tourists of any non-ASEAN (Association of Southeast Asian Nations) country; the number of Chinese tourist arrivals increased from 54,920 in 2007 to 245,033 in 2013,<sup>15</sup> third only to the numbers from Thailand and Vietnam.<sup>16</sup>

## CONCLUSION

Despite favorable prospects for China's deepening influence in Laos, China is also facing challenges in the country. First, the greatest challenge concerns environmental damage caused by a series of dam and road construction projects. When the Second Mekong River Commission (MRC) summit was held in early April 2014, leaders from Cambodia and Vietnam, among others, criticized the Lao government and requested suspension of major dam development over the Mekong River. They argued that such construction could "lead to tremendous environmental damage and the decimation of a rare breed of dolphin."<sup>17</sup>

Second, widening wealth gaps between local villagers and investors and among villagers are emerging. The investors and government officials benefit from the "turning-land-into-capital" strategy, but local villagers are negatively affected because of the loss of their land and the low compensation they receive from the developers. In January 2014, a group of rice farmers in Bokeo Province gathered to block the construction of an airport as a part of the Dokgniewkham Casino, which is operated by the Chinese-dominated King Romans (Dok Ngiew Kham) Group, on their home land.<sup>18</sup> Although negotiations over compensation continue between the villagers and the Lao government, the farmers who lost their land have become increasingly impoverished.

15. LAOS Tourism Development Department, <<http://www.tourismlaos.org/files/files/2013%20Statistical%20Report%20on%20Tourism%20in%20English.pdf>>, accessed August 7, 2014.

16. *Ibid.*

17. Kate Bartlett, "Cambodia Voices Opposition to Laos Dam Construction," Anadlu Agency, April 7, 2014, <<http://www.aa.com.tr/en/news/310769—cambodia-voices-opposition-to-laos-dam-construction>>.

18. "Lao Rice Farmers Defy Police Orders to Give up Land to Chinese Firm," Radio Free Asia, January 22, 2014, <<http://www.rfa.org/english/news/laos/landgrab-0122201421331.html>>.

Third, as Chinese immigration has risen, tensions between local Lao people and the new immigrants have grown. Chinese developers have brought about not only business to Laos but also Chinese immigrants, together with Chinese products, shops, restaurants, hotels, and casinos. For example, in Luang Prabang, the city's largest hotel, the Xishuangbanna, and the only shopping mall are owned by new Chinese immigrants. In Vientiane, the northern section of Kaysone Phomvihane Road contains numerous Chinese shops and advertisements as well as the China-built National Convention Center. One Lao businessman complained that the Lao PDR is gradually losing its autonomy and the Lao people their land and wealth.<sup>19</sup> A Hong Kong media outlet described China's recent economic expansion in Laos as "reckless nationalism" that has raised tensions between Chinese immigrants and the Laotian people.<sup>20</sup>

Finally, because of China's growing influence in Laos and Southeast Asia since the early 2000s, major powers, particularly the U.S. and Japan, have expressed concerns<sup>21</sup> and worked to bolster their ties. Carlyle A. Thayer points out that the U.S., which launched the Lower Mekong Initiative in 2009, will continue providing political, economic, and military assistance to the countries of the Lower Mekong River; this could lead to confrontation in the region.<sup>22</sup>

19. Interview with a local Laotian businessman in Meung Xai, September 11, 2014.

20. The report was published online on December 26, 2010, at <<http://big5.china.com/gate/big5/cbdh.blog.china.com/201012/7463028.html>>. Having visited Laos twice, in September 2002 and in September 2014, the author does share the viewpoint of the reporter.

21. One Chinese senior scholar shares a similar point of view regarding the recent involvement of the United States and Japan in Southeast Asia. Interview with a visiting scholar from Guangxi Academy of Social Science in Kaohsiung, Taiwan, August 13, 2014.

22. Carlyle A. Thayer, "U.S. Rapprochement with Laos and Cambodia," *Contemporary Southeast Asia* 32:3 (2010), pp. 442–59.