

## China-Laos Economic Corridor: Challenges for Regional and Policy Countermeasures

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**Abstract** *This corridor is an important link between China's "the Belt and Road Initiative" and the strategy of Laos to turn "land-locked country" into "land-linked country". Continued to strengthen the construction of software and hardware facilities along the China-Laos economic corridor and promote the connectivity of the areas along the corridor, this research explores the channels of cooperation between China, Laos and third parties, starting with scientific and technological cooperation, carry out scientific diplomacy, and dissolve a series of remarks smearing China's "The Belt and Road Initiative" such as "Environmental Destruction Theory" and "Debt Trap Theory". Finally, through the establishment of a monitoring and evaluation system in order to construct this economic corridor, the overall situation of the facilities of the economic corridor construction project can be controlled. The research also finds whether Laos has benefited from the construction of the China-Laos economic corridor and to what extent.*

### Key Words:

OBOR/ China-Laos Economic Corridor, infrastructure, Challenges and Policy Suggestions

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### Introduction

Since March 2015, "Vision and Action to Promote the Co-construction of the Silk Road Economic Belt and the 21st World Maritime Silk Road" suggested to construct the "China-Indochina Peninsula" economic corridor in order to strengthen the "the Belt and Road initiative". In the second half of 2017, the "China-Indochina Economic Corridor" entered the construction phase of key regions and key areas, and was subdivided from multi-party cooperation to bilateral cooperation. China and Laos are the first to jointly explore the development model. In November 2017, China and Laos issued the "China-Laos Joint Statement", proposing to "build a China-Laos economic corridor starting from Yunnan Province of China, relying on China-Laos railway and passing through several important node areas." And began to take the China-Laos Economic Corridor as an important link.

Scholars have not paid much attention to China-Laos economic corridor for more than a year, and the existing research results are few. The related research can be generally summarized into two aspects: one is to analyze the foundation, conditions and significance of the construction of the old economic corridor from a macro perspective and second to

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start with the existing "three vertical and two horizontal" economic corridor in the Greater Mekong sub-region and analyze its impact on the development of Laos. There is no micro perspective. This paper attempts to give practical consideration so as to contribute to the community of destiny.

### **Current Situation of China-Laos Economic Corridor Construction**

The first "The Belt and Road Initiative"(BRI) by Laos-China Collaboration Forum was held in Vientiane, the capital of Laos in February 2018. China and Laos signed a document in relation to transport facilitation in April 2019, at the second "the belt and road initiative" International Cooperation Summit Forum. The top leaders of the two countries also witnessed the signing of 10 bilateral economic, trade, investment and agricultural cooperation agreements. In May of the same year, General Secretary Xi Jinping and Laos' President Benyang, who was on a state visit to China, jointly signed the Action Plan for Building a Destiny Community between China and Laos.

Laos is the only landlocked country in Southeast Asia and has no access to the sea. As a "road-locked country", Laos is very eager to break through the "blockade" and strengthen its links with other ASEAN countries. In December 2016, the 414 kilometer-long China-Laos railway was initiated and is expected to be completed in 2021. By April 2019, China-Laos railway has completed about 87% of subgrade, 54% of tunnel and 43% of bridge construction. The completion of the Wanwan Expressway (Vientiane to Wanrong, Laos) project will end the history of no expressway in Laos and greatly improve the traffic situation in Laos. After the completion of the Wanba Expressway, it will open up the north-south fast passage of Laos, shorten the time from Vientiane to Batse from the original 10 hours to less than 7 hours, greatly improve the traffic facilities and investment environment in Laos, and inject strong impetus into accelerating the social and economic development of Laos.

China is Laos' largest source of foreign capital, largest exporter, largest donor and second largest trading partner. Laos is China's third largest investment destination among ASEAN countries. There was an increase of 12.2% in (22.9 Billion Yuan) total bilateral trade outlay in 2018. Among them, China exported 9.6 billion Yuan to Laos, up 0.3%. China imported 13.3 billion Yuan from Laos, up 22.7%. From January to August 2018, China's non-financial direct investment in Laos reached US\$ 990 million, up 30.3% year-on-year, ranking second in Asia in total investment.

With the increase of investment in Laos, various types of Chinese enterprises are also looking for business opportunities in Laos. Chinese-funded enterprises have basically reached more than 75% of the local employment level in Laos, creating rich labor opportunities and greatly helping local residents to solve the employment problem. The Proofed Comprehensive Development Project and the Digital Industry Base of Golden Triangle Special Economic Zone have added new vitality to the construction of economic corridor. In April 2019, the special export channel for freight transportation connecting China's Mohan Port and Laos' Mohan Port was officially opened in Mohan-Mohan Economic Cooperation Zone, marking another substantial step in the construction of China-Laos cross-border economic cooperation zone. As of April 2019, 59 international and local enterprises have been introduced into the Saiseta Comprehensive Development Zone in Laos, with an investment of more than 1 billion US dollars. Upon completion, the project is expected to attract about 150 enterprises, with an annual output value of 6 billion

US dollars, creating more than 30,000 local employment opportunities and providing 300 million US dollars of fiscal revenue to Vientiane City and the Laos government every year. In January 2018, the development project of the first new economic zone of the old and the middle-aged, the "new economic zone of the Bolaven", located in the Bolaven plateau of the lower Laos region, also officially landed. In addition, China has also provided economic assistance to Laos within its capabilities. It has helped Laos to implement a series of important projects such as the construction of the Kunming-Mann Highway Bridge across the Mekong River, assistance in the establishment of the Laos National Water Resources Information Data Center, and the construction of Mahoso General Hospital, the largest and most advanced hospital in Laos and its surrounding areas. Currently Laos is studying with China the national power grid construction plan and expects to build 12 hydropower stations in 2019, with a total installed capacity of 1,950 megawatts.

In terms of mineral cooperation, currently 52 mineral projects have been invested, mined and processed by Chinese companies in Laos, and 20 more projects are under feasibility study. In November 2018, China exported domestic refined oil to Laos for the first time, enriching the sources of Laos' refined oil imports. In addition, China and Laos have also invested in the construction of a number of cement plants, making positive contributions to Laos' overall wellbeing. At the second "the belt and road initiative" International Cooperation Summit Forum in April 2019, China also signed MoU with Laos, Cambodia, Philippines and other countries, and established "the belt and road initiative" energy cooperation partnership with Laos.

In recent years, China and Laos have achieved fruitful results in communication and cultural exchanges. In terms of communication cooperation, Laos 1, the first high-tech project between China and Laos, was successfully launched in China in November 2015. The breakthrough in Laos' own satellite communication and cross-border service has been achieved, enabling the Laos people to watch satellite TV programs and enriching the lives of the Laos people. In addition to the above cooperation in traditional fields such as infrastructure, production capacity, commerce and culture, China and Laos have also strengthened their cooperation in the fields of digital economy, ecological environment and clean construction, trying to build the "China-Laos Economic Corridor" into a digital corridor, a green corridor and a clean corridor.

## **Problems and Challenges Faced by China-Laos Economic Corridor Construction**

Over the past year or so, although China and Laos have made many achievements in the construction of the economic corridor, the problems and challenges faced by Laos both at home and abroad cannot be underestimated.

### **Problems and Challenges in Laos**

According to the Corruption Perceptions Index released in 2018 by Transparency International, Laos ranked 132nd out of 180 countries and is the second largest corrupt country in ASEAN after Cambodia. The construction of the China-Laos economic corridor includes many large-scale infrastructure construction projects of different levels and types, and also involves various forms of huge loans and aid projects. The areas covered by these projects are the areas where corruption is most serious in Laos. Therefore, sufficient attention must be paid.

### **High Government Debt and Lack of Self-owned Construction Funds**

According to the International Monetary Fund report, the Laos government's public debt rate has been rising in recent years. From 61.1% in 2017 to 65.3% in 2018, the debt rate is expected to reach 65.9% in 2019. In addition, Yunnan Province, the starting point of China-Laos economic construction corridor, is economically backward and its capital output capacity is very limited, which makes China-Laos economic corridor short of its own construction funds. In addition, the persistent high debts of the Laos government have increased the credit risk of Chinese enterprises.

### **Poor Domestic Business Environment and High Trade Costs for Foreign Companies**

According to Laos Economic and Social Daily, Laos Trade Facilitation Index ranked 154 out of 190 countries in the world in 2019, ranking second from bottom among ASEAN countries. Inadequate infrastructure increases trade costs. According to the Global Competitiveness Report 2018, Laos ranked 99th out of 140 economies in the world in terms of infrastructure. At present, the main modes of transportation in Laos are road, water and shipping, but these three types of transportation facilities are not perfect. At present, there is only one 3.5km long railway in China, with short railway mileage and lack of railway passages connecting with neighboring countries. The Mekong River has limited inland shipping capacity. Imports from European and American countries need to be transported overland to ports in Thailand or Vietnam before being transported by sea to their destinations. The transportation volume is limited and the cost is high.

The domestic laws and regulations are imperfect. Laos's domestic tax law requires all overseas contractors and subcontractors to obtain tax certificates before engaging in business activities in Laos. However, the actual situation is that Chinese enterprises only apply through local agencies in Laos. A variety of such situations have led to an increase in hidden costs for Chinese enterprises.

### **The Quality of Human Resources is not High Enough to Meet the Employment Needs of Foreign-Funded Enterprises**

Laos's national education level is generally low and the number of high-quality labor force is small. Most employees have not received formal vocational training. Laos' foreign-funded enterprises can only employ foreign employees from China, Thailand, Vietnam and other places, which not only increases the labor cost, but also is not conducive to helping local residents solve the employment problem.

### **Susceptibility to Natural Environment makes the Construction of Economic Corridor more Difficult**

The impact of natural environment on Laos' domestic economic development can be divided into two aspects: spontaneous and artificial. A World Bank survey report pointed out that Laos' economic growth rate in 2018 was 6.5%, down from the 6.9% growth rate last year, mainly due to the impact of the continuous flooding. The dry season results in shortage of water resources in some sections of the lower Mekong River, causing instability in the regional security situation. Most of Laos's territory (80%) is mountainous and plateau, with complicated and steep geological conditions. The construction of the China-Laos railway is facing great challenges: only 38% of the projects along the whole line are

built on the ground, and the rest consist of 170 bridges and 72 tunnels, which is quite difficult to build. The construction of the China-Laos economic corridor involves a large number of relocated immigrants and the construction of railways and hydropower stations. The construction of these facilities may affect the hydrological environment of the river, hinder the migration of some fishes, lead to the decrease of fishes, and the loss of rich nutrients in river sediments, thus affecting the fishing industry, agriculture and the livelihood of local farmers.

### **International Issues Problems and Challenges to Laos**

Laos is located in the center of Indochina Peninsula, connecting East and South Asia. Due to its important strategic position, the construction of the China-economic corridor will inevitably be affected by the forces of neighboring countries and foreign powers.

#### **Vietnam**

Laos and Vietnam have a special relationship. Both countries belong to socialist countries and have jointly resisted the invasion of French, Japanese and American colonialists. They share the same political foundation and historical experience. In 1977, the two countries signed the Treaty of Friendship and Cooperation between Laos and Vietnam, institutionalizing this special relationship in the form of laws. This special relationship between Laos and Vietnam will inevitably affect Laos' attitude towards China's "the belt and road initiative". Judging from Vietnam's attitude towards China's BRI initiative, Vietnam welcomes it on the surface but is cautious in private. They suspect that China's invitation to Vietnam to participate in the construction of the BRI is to increase the weight to settle the South China Sea dispute between China and Vietnam. They are worried that the promotion of the BRI initiative in Vietnam will widen Vietnam's trade deficit with China. In addition, in recent years, the United States intends to close and enhance its relations with Vietnam, to use Vietnam as an important support against China in Southeast Asia, and to create an alternative to the "the belt and road initiative". This distrust of the "the belt and road initiative" in Vietnam and the hostile attitude towards China formed by the influence of the U.S. are likely to be transmitted to Laos, adding unfavorable factors to the construction of the China-Laos economic corridor and destiny community, and should be treated with caution.

#### **Thailand**

Thailand's influence in Laos is mainly focused on economy and culture. According to Laos' Vientiane Times, Thailand will continue to become Laos' largest trading partner in 2018. Laos is Thailand's main source of electricity imports. Therefore, "the belt and road initiative" and the promotion of the China-Laos economic corridor in Laos will be more or less influenced by neighboring Thailand in economic and cultural aspects. After taking office, the Thai military government hopes to strengthen Thailand's cooperation with China in various fields through the docking of national strategies such as "Thailand 4.0" and "Eastern Economic Corridor" with China's BRI. However, in recent years, due to the uncivilized behavior of some Chinese tourists visiting Thailand and the mercenary and dishonest behavior of some Chinese businessmen, the bad social impact in Thailand has seriously damaged the image of China, and the public opinion in Thai civil society has shown an aversion to China. It will spread to Laos through non-governmental contacts and

confuse the Laos people. In addition, as an ally of the United States, Thailand's political stance will also be influenced to some extent by the United States, indirectly affecting the construction of the China-Laos economic corridor.

### **United States**

After Obama took office, the United States "returned to Southeast Asia". The United States regards the Indochina Peninsula countries including Laos as an important breakthrough in its efforts to contain China. Through aid and cooperation to Laos, Laos has been allowed to stand aside with the United States on the South China Sea issue, lobbying Laos and ASEAN to contain China together. Since China emerged as the world's second largest economy and put forward the "the belt and road initiative", the United States has been waving the banner of unilateralism around the world to contain China's development in many. The United States and other western countries have used various media and non-governmental organizations to falsely claim that BRI projects such as the China-Laos railway and the cascade hydropower stations in the southern European river basin will bring huge debts to Laos, to exaggerate that infrastructure projects such as mining and hydropower stations have damaged the natural ecology of Laos, and to spread rumors such as Chinese workers seizing employment opportunities for Laosians. Scholars from Canada's Center for Globalization Studies said: "At present, non-governmental organizations funded by the West are doing their best in Vientiane and other cities in Laos, but instead of building or promoting progress in Laos, they are promoting western plans and inciting opposition to the Laos Communist Party government and cooperation projects with China." This has seriously hindered the smooth progress of the China-Laos economic corridor and the "the belt and road initiative" in Laos.

### **China**

The "China-Laos Economic Corridor" has been proposed for more than a year. Over the past year, China and Laos have achieved fruitful results in the construction of a large number of influential "China-Laos Economic Corridor" projects such as the China-Laos Railway, the development of Saiseta Comprehensive Development Zone and the Laos No.1 Satellite Project, which have made great contributions to the local economic development and the transformation of industrial structure. However, some Chinese enterprises have made improper choices in their investment fields, which has adversely affected the local natural ecology. Some enterprises violate the spirit of contract in their production and operation activities, damaging the image of Chinese enterprises. In addition, during the construction of some projects, the construction enterprises directly discharged the pollutants into the rivers, causing pollution to the local ecological environment and arousing resentment among the local Laos people. This kind of bad influence caused by the non-standard behavior of Chinese enterprises must be paid attention to, otherwise it will cause bad public opinion in the local area and hinder the further development of the economic corridor between China and Laos.

### **Suggestions and Recommendations**

Taking Lao's development needs as a guide, there is possibility of cooperation between the two countries in various fields. China and Laos are both socialist countries. They share the same ideals and beliefs and have similar development paths. The two sides should pay

close attention to discussing the list of early harvest projects in the China-Laos economic corridor, complete the related work of cooperation planning, provide the road map and task list for the construction of the China-Laos economic corridor and improve the top-level design work. The two sides should strengthen political mutual trust, the government should take the lead, and enterprises should make efforts, improve the cost sharing and profit sharing mechanism, find common interests and jointly build a community of interests and destiny between China and Laos.

The establishment of a strong organizational leadership mechanism is an important guarantee for the smooth construction of the corridor. In order to better promote the construction of the China-Laos economic corridor, it is suggested to set up a special leading organization for the China-Laos economic corridor in Laos, which is responsible for regularly tracking and promoting the construction of the economic corridor in Laos.

It is needed to strengthen the construction of software and hardware facilities to promote connectivity along the economic corridor; increase direct flights to neighboring countries; increase the diversity of transportation modes; and improve the level of "hardware" connectivity; unify the design and construction standards for international roads and railways and simplify the examination and approval procedures for port inspection and quarantine and transit procedures. In addition, by building a dry port with Laos, goods can complete a series of customs clearance procedures in a "one-stop" manner in the dry port, thus reducing the comprehensive logistics cost of enterprises.

Moreover, it is needed to explore the channels of tripartite cooperation and carry out scientific diplomacy to dissolve smears such as "environmental destruction theory" and "debt trap". Laos's economy cannot develop without the help of digital technology. Therefore, in the process of building the China-Laos economic corridor, China and Laos can unite with third-party market forces, take science and technology as a tool of cooperation, proceed from common survival interests, carry out scientific diplomacy, and carry out cooperation and exchanges in such fields as cross-border water resources management, energy industry development, poverty alleviation and disaster reduction, and scientific personnel training. This can bridge the gap between allies and rivals, to a certain extent, dissolve the remarks such as "environmental destruction theory" and "debt trap theory" smearing China's "the belt and road initiative", and better promote the construction of the China-Laos economic corridor.

Paying attention to the training and management of Chinese enterprises before, during and after "going out" will help to create a good image of Chinese enterprises.

In view of the fact that people in Laos, Thailand and other places have some negative comments on the production and management behaviors of some Chinese-funded enterprises, it is suggested to find out the reasons from the Chinese-funded enterprises themselves, raise the awareness of social responsibility and strictly regulate the management behaviors of enterprises at different stages before, during and after the "going out". It is necessary to train them in local politics, economy, culture, laws and regulations in Laos so as to raise the awareness of social responsibility of Chinese-funded enterprises, so that they can correctly assess the proportion of return on investment and risks of enterprises going out and make correct investment decisions. Actively carry out policy communication with the local government of Laos, establish good contacts with relevant industry authorities and regulatory authorities, and strengthen information sharing and mutual reference with other Chinese-funded enterprises through organizations such as the

Laos China Chamber of Commerce. For Chinese enterprises that successfully "go out" and operate well in Laos, Chinese embassies and consulates in Laos or the Laos China Chamber of Commerce and other organizations should pay attention to collecting their success stories and invite them to regularly share their success experiences and failure lessons with Chinese enterprises that intend to enter or newly enter Laos to operate, so as to help new Chinese enterprises in Laos to better survive in Laos.

Establishment of a monitoring and evaluation system for the construction of the China-Laos economic corridor will ensure the smooth progress of the corridor construction. During the construction of the economic corridor between China and Laos, there is currently no monitoring system to coordinate all economic corridor construction projects to ensure the time and quality of each project. There is also no comprehensive evaluation index system to measure the actual contribution of China-Laos economic corridor construction to Laos' social and economic development. It is suggested to establish a monitoring and evaluation system for the construction of the economic corridor between China and Laos. The results-oriented method is adopted to design a multi-dimensional evaluation index system of economy, society, culture and environment in combination with Laos' social and economic development goals, so as to evaluate and supervise the implementation process and results progress of the economic corridor project and improve the construction effect of the economic corridor. Strengthening the Laos people's sense of identity and confidence in the construction of the economic corridor can also, to a certain extent, prevent the West from attacking and destroying its own statements smearing the construction of the economic corridor. Secondly, through the setting of monitoring and evaluation indicators, the construction of various projects in the economic corridor can be coordinated to ensure that it is beneficial to the social and economic development of Laos and is conducive to the overall control of all aspects of information in the construction of the economic corridor and to ensure the quality of the construction of the economic corridor. Finally, it is also conducive to the formation of a demonstration effect, boosting the construction of other BRI economic corridors to a more scientific, higher quality and higher level.



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