

LAOS: The Chinese Connection

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# LAOS

## The Chinese Connection

Martin Stuart-Fox

The title of my first contribution to *Southeast Asian Affairs* in 1980 was “Laos: The Vietnamese Connection”. A great deal has happened in the Lao People’s Democratic Republic (LPDR) over the past three decades, both internally, and in its relations with its neighbours. The Lao People’s Revolutionary Party (LPRP) is still in power, but it is a party riven by ambition and greed. The country is wealthier than it was thirty years ago; but the urban-rural divide is more marked than ever. Wealth is concentrated in the cities, most of it in the hands of Party members and their families. The resources of the country, which the French had glimpsed a century before, most of which are located in rural areas, are now being rapidly exploited, but not for the benefit of the rural majority. Neighbouring states have hungrily eyed these resources, and seized their opportunities to obtain a share — none more so than China. So just as what was interesting about Laos in 1980 was the Vietnamese connection, so in 2009 what is interesting is the developing Chinese connection, and what this means for Lao politics and policies.

To focus on the Chinese connection is not to suggest that the Vietnamese connection no longer matters. It certainly does. Rather it is to focus on economic and political changes that are now taking place. What I want to do in this article is to examine the changes that were becoming apparent in 2008 in three areas: in politics; in economic development; and in international relations. But I shall deal with these in the reverse order, for Lao politics are all but opaque in the absence of any media reporting or discussion, and it is only by examining the shifting influence of neighbouring states, and popular responses to the impact of development policies, that some light can be cast on Lao politics.

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## International Pressures

### (a) *The Rise of China*

In early 2008, for the first time the growing Chinese presence became a matter of popular concern and debate in the LPDR. The trigger was an announcement in September 2007 that a consortium of three Chinese companies would build a new 20,000-seat stadium in Viang Chan (Vientiane) in time for Laos to host the Southeast Asian games in December 2009. In return, the consortium, coordinated by the Suzhou Industrial Park Overseas Investment Company, would be given a 50-year concession to develop 1,640 hectares of swampy land known as the That Luang marshes, not far from the hallowed That Luang stupa.<sup>1</sup>

The agreement had been secretly negotiated through the China Development Bank, which had agreed to provide credit of US\$100 million to build the stadium, on the surety of the land concession. A Lao company, whose political associations are unclear, was given a five per cent stake in the project, which would include not just up-market housing, but also an industrial zone, a shopping complex and hotels. Buildings would be sold or leased for the duration of the concession, which according to the agreement could be extended for a further 25 years. Thereafter ownership would revert to the Lao government.

On the face of it, the “New City Development Project” looked like a good deal: Laos would obtain a stadium free, plus a modern housing estate in the heart of Viang Chan. But then concern grew and the rumour mills began to grind. People were unsure how much land would be resumed and what compensation would be paid. Promised compensation is often not paid in Laos, but rather ends up in the pockets of officials. Rural victims have no recourse, but reportedly some of the land covered by the That Luang development belonged to Party members, who began to ask questions.

Of greater popular concern, however, was Chinese ownership of the project, and what the consortium intended to do with it.<sup>2</sup> The Lao are well aware that the Chinese business presence is expanding in Laos, and they know how Chinese businesses operate. Already there is a large shopping complex in Viang Chan, known simply as the Chinese Market, where mainly Chinese shopkeepers sell consumer products imported from China through business networks that effectively exclude Lao from competing. Moreover Chinese businesses usually employ only Chinese workers. The Chinese company contracted to build the stadium has brought in as many as 3,000 Chinese construction workers rather than employ Lao labourers.

It was not entirely surprising therefore that a rumour was soon circulating that the “new city” was being built exclusively to house 50,000 Chinese residents.

So persistent was the rumour that the Party felt it necessary to hold a rare press conference specifically to deny it. Deputy prime minister (and former foreign minister) Somsavat Lengsavat, who reportedly facilitated the deal, revealed to reporters many of the details given above, and assured them that anyone with the necessary means would be able to buy a house in the new estate, for there would be “no discrimination among buyers and no special concessions for Chinese citizens”.<sup>3</sup>

More details were released about the development itself, which an artist’s impression depicts as modern and multi-purpose, overlooking open water. But rumours about the project persisted — particularly that it would become a luxury “Chinatown” for wealthy Chinese who would come to control the Lao economy. By August, Voice of America was quoting unnamed “Lao authorities” as saying that many landowners were refusing to relocate because of inadequate compensation, and that as a result the government was looking for land elsewhere.<sup>4</sup> Another rumour was that the That Luang development would be cut to one third of the original plan.

What feeds such rumours is the lack of transparency that characterises most government and Party business in Laos, where decisions backed by powerful political figures can overrule any existing regulations. But the furore over the That Luang marshes development project reflects growing unease over the Chinese presence in Laos. That presence is evident for all to see, as is the influence of Chinese business, which is willing to pay for useful political connections.

A small Chinese presence in Laos goes back centuries, but the Chinese population grew steadily during the French and Royal Lao periods (1893 to 1975) to reach more than 40,000.<sup>5</sup> Most of this Sino-Lao community left after the LPRP seized power in 1975 and relations between Laos and China deteriorated in 1979. But with the restoration of normal relations in 1987 and transition to a market economy, a few began to return. By 1997, the Chinese population in Laos was estimated to be around 10,000,<sup>6</sup> divided between Sino-Lao families who had returned to reclaim property and restart businesses in the Mekong towns of central and southern Laos, and an influx into northern Laos of new entrepreneurs and small traders from Yunnan, who can enter Laos with no more than Chinese identity papers and a border pass.

Today the Lao government puts the number of Chinese living in Laos at 30,000. This is widely believed to be a gross underestimate, but even the government’s figures still represents a tripling of the Chinese population over the last decade. In the northern Lao provinces down to Udomxai, the Chinese

presence is very evident. Many shop signs are in Chinese, and in some towns most commerce is now in Chinese hands. Over the last five years, Chinese from Kunming and further away still, many of them young single men, have begun trading in Luang Phrabang and Viang Chan. Some have moved even further south.

These newcomers have little in common with the older Sino-Lao community. Many hardly speak Lao and most have little sensitivity towards Lao culture. They are more brashly nationalistic and tend to stick together.<sup>7</sup> But the Chinese are nothing if not adaptable. Already intermarriage is occurring (partly due to the gender imbalance in China), and once young men acquire Lao wives they are more likely to stay in Laos, learn Lao, and adapt to Lao ways.

Another recent trend has been a rapid increase in large-scale Chinese investment in Laos, principally in mining and agriculture, but also in energy production, telecommunications, and construction materials. Chinese companies are involved in mineral exploration, and are exploiting deposits of limestone (for cement) and potash. A consortium in which the Aluminium Corporation of China holds a 51 per cent stake and another Chinese company holds 19.5 per cent has been awarded the right to mine half of a vast bauxite deposit in southern Laos,<sup>8</sup> while a second Chinese-led consortium has applied to develop the other half. The investment needed, including power stations, will run into billions of dollars.

China's rapidly growing demand for agricultural and forestry products, particularly rubber and food, has driven investment in plantations in northern Laos. Rubber was first planted in northern Laos (400 ha in Luang Namtha province) in 1994. By 2006 the area under cultivation had increased to 7,341 ha, with planned expansion that will take the total to 119,000 ha by 2010. This is almost double the planned cultivation area for central and southern Laos over the same period.<sup>9</sup>

Much of this massive expansion is in the form of plantations run by Chinese companies. Some, however, is being driven by smallholders who are planting rubber on their own land, usually with inputs provided by Chinese buyers. Rubber trees take seven years to come into production, but thereafter the return for the farmer per hectare (US\$880) is almost as much as for opium (US\$903). Agarwood and teak are also being grown on plantations for the China market.

Food crops include corn, cassava, bananas, sesame, and soy beans. These too are either produced on land leased to Chinese companies, or grown by smallholders who sell to Chinese buyers on contract (usually for a period of fifteen years). If land concessions are less than 100 ha, deals can be concluded with provincial

authorities. For larger plantations central government approval is required. Abuses occur when land to which peasant farmers claim traditional rights is expropriated on the grounds that they do not have legal title.<sup>10</sup>

The areas of land involved are substantial. Over a ten-year period from 1996 to 2006, the area contracted to grow corn for China in Udomxai province alone increased from 3,000 ha to 13,000 ha, producing around 100,000 tonnes. Meanwhile in Luang Namtha province, closer to China, 40,000 ha were devoted to growing sugarcane and 60,000 to cassava. Production of each crop was expected to reach 1 million tonnes in 2008.<sup>11</sup>

Chinese construction companies have also been active in Laos. Most of the construction work has been on Chinese aid projects, but a Chinese construction company was contracted to build the Malaysian-owned Don Chan Palace Hotel, the tallest building in Viang Chan, in time for Laos to host the ASEAN Summit of 2004. Chinese construction companies have also been successful in bidding for road construction projects funded by the Asian Development Bank. A Chinese airline has bought a stake in Air Lao.

The figures for Chinese direct investment in Laos tell the story. From 2001 to August 2007, according to the Lao Committee for Planning and Investment, US\$1.1 billion of Chinese investments was approved, second only to Thailand's US\$1.3 billion.<sup>12</sup> But for the fiscal year 2006–07, Chinese investment accounted for over 40 per cent of the total US\$1.1 billion approved; and 45 out of the 117 projects were Chinese.<sup>13</sup>

In view of the increase in Chinese investment project designed to produce goods that China needs, from food to minerals, it is not surprising that trade is growing. China has unilaterally reduced tariffs on a wide range of imports from Laos, and the target is for two-way trade to reach US\$1 billion. That goal is some way off, however. In 2006, China imported US\$45.1 million from Laos and exported US\$185.6 million; so trade runs strongly in China's favour. What is surprising is that these figures are still but a fraction of the trade in both directions between Laos and Thailand (see below).<sup>14</sup>

Chinese aid has focused on improving communications between China and Laos. Chinese engineers have been building roads in northern Laos since the early 1960s. Until they were withdrawn in 1979, the work was done by military construction units. With the resumption of normal relations, a selective Chinese aid programme also resumed. For example, a ground satellite reception centre was built in 1990–91, and the capacity of the Vang Vieng cement factory was expanded in 1992–94. (A second factory has subsequently been built.)

The expansion of China's aid programme to Laos dates from 1999, when China provided a substantial loan to enable Laos to weather the Asian economic crisis. The Lao were grateful for the assistance, and relations warmed between the two countries. China undertook two showy projects in Viang Chan: construction of the Lao National Cultural Hall, and reconstruction of the Avenue Lan Xang, and the gardens around the Patouxai monument at the head of the avenue, leaving Japan (by far the largest aid donor to Laos) to deal with the other major thoroughfares with their more demanding associated sewage and drainage problems.

Over the last several years Chinese financial assistance has mainly been in the form of cash grants and no-interest loans for projects agreed upon with the Lao government, plus credits for commercial ventures by Chinese companies in Laos. Roads and bridges continue to be a priority. In 2008, National Route 3 from the China-Laos border at Boten to the Mekong River port of Huayxai opposite Chiang Saen in Thailand was completed.<sup>15</sup> China will build a connecting bridge to be jointly financed with Thailand and completed by 2011, after which it will be possible to drive from Singapore to Beijing. Other road construction is underway or planned, notably in Udomxai province. Commercial credits have gone towards building hydropower stations on three rivers in northern Laos, to the Hongsa lignite-fired power station in Xainyaburi province, and to power transmission lines and telecommunications. China has also built part of the GMS Information Super highway in Laos, which went into operation on 31 March 2008.<sup>16</sup> Total Chinese development aid granted to Laos to mid-2007 has been estimated at US\$280 million, but China has reportedly also cancelled loans to the value of US\$1.7 billion.<sup>17</sup>

Since 1991, China has provided scholarships (currently 55 per annum) for Lao students to study in China; Chinese advisers are assigned to work with Lao counterparts on specific programmes; and Chinese youth volunteers spend six-month terms teaching IT and languages (Chinese and English), coaching in various sports, or performing medical service. Groups of Lao government and Party officials attend management and training courses in China, including military training for young officers.

Laos and China exchange official government, Party and military delegations on a regular basis. In November 2000, President Jiang Zemin became the first Chinese head of state to visit Laos, following an official visit to China by Lao president Khamtay Siphandone. Premier Wen Jibao attended the 2004 ASEAN Summit in Viang Chan, and arrived again for the 2008 Greater Mekong Subregion (GMS) Summit, an indication of the importance China attaches to the regional

grouping. While in Laos, the Chinese premier signed seven agreements covering aid, trade, investment, infrastructure, communications and power generation, including provision of a US\$100 million export credit facility for the purchase, among other items, of a Z9 military helicopter.<sup>18</sup> The Chinese have said they are happy with the state of military relations, which "have developed very well";<sup>19</sup> and China is believed to provide military equipment to the cash-strapped Lao army, though no details have ever been published.

China and Laos have no outstanding problems to resolve. The border has been demarcated. They do, however, share concern over such transnational problems as smuggling (especially of drugs, but also of people) across their porous common border, and the spread of infectious diseases (from HIV/Aids to bird flu). There is reportedly some Chinese concern about the operation of the Boten casino, just across the Chinese border in the Lao province of Luang Namtha. The turn-off to the casino is actually north of the Lao immigration and customs post, which means that Chinese visitors do not have to pass through any Lao checkpoint. The casino operates solely for a Chinese clientele, catering for gambling, prostitution and money laundering. For this cosy arrangement, the Hong Kong Chinese operators pay Lao provincial authorities.

There has been much debate over the evolving Chinese relationship with the states of mainland Southeast Asia, and speculation over Chinese intentions towards the region.<sup>20</sup> As the smallest and most under-populated state, Laos is the most vulnerable in the face of China's growing might. There is little doubt that both the Chinese presence and Chinese influence will increase. But Laos has little to fear as long as Chinese interests are kept in mind in Viang Chan. And there is every indication that they are. When Wen Jiabao visited Laos in March 2008, the Chinese media quoted Lao prime minister Bouasone Bouphavanh as assuring him that Laos highly valued its ties with China and would make "concerted efforts ... to step up the friendly and cooperative relations".<sup>21</sup>

What the Chinese want for their grant aid and loans are three things: backing for Chinese policy on everything from Taiwan to Tibet; access for Chinese companies to exploit Lao resources; and lines of communication through Laos to Thailand. The Lao provide all three. What the Lao regime seeks in addition to aid and investment is political support in the face of Western pressure for reforms, both economic and political, that the Lao are reluctant to accept. It receives this support in the guise of China's policy of non-interference in the internal affairs of sovereign states. Not only will China exert no such pressure itself, but as in the case of Burma/Myanmar, China looms as a potential alternative source for any aid or investment the West can provide, thus vitiating Western influence.

As China's own influence is undoubtedly on the rise, the obvious question is: what implications does this have, both for the Laos' relations with other neighbouring states, particularly Vietnam and Thailand, and for Lao politics? Let us take Vietnam first.

### **(b) Party-to-Party: The Continuing Influence of Vietnam**

Just as there has been debate over China's intentions towards Laos, and mainland Southeast Asia more broadly, so there has been discussion over whether China and Vietnam are actively competing for influence in Laos.<sup>22</sup> And if so, whether this has resulted in, or reflects, divisions within the Central Committee of the LPRP.

For several years there has been speculation over whether there exist defined pro-Vietnamese and pro-Chinese factions in the LPRP. Some observers have suggested that the basis for such a division is generational: the old revolutionaries have close ties to Vietnam, while younger Party members have no such historical baggage and look rather to China. Others point to geographical factors: northerners, led by former foreign minister Somsavat Lengsavad (who is ethnic Chinese and speaks fluent Mandarin) favour China,<sup>23</sup> southerners less so. But neither argument is very convincing.

The only time when there may have been pro-Vietnamese and pro-Chinese factions was in 1979, when some in the Party were purged following the Vietnamese invasion of Cambodia to overthrow the Khmer Rouge, and during the subsequent Sino-Vietnamese conflict when Laos fell into line with Vietnam. But those purged were not so much pro-Chinese as anti-alignment: though they may have had some sympathy for China, they argued that Laos should remain neutral in the conflict between China and Vietnam. Their expulsion from the LPRP was engineered by the Vietnamese.

Historically the Lao have been adept at balancing one external power off against another, and it is part of their international relations culture to do so. This is true whether they are of the revolutionary or the younger generation. As for Somsavat, he is Sino-Lao, but formed by his immersion in the Lao revolutionary movement. He has benefited from Chinese contacts, but there is no evidence that he ever took the risk of being labelled pro-Chinese. Besides, he had little influence in a party dominated by military men with close ties to Vietnam.

Lao policy is to be as even-handed as possible between China and Vietnam. When the new leadership team of Lieutenant General Choummaly Sayasone as Party and state president and Bouasone Bounphavanh as prime minister were appointed in 2006, both men first visited Hanoi, then immediately went on to

Beijing. This would suggest that Vietnam still retains an edge over China in the closeness of its relations with Laos.

But if there are no pro-Vietnamese versus pro-Chinese factions, are the two countries nevertheless competing for influence in Laos? Some indication may be provided by figures for aid, trade and investment. Like China, Vietnam releases few figures or details of its aid to Laos, though over the years this has been substantial. Occasionally announcements are made of emergency aid or aid for specific projects. Thus in 2008, Vietnam gave US\$100,000 of aid for flood victims in Laos, and said it would assist Laos in preparing to host the 2009 Southeast Asia games by building a training centre and sending instructors (with no dollar value attached). Assistance is also provided from one organization to another, such as medical supplies donated by a hospital in Vietnam to a hospital in Laos, or by one province to another with which a “sister” relationship exists.

Vietnam avoids giving large sums for prestige projects of the kind China favours; nor can it provide anything like the assistance China gave Laos during the Asian economic crisis (though Vietnam did do what it could). Vietnam has funded major road and bridge construction, and built airstrips. Overall, however, Vietnamese aid is more comprehensive than Chinese aid, and many more Vietnamese experts are sent to work with their Lao counterparts in fields as diverse as the media, education and agriculture. Vietnamese experts also advise in such sensitive areas as Party organization, security, and in the military.

As for trade, Vietnam is ahead of China as a destination for Lao exports (at US\$107.2 million as against US\$45.1 million for China for 2006, the last year for which figures are available), but provides half the value of imports that China does (with US\$90.8 compared with US\$185.6 for China in 2006).<sup>24</sup> Two-way trade, though more evenly balanced, thus lags behind China, and the gap is likely to have widened in the last two years. As with China, however, the goal is to increase two-way trade between Laos and Vietnam to US\$1 billion per annum by 2010, and to double that again by 2015.<sup>25</sup> This is overly ambitious, but by then Vietnam will be purchasing substantial amounts of Lao electricity, and a number of Vietnamese investment projects will be in production. Vietnam has facilitated trade by building roads and making the port of Danang available for Lao exports. A railway to connect Savannakhet with the Vietnamese rail network is also planned.

Vietnamese investment in Laos comes in third after Thailand and China, but is not far behind and on the rise. Total investment in 117 projects underway or planned was put at US\$1.28 billion, with US\$600 million committed in 2007 alone

and another US\$240 million in the first seven months of 2008.<sup>26</sup> A large proportion of this sudden increase is in hydropower. Dams under construction or planned on the Xekaman River in Attapeu province will be producing 4 billion kWt of electricity for sale to Vietnam by 2013.<sup>27</sup> A more controversial hydropower dam is planned on the Mekong River in northern Laos.<sup>28</sup> Other projects include mining and mineral exploration, rubber and agricultural plantations, wood processing, garment factories, and other light manufacturing. Vietnamese commercial banks also operate in Laos. Just as most Chinese investment is located in northern Laos (but for bauxite), so most Vietnamese investment is concentrated in the south and east.

Vietnam certainly does not rely on historical ties between aging revolutionaries as the sole basis for its continuing influence in Laos. Up-and-coming Lao Party members regularly attend ideological training courses at the Ho Chi Minh National Politics Institute in Hanoi,<sup>29</sup> which enables Vietnam to build contacts with successive generations of Lao Party leaders. Far more Vietnamese than Chinese possess good Lao language skills, and many Lao speak Vietnamese (including ten out of the eleven Lao Politburo members, the exception ironically being prime minister Bouasone who was educated in Moscow). This allows the Vietnamese embassy (the largest in Viang Chan) to maintain contacts across the LPRP. As a result, the Vietnamese have a better understanding of Lao politics than any other foreign embassy.

Even though the 25-year Treaty of Friendship and Cooperation that comprises the core of the “special relationship” between Vietnam and Laos expired in 2002, Vietnam does all in its power to keep the memory alive. A joint history of the relationship is being written, and Vietnam has funded a US\$1.6 million Laos-Vietnam History Museum near Savannakhet. The military debt has been acknowledged in the form of memorials, and small, but well publicized, ceremonies take place as the remains of Vietnamese soldiers killed in Laos are repatriated. The phrase “special relationship” may no longer be used in official communiqués, but it has simply been replaced by reference to the two countries’ “traditional friendship, special solidarity and comprehensive cooperation”.<sup>30</sup>

Like China, Vietnam has no outstanding issues with Laos. The border is delineated, including the crucial tri-border marker between Vietnam, Cambodia and Laos (placed in August 2008). Development of the tri-border area is a priority for all three countries. Smuggling from Laos to Vietnam remains a problem, including notably timber and illegally caught wildlife. Despite a ban on the export of whole logs dating from 1999, timber smuggling continues on a large scale,

abetted by the military of both countries, to feed the voracious Vietnamese furniture trade.<sup>31</sup>

So in view of the evidence, are Vietnam and China competing for influence in Laos? On the face of it, it would appear so. The recent upsurge in Vietnamese investment in Laos suggests that Hanoi is determined to match China in obtaining a share in Lao resources. And both countries foresee a similar increase in trade. Their aid programmes are very different, however, and so may be their unstated political goals.

For China, political influence appears to be directed mostly towards obtaining economic opportunities,<sup>32</sup> though a strong Chinese presence in Laos also offers some strategic benefit to Beijing. For Vietnam, the strategic importance of Laos for the defence of its long and vulnerable western border has always been of primary concern. The price Hanoi was prepared to pay to maintain control of eastern Laos was demonstrated during the Second Indochina War. For Vietnam, a politically friendly regime in Laos is essential. Thus for Vietnam the first priority is to preserve the closest possible political relationship, which for Hanoi has always taken precedence over the economic relationship. And the political relationship rests squarely on party-to-party relations between the Vietnamese Communist Party and the Lao People's Revolutionary Party. This is why Hanoi's political goal in Laos is to promote a strong and cohesive LPRP.

Of course China also supports Laos politically, and will continue to do so for as long as its economic interests are served; but China could obtain concessions from, and dominate, any Lao regime of any political persuasion simply by virtue of size. Because China does not need to have particularly close party-to-party relations, Beijing sees no need to overtly challenge Hanoi's political influence. The continuing cohesion and effectiveness of the LPRP is thus a Vietnamese responsibility, and Vietnam takes it very seriously.

Vietnam takes a close interest not only in Lao politics, but also in how the Lao government is performing. Marxist-Leninist instruction of Lao Party members in Vietnam emphasises their moral responsibility to improve the lot of the "masses". Vietnamese advisory teams visit important ministries (including finance and defence) to suggest improvements in administrative efficiency. Reforms are designed to make the Party more responsive to popular demands, in particular to limit corruption, which is the principal criticism many Lao voice in private. There is no suggestion of regime change, which the Lao always suspect lies behind Western advice: just the opposite for the Vietnamese.

Apart from corruption, another concern the Vietnamese reportedly have is over the cohesion of the LPRP, not in relation to ideological differences, but

rather with regard to the ambitions and activities of powerful individuals and their patronage networks. Where these are in conflict, rivalries and jealousies may cause divisions that have the potential of weakening Party cohesion, and so need to be managed. Already the wealth accumulated by certain families is a cause of envy on the part of others. For these reasons, according to some sources, the Vietnamese have lent cautious support to moderate reforms that prime minister Bouasone has indicated he would like to introduce.<sup>33</sup>

### **(c) ASEAN and the West**

Lao membership of ASEAN has significantly altered the perception the country has of its place in the region and the world. Lao leaders repeatedly stress their commitment to regional integration, through which landlocked Laos will become landlinked, as the mantra goes. Certainly Laos is strategically situated, for it shares common borders with the other four mainland states.<sup>34</sup> But of these two loom much larger than the others. Vietnam is one, of course: the other is Thailand.

Relations between Laos and Thailand have been bumpy at times, as several outstanding issues create difficulties for both sides. These include border demarcation, refugees and security, trafficking, and smuggling. The border problem has been dragging on for years. While the land frontier (with Xainyaburi province in the north and Champasak province in the south) is determined but for a small stretch over which the two countries fought a brief border war from December 1987 to January 1988, there has been no agreement even on the principles of demarcation of the longer river frontier.

Over the past decade, security concerns have mainly focused on the Hmong minority. A small remnant group of Hmong in the mountains to the south of the Plain of Jars have refused Lao government offers of amnesty and continued their armed insurgency, though few insurgents now remain. Others have escaped to Thailand as refugees. The Thai want to send them back to Laos, but Lao authorities have been reluctant to accept them. The Hmong themselves do not want to return; nor are they keen to take up offers of resettlement in the U.S. or elsewhere.<sup>35</sup>

The Lao have also accused the Thai of harbouring Lao dissidents responsible for making armed incursions into Laos, attacking a border post, and probably exploding a number of small bombs between 2000 and 2004. On the other hand, several such dissidents have been mysteriously assassinated in Thailand, in which, if rumour is to be believed, the Lao secret service has been implicated. These murky events have done nothing to improve Lao-Thai relations.

Trafficking and smuggling are other perennial problems that bedevil Lao-Thai relations. Young Lao women are trafficked for prostitution and young Lao men for employment in conditions of virtual slavery. Drugs are also trafficked through Laos, from Burma and China into Thailand. Smuggling is two-way, of timber and livestock into Thailand and of manufactured and consumer goods into Laos. If one route is closed off, others open along the long and porous border.

Concerted efforts have been made on both sides to deal with these problems. Thai and Lao representatives meet regularly, from the local to the national level. There is close cooperation on health matters in particular (HIV/aids, bird flu). Moreover there is political goodwill on both sides — with good reason, for despite the rise of China and the political influence of Vietnam, in trade terms Thailand is more important than both combined. Over half of all Lao exports go to Thailand, while Thailand accounts for almost 70 per cent of Lao imports.<sup>36</sup>

Amounting US\$1.3588 billion to 2007, Thai investment in Laos still remains greater than that of China, although it slowed in 2007, and in 2008 will again be less than for China, due to the political turmoil in Thailand and the world financial crisis. Large projects include power generation (mainly in the form of hydro-electricity), mining and agriculture. And there are also many smaller Thai investment projects (more than for any other country) in areas such as tourism, transport and manufacturing.

Thailand exercises influence by other means, however. Many Lao have extended family members in northeast Thailand. Most Lao can understand, and many can read Thai, and as relatively little is published in Lao, Thai publications provide much of the information educated Lao have about the world. Lao students study in Thailand, and a large, but unknown, number work there, legally or illegally. For many Lao, therefore, Thailand provides their model for development.

Of the other ASEAN countries, only Malaysia (with US\$138.6 million) and Singapore (with US\$100.6 million) have significant investments in Laos (in tourism and timber, industry and services).<sup>37</sup> Trade is on the increase, and will be boosted by full Lao accession to the ASEAN Free Trade Area (AFTA), but it will continue to be overwhelmingly with Thailand and Vietnam. Only Malaysia (for exports) and Singapore (for imports) currently figure in Lao trade statistics.

Japan (with US\$420.3 million) and Korea (with US\$296.9 million) also have significant investments in Laos,<sup>38</sup> Japan mainly for a hydropower project and plantations for woodchips in southern Laos and Korea in a wide variety of smaller enterprises, including garment manufacturing and plantations of cassava and

jastropa (for biodiesel production). Ten Korean companies have teamed up with Lao partners to build an entire satellite city close to Luang Phrabang. The 3,000 ha development will include hotels, a shopping mall and a golf course in addition to residential housing, all at an estimated cost of US\$2 billion.<sup>39</sup> An Indian multinational is investing US\$350 million in eucalypt plantations and a paper pulp mill.

Japan has consistently been the most generous donor of bilateral aid to Laos, contributing more than the next four donors combined (France, Germany, Sweden and Australia), and more than the multilateral aid provided by either the World Bank or the Asian Development Bank. Major projects have included hospitals, bridges and roads, notably in Viang Chan, and the Viang Chan water supply.

Western aid donors have been less generous, though Laos still manages to attract one of the highest per capita aid provisions in Asia. After more than two decades of assistance, especially to the forestry sector, Sweden has announced it will terminate its aid to Laos as current projects are completed, but France as the former colonial power and Australia are committed to continuing their aid programmes. Germany is a late comer, and the United States has only had a very small programme focusing mainly on opium reduction along with some clearance of unexploded ordnance left over from the Second Indochina War.

The point of this brief overview is to note that no ASEAN or Western state is in a position to exert the sort of influence over the Lao government that Vietnam or China do. The Lao-Thai relationship has been too fraught for too long, and carries too much historical baggage for Bangkok to have a decisive influence in Viang Chan. Japan has a much more consistent relationship as the Lao PDR's principal aid donor, but has invested relatively little and would be reluctant to urge reform, for fear that the Lao regime might interpret it as covertly working towards regime change.

This leaves the multilateral donors. Both the World Bank and the Asian Development Bank provide substantial loans to Laos for infrastructure development and poverty reduction. Both are thus in a position to include provisions in contracts to improve governance and financial transparency. As both banks are avowedly non-political, however, there is a limit to how much pressure for reform they can exert.<sup>40</sup>

## Domestic Pressures

Even in an authoritarian single-party state like Laos, the political leadership is not immune to domestic political pressure — as the Party's response to

concern over the That Luang marshes development project demonstrated. Such pressures tend to be less acute when the economy is growing at a healthy rate, and the benefits are flowing, if not evenly, then to some extent throughout the population. Over the eight years since Laos shrugged off the effects of the Asian economic crisis of the late 1990s, economic growth has been sufficient to provide opportunities and satisfy some expectations. But as corruption has increased, social pressures have been building, and as the global financial crisis impacts on Laos, those pressures are likely to increase and even have political implications.

### ***(a) Economic Development***

For the first two years of the current five-year National Socio-Economic Development Plan (2006–10), key development indicators have been positive.<sup>41</sup> The plan covers five strategic areas: economic growth driven by the private sector; greater competition and increased trade through regional integration; human and social development; poverty reduction; and good governance. These in turn require appropriate socio-economic policies to encourage the development of human and natural resources, through the introduction of appropriate institutional, legal and regulatory frameworks.<sup>42</sup>

Of the five strategic areas, most success has been registered in the first two. Investment in the private sector, most of it foreign, has provided employment and driven economic growth. More than half of all foreign investment has gone into power generation, almost all of it hydropower. This has yet to bear fruit, however: electricity exports in 2007 were no more than they were in 2003.<sup>43</sup> The first big increase will come when the giant Nam Theun II project comes on stream. The dam began filling in June 2008, and power production is due to commence at the end of 2009. Almost all the electricity will be exported. Other smaller projects are due for completion from 2009 onwards. So from 2010 the government can expect a substantial boost in taxes and royalties from hydropower.

Minerals (copper and gold) have accounted for almost half of all Lao exports since 2006 when the Australian-owned Sepone mine came into full production.<sup>44</sup> Profit taxes and royalties on mining paid to the Lao government amount to just about 20 per cent of budget revenue, almost all of which comes from the Sepone mine.<sup>45</sup> Gold production is on the decline at Sepone, while copper production has risen, but gold exports will rise again in 2009 when another Australian-owned gold and copper mine near Phu Bia, northeast of Viang Chan, comes into production.

The value of timber exports in 2007 amounted to less than a third the value of minerals, but continued to provide more tax revenue to the government than hydropower, even though illegal logging continues unabated.<sup>46</sup> Agricultural products are of increasing value and importance as new plantations come into production. Coffee and corn are already significant exports, and will be joined by cassava, soy beans and rubber. Tourism is another growth industry, which will be taxed through introduction of a value added tax (VAT).<sup>47</sup> This is expected to contribute a substantial sum to government revenues.

The government is also expecting economic dividends from improved transportation links, both within Laos and with neighbouring states. An extensive all-weather road network is being constructed, and new international airports are planned for Viang Chan and Luang Phrabang. The first railway in Laos, connecting the Thai rail network at Nongkhai across the Friendship Bridge to a terminus on the outskirts of Viang Chan, was given a trial run in July 2008 and was due to open for regular traffic in March 2009. Another rail link has been surveyed from Thakhek on the Mekong River across the Annamite Cordillera to the port of Danang in Vietnam. And the Chinese are considering building a section of line from southern China, as part of a proposed 2,500 km line via Viang Chan to follow the Mekong River to Cambodia.<sup>48</sup>

The global financial crisis will certainly impact on Laos in 2009.<sup>49</sup> OZ Minerals, owner of the Sepone mine, has flagged production cuts as prices and demand for copper falls, and expansion plans for the Sepone mine are likely to be put on hold. Gold production may increase in 2009, but not electricity exports. Unless the VAT is introduced and customs dues and income taxes are collected more efficiently than at present, government revenues will decline and the budget deficit increase. In the longer term, however, the outlook is for more revenue from resource development, so pressures to raise revenue from other sources will be more easily resisted — along with relevant reform measures.<sup>50</sup>

### **(b) Social Pressures**

Human and social development is closely linked to poverty reduction, both strategic priorities for the current five-year National Socio-Economic Development Plan. The goals for both were set out in the government's *National Growth and Poverty Eradication Strategy* of 2003, which calls for increased expenditure in education, health and welfare. Progress since has been patchy. In its 2007–08 Human Development Index, the United Nations Development Program (UNDP) ranked the Lao PDR at number 130.<sup>51</sup>

The percentage of GDP devoted to education in Laos (currently 2.8 per cent) has always been low.<sup>52</sup> In many remote rural areas, mostly inhabited by ethnic minorities, schools do not exist; or if they do, teachers are not paid and must earn their own living by other means. As a result, the UNDP estimates that 21.5 per cent of young Lao between the ages of 15 and 24 remain illiterate. Overall, the literacy rate hovers just below 70 per cent.<sup>53</sup>

Teachers are poorly qualified and lack textbooks. School enrolments stood at 84 per cent for the primary level, dropping to 37 per cent at the secondary level for the 2005 school year. Though both figures were improvements on the early 1990s, percentages for girls were lower and their drop-out rates higher.<sup>54</sup> Only about 8 per cent of students go on to the tertiary level, where standards are also low. As a result Laos has a serious skill shortage, especially in such key areas as IT and accountancy, despite the establishment over the last five years of a number of private institutions. The children of powerful Party leaders are often educated abroad.

There has been growing concern in Laos over the poor standard of education, and the need for educational reform has been recognized by the new education minister, Somkot Mangnormek. Additional resources are to be committed to teacher training, development of new curricula, and the extension of the school system by one year. The government has established an educational investment fund of US\$60 million for these projects, 70 per cent funded by foreign aid.<sup>55</sup> It has also opened the way for foreign investment in tertiary education.

Health is another area of popular concern. Despite assistance from France, China and Cuba, health care in major urban hospitals is poor by international standards. In the rural areas it is often non-existent. Where rural clinics do exist they are usually understaffed and lack supplies of even the most basic medicines. According to the World Health Organization, Laos devoted 3.6 per cent of GDP to health in 2005 (the last year for which statistics are available), amounting to US\$78 per capita.<sup>56</sup> While this compares favourably with many developing countries, it is anything but evenly distributed and depends on the level of foreign aid. A report by the UN World Food Program said half of all rural Lao children were chronically malnourished, with the level for some ethnic minorities even higher.<sup>57</sup>

Two other sources of popular discontent are the increasing divide between urban and rural living standards and the government's policy of resettlement of ethnic minorities. While small-scale commercial agriculture (rubber, coffee, corn) has contributed to rural incomes in some areas, elsewhere rising population has forced rural families either to migrate to the cities, or to send their sons and

daughters in search of work, many of them in Thailand. In some villages in Laos only old people and young children remain.

The policy of resettling ethnic minorities practising shifting slash-and-burn agriculture in permanent villages at lower altitudes is justified by the government as necessary to protect the environment. In the case of the Hmong, two additional reasons are to limit opium production (which in Laos has been quite effectively done), and as a means of security control. Overall the programme has not been a success, however. Resettlement has often been on marginal land and promised government assistance has not been forthcoming. Some people who were relocated have returned to the hills; others have become impoverished and dissatisfied.<sup>58</sup>

### **(c) *The Corrosion of Corruption***

The most common criticism of the Party and government (between which, for most Lao, no distinction is made) is over the increasing level of corruption. Corruption now permeates every aspect of Lao society, or at least every interaction with officials, whether government bureaucrats, police, and even teachers and health workers. Much of it is petty corruption on the part of low-paid civil servants to make some additional income. So, for example, police impose on-the-spot fines for minor infringements, health workers charge a small fee for service or for medicines that should be free, and teachers do the same for school books.<sup>59</sup> Or officials may be paid to be elsewhere when some illegal activity takes place.

Corruption becomes more serious as the stakes become higher and more senior officials are involved. So, for example, judges accept bribes to decide court cases, especially in disputes over property and land ownership, or to hand down lenient sentences; officials from the ministry of finance accept bribes to reduce taxes imposed, including income tax; customs officials do the same for duties on imports; officials from other government departments take payments for signing documents, issuing permits, and awarding contracts for goods or services.

Just as insidious is corruption that diverts government property or national resources into private hands. This includes funds for maintenance of government property, such as offices, schools and health centres, all of which are poorly maintained. Or materials may be sold commercially, or diverted for private use (as when cement for an irrigation scheme is used to construct a private house). Smuggling of timber, particularly by the military, falls into this category.

Corruption is also rife in the banking sector. Despite bank restructuring, money continues to be loaned to state owned enterprises (SOEs) with a history of defaults, much of which finds its way into private pockets (especially from the military-controlled SOEs). Loans are also made to individuals and to businesses, frequently in defiance of existing regulations, often on the sole basis of their political connections. Non-performing loans have rendered government commercial banks technically insolvent twice over, and only refinancing with the assistance of multilateral lenders has kept them afloat.<sup>60</sup>

Foreign investment has also been riddled with corruption, both in the approval process (which under pressure has been progressively simplified to reduce abuses) and subsequently in the form of continued payments to officials. This may take the form of employment of politically well connected officials as consultants, or advisers, or board members. Foreign investors may also pay off officials to avoid certain requirements, such as an environmental impact assessment, or to facilitate acquisition of land or mining concessions.

Land has become a particularly contentious issue as local and provincial officials have accepted payment for signing over land to which communities have traditional use rights, but no legal title. Angry protests have resulted, and the matter was raised in the National Assembly. As a result the granting of land concessions was officially suspended. Since then the central and provincial authorities have been in dispute over rates to charge.<sup>61</sup> Protests have also been mounted by people forced to relocate from dam sites due to be flooded.<sup>62</sup>

There is no doubt that popular anger over corruption (including the advantages gained and immunity granted to family members of powerful politicians) is on the rise. The moment the draconian government control of the press is lifted slightly the issue surfaces, and the problem of corruption has been raised in the National Assembly. An anti-corruption law was passed in 2005,<sup>63</sup> but as yet only minor officials have been prosecuted — unlike in China and Vietnam. All that has happened to senior Party members in Laos is that they have been given another job, for to target one person would be to implicate too many others.

I have argued that the increase in corruption in Laos is linked to a resurgence of Lao political culture, which seeks to concentrate power and wealth through patronage networks centred on senior members of the ruling Party.<sup>64</sup> To oil these networks resources are needed, which are transferred from the state to favoured individuals. Increasingly, however, the fruits of corruption are unevenly distributed, and as a result jealously is beginning to divide Party members. The prime minister is aware of this and wants to prevent it going any further. So do the Vietnamese.

Both know that the problem of corruption will have to be tackled if the Party is to retain political credibility and a degree of popular support.

## Politics and the Party

### (a) *Pressures for Reform*

From the above it is clear that pressures for reform are building, and that these are both international and domestic. International pressures fall into three categories: from the need to meet requirements for Lao membership of international organizations; from Western agencies and countries concerned over the mounting levels of corruption; and, almost wholly non-transparent, from advice offered by Vietnam or China. Domestic pressures are coming from the urban educated class critical of corruption and nepotism (for example, in the area of employment); from popular discontent over rising living costs and poor government services; and from rural Lao and ethnic minorities alike who have been cheated and dispossessed by Party officials or are unhappy over rural poverty.

Apart from the reporting requirements and interaction that are part and parcel of membership of ASEAN, Laos must meet its obligations imposed by the ASEAN Free Trade Area (AFTA). Membership of the World Trade Organisation (WTO), which Laos hopes to join by the end of 2009, requires reform of the legal framework for foreign trade. A Lao working party that visited Geneva in July 2008 reported progress on such areas as customs procedures, trade facilitation, and protection of intellectual property.

Western pressure, as we have seen, has focused mainly on better governance and greater transparency in fiscal matters.<sup>65</sup> These include public expenditure, financial management, economic restructuring (for example, of SOEs), and the regulatory environment for small to medium private enterprises — all designed to limit corruption. By contrast, advice from Vietnam (and to a lesser extent, China) has the purpose of strengthening the LPRP through judicious partial relaxation of draconian Party control (for example, of the media), strengthening the State Inspection Authority,<sup>66</sup> and the strengthening of internal Party control procedures. But while Western pressure for reform is designed to promote civil society and so prepare the way for greater democracy, advice from Laos' communist neighbours aims to maintain the LPRP in power.

Domestic pressures for reform have been outlined above, but there is one additional source of pressure, and that is from within the Party. Because the LPRP is hierarchically structured does not mean that no debate takes place or that no criticisms are voiced. All but two National Assembly deputies are Party

members, but criticisms of government have been increasing. In its debate on the 2008 budget, the NA called on the government to increase its tax revenue so that services could be improved, knowing full well that this would entail a reduction in negotiated “exemptions”.

Internal Party criticism is the kind that can be least ignored. It is on the rise because it has been Party policy to recruit the educated and ambitious, including those educated in Western tertiary institutions; and it is precisely the technocratic, middle level of government that participates in foreign-funded programmes related to reform.<sup>67</sup> So they are well aware of systematic shortcomings.

One widely recognized problem within the Party is the fraught relationship between the central government and provincial administrations, even though almost all provincial governors are members of the Party Central Committee. Earlier attempts at decentralization in the 1990s only fuelled corruption at the provincial level. Teachers and health workers went unpaid as local Party officials helped themselves to funds they had been given the responsibility to disburse. Banks were plundered, and a decreasing proportion of taxes and customs dues found their way to the ministry of finance. Re-centralization is now underway in three large central provinces in relation to financial disbursements, customs and tax collection, with more to follow.<sup>68</sup>

### ***(b) Political Culture and Politics***

Where the Party is the state, as in Laos, the state of the Party is a matter of considerable concern. Today the LPRP is in danger of becoming little more than the political arena within which jealous personal and regional interests compete for power and wealth. Competition between such interests is deeply embedded in Lao history in the traditional structure of centre-periphery relationships,<sup>69</sup> and was one of the factors that weakened the Royal Lao regime prior to the communist seizure of power.

In 1975, the LPRP was a disciplined and committed revolutionary organization, led by its founding secretary-general, Kaysone Phomvihan. During its first decade in government, the Party succeeded in monopolizing political power, but at the cost of all but destroying the economy. By the mid-1980s, as the Soviet Union began to cut economic aid, a change in policy had become inevitable. Kaysone realised this, and argued for the introduction of some elements of a free market economy. He was opposed by a coalition within the Party comprising socialist ideologues led by Nouhak Phoumsavan (who died in September 2008, aged 98) and the military led by General Khamtay Siphandone. This “two-line struggle” lasted for much

of 1986, and delayed the Fourth Party Congress for over six months. It was a struggle Kaysone might well have lost, were it not for Vietnamese support.

Ironically, however, as most of the former entrepreneurial class had fled the country, the army was in the best position to exploit the new economic opportunities. For a decade it had had to generate its own funding, in large part through business ventures, often in cahoots with former Vietnamese military allies. From 1984 onwards, the Lao army set up large corporations to exploit the country's natural resources, particularly timber. No questions were asked, and the army was not subjected to oversight by any government instrumentality. Senior military officers were thus able to pursue their activities unhindered.

When Kaysone died in 1992, he was succeeded as president of the LPRP by General Khamtay. Kaysone lived frugally, as beffited a committed revolutionary. But the army generals who dominated the Politburo under Khamtay had come to enjoy the wealth that power brought them. Over the decade that followed, a culture of corruption took hold as the example set by Politburo members permeated the whole Party. Western countries and lending agencies, which stepped in to provide foreign aid after the Soviets left, became alarmed at the growing corruption (and "leakage" from their aid programmes), and began to urge reform (better governance, greater transparency).

When Khamtay eventually stepped down in 2006, he was succeeded as LPRP president by his close colleague, Lieutenant General Choummaly Sayasone. But a younger man from a quite different background, Bouasone Bouphavanh, was appointed prime minister. Bouasone has spent his working life as a Party technocrat, and understands very well both the strengths and weaknesses of the Party. In his inaugural speech to the National Assembly he promised a reform agenda (without specifying details).

The problem for Bouasone, however, is that he owes his position to Khamtay. Like Khamtay, Bouasone is a southerner, but he did not have a strong patronage network of his own. Since any reform agenda threatens powerful interests within the Party, Bouasone has had to move carefully to build his own support base. This has taken time. He has had to win over others of his generation of Party leaders, including the minister for security, Thongban Sengaphone, whose police can provide some counterbalance to the military. Bouasone has also sought to build a base among middle-level technocrats, and outside the Party among the wider urban elite (many of whom work for foreign companies and aid projects where they have regular contact with foreigners, speak English, and are well informed). For example, in November 2007, Bouasone spoke to the Lao Business Forum, promising to simplify investment procedures, and followed this up by raising the

Committee for Planning and Investment to ministerial level. He decreed an end to land concessions (even though some have still been granted) and has backed re-centralization.

Two actions that Bouasone has taken indicate his intention of doing something about corruption. One was the Law on State Inspection that he presented to the National Assembly in September 2007. This law, which replaced an earlier decree, empowers the State Inspection Authority to examine transactions at all levels of government. Where positions are being used for personal gain, officials will first be warned, then either dismissed or prosecuted.

The second development was the government reshuffle of July 2008, which removed the finance minister, Chansy Phosikham, and replaced him with his deputy Somdy Duongdy. At the same time four new ministers were appointed to the office of the prime minister, effectively increasing Bouasone's direct influence on government. These moves were widely interpreted as aimed at curbing corruption, as they followed a clear statement by Bouasone that it was "time to crack down on corruption, the luxury [of officials] and wrongdoers who violate the laws". "No one can help us", Bouasone told Assembly members. "We must do it ourselves."<sup>70</sup>

That Bouasone has not gone further, faster, is an indication of how powerful his opponents are. In fact in view of continued dominance of the Politburo by military men under whose watch the culture of corruption developed, it is unlikely that Bouasone would get anywhere at all were it not for the additional support he receives from Vietnam and China. This brings us full circle. The Vietnamese have apparently concluded that the competition, both personal and regional, that is inherent in Lao political culture, which feeds and feeds on corruption, both threatens the cohesion of, and undermines popular support for, the LPRP. To preserve the Party both discipline and organization must be strengthened. So the Vietnamese are backing Bouasone to introduce the necessary reforms — just as before they backed Kaysone to introduce a market economy.

There is now the Chinese connection to take into account, however, and the Chinese are more ambivalent. But as long as Bouasone signs off on Chinese investment projects in Laos, Beijing will back him too. Only with the support of Vietnam and China can Bouasone curtail corruption. It remains to be seen how successful he and his supporters will be, but two things are certain: first, this is how politics are played in Laos — with the participation of powerful friends; and second, the outcome will bring little joy to those who hope for a transition to democracy in the Lao PDR.

## Notes

- <sup>1</sup> The stupa is the symbol of Lao culture and identity, in the same way Angkor Wat is for Cambodia. When the LPDR introduced a market economy, the That Luang replaced the red star at the apex of the Lao national crest. A three-day national holiday marks the That Luang festival in November, the most important in the Lao Buddhist year.
- <sup>2</sup> Brian McCartan, “New-age Chinatown has Laotians on edge”, *Asia Times Online*, 26 July 2008.
- <sup>3</sup> Editorial statement, “Govt [sic] explains That Luang Marsh Development”, *Vientiane Times*, 12 February 2008.
- <sup>4</sup> Dara Baccam, “Laos: Chinese firms will not develop That Luang marshland”, *Voice of America News*, 12 August 2008.
- <sup>5</sup> Prior to the French period, Lao contacts with China were via Yunnan, in the form of tribute (via Kunming) and trade (conducted by Yunnanese Muslims or Hui). Very few Chinese lived in northern Laos. The Chinese who arrived during the French period came via Saigon or Bangkok to southern and central Laos. Most were Chaozhou, Hakka, Hainanese and Cantonese, roughly in this order. See “Chinese in Laos” in Martin Stuart-Fox, *Historical Dictionary of Laos*, 3rd ed. (Lanham, MD: Scarecrow Press, 2008), pp. 54–55.
- <sup>6</sup> Florence Rossetti, “The Chinese in Laos: Rebirth of the Laotian Chinese community as peace returns to Indochina”, *Chinese Perspectives* no. 13 (1997): 26.
- <sup>7</sup> See Bertil Lintner, “China Ascendent — Part 1: Checkbook diplomacy raises China’s standing with Laos and Cambodia”, *YaleGlobal*, 25 April 2008 at <<http://yaleglobal.yale.edu/display.article?id=10702>> (accessed 30 April 2008).
- <sup>8</sup> The other partners are Italian-Thai 19.5 per cent (Bangkok-based and owned by a Sino-Thai family) and Saha Bolisat Lao 10 per cent (a Lao company controlled by the family of former Lao state and Party president Khamtay Siphandone).
- <sup>9</sup> Sounthone Ketphanh, Khamphone Mounlamai, and Phoui Siksida, “Rubber Planting Status in Lao PDR”, paper presented to a workshop on Rubber Development in Laos held at the National Agriculture and Forestry Research Institute of Laos, Viang Chan, 9–11 May 2006 at <[http://nafri.org.la/05\\_news/workshops/rubber/papers/Sess1\\_p2\\_rubber%20status.pdf](http://nafri.org.la/05_news/workshops/rubber/papers/Sess1_p2_rubber%20status.pdf)> (accessed 12 November 2008).
- <sup>10</sup> Brian McCartan, “China Farms Abroad”, *Asia Sentinel*, 1 August 2008 at <[www.asiasentinel.com/index.php?option=com\\_content&task=view&id=1361&Itemid=32](http://www.asiasentinel.com/index.php?option=com_content&task=view&id=1361&Itemid=32)> (accessed 11 November 2008).
- <sup>11</sup> David Fullbrook, “Beijing pulls Laos into its orbit”, *Asia Times Online*, 25 October 2006.
- <sup>12</sup> The figure for 2002–07, according to the IMF, was US\$1.188 billion. *IMF Country Report* no. 08/340, Lao People’s Democratic Republic, Statistical Appendix.
- <sup>13</sup> “Chinese investors invade Laos”, *The Nation* (Bangkok), 8 October 2007.

<sup>14</sup> Thailand accounts for 51.3 per cent of Lao exports and 70.6 per cent of imports, as against figures for China of 8.9 and 8.6 per cent. *EIU ViewsWire*, New York, 5 June 2008 and 23 September 2008.

<sup>15</sup> The cost of US\$97 million was shared between China, Thailand and the Asian Development Bank (US\$30 million each), with the Lao government making up the remainder. “New overland route links Singapore to Beijing”, *The Nation* (Bangkok), 1 April 2008.

<sup>16</sup> Laos has announced suspension of further foreign investment in telecommunications because the sector is “saturated”. *KPL Lao New Agency*, 28 October 2008. Mining concessions are also on hold until 2010.

<sup>17</sup> “Chinese investors invade Laos”, *The Nation* (Bangkok), 8 October 2007; *Radio Free Asia*, 12 May 2007.

<sup>18</sup> Qin Jize, “China, Laos to enhance ties”, *China Daily*, 31 March 2008.

<sup>19</sup> “Sino-Laotian bilateral ties”, *People’s Daily Online*, as updated 16 November 2006 <[http://english.peopledaily.com.cn/200611/16/eng20061116\\_322139.html](http://english.peopledaily.com.cn/200611/16/eng20061116_322139.html)> (accessed 13 November 2008).

<sup>20</sup> Bertil Lintner calls the movement of Chinese into mainland Southeast Asian states “a creeping invasion”, which Beijing is doing nothing to prevent (in “China’s Third Wave, Part 1: A new breed of migrants fans out”, *Asia Times Online*, 17 April 2007). Grant Evans prefers the term “drift” (in his paper “The Southward Drift of the Chinese” presented at the 17<sup>th</sup> Biennial Conference of the Asian Studies Association of Australia, Melbourne, 1–3 July 2008). With respect to Laos, Evans rejects C.P. Fitzgerald’s alternative models of sinicization: the Vietnam model of wholesale adoption of Chinese culture; and the Yunnan model of Chinese settlement followed by political administration. Instead he favours a third model in which limited Chinese migration will bring some sinicization of Lao culture, but not political control. I have argued that the pattern of power relations between China and Southeast Asia that is emerging, while it is by no means a modern replay of the tributary relationship that existed until the nineteenth century, does preserve cultural and historical elements of it that both sides implicitly recognize. See Martin Stuart-Fox, *A Short History of China and Southeast Asia: Tribute, Trade and Influence* Crows Nest (Australia: Allen & Unwin, 2003). Milton Osborne argues similarly that China seeks recognition from Southeast Asian countries as the paramount power: Chinese interests will come first, but China also wants Southeast Asia to be a prosperous partner. Milton Osborne, *The Paramount Power: China and the Countries of Southeast Asia* (Sydney: The Lowy Institute for International Policy, 2006).

<sup>21</sup> “Special Report: Premier Wen visits Laos, attends GMS Summit”, *Xinhua*, 30 March 2008.

<sup>22</sup> See, for example, Ian Storey, “China and Vietnam’s tug of war in Laos”, *China Brief from the Jamestown Foundation*, vol. 5, issue 13 (7 June 2005).

<sup>23</sup> Bertil Lintner, "Laos: Signs of Unrest", in *Southeast Asian Affairs 2001*, edited by Daljit Singh and Anthony Smith (Singapore: Institute of Southeast Asian Studies, 2001), pp. 177–86.

<sup>24</sup> *EIU ViewsWire*, New York, 5 June 2008. IMF Country Report no. 08/340 (Laos), October 2008.

<sup>25</sup> "Laos sets to boost trade with Vietnam", *Vietnam News Agency*, 27 October 2008.

<sup>26</sup> "Vietnam pours 1.28 billion USD in investment in Laos", *Vietnam News Agency*, 12 August 2008. According to the IMF, however, the total for 2002–07 was US\$539.2 million. *IMF Country Report* no. 08/340, Lao People's Democratic Republic, Statistical Appendix. See also Andrew Symon, "Regional race for Laos" riches", *Asia Times Online*, 30 August 2007.

<sup>27</sup> "Vietnam, Laos ink supplements to major hydro-power project", *Vietnam News Agency*, 16 June 2008.

<sup>28</sup> To be constructed over 2010–16 at a cost of US\$2 billion. *Voice of America News*, 30 October 2008.

<sup>29</sup> According to the *Vietnam News Agency* (27 August 2008), since 2005, 947 Lao officials have graduated from the Institute.

<sup>30</sup> Used twice in the joint statement issued on the occasion of Lao president Choummaly to Vietnam in 2006 at <<http://www.vnanet.vn/pPrint.aspx?itemid=151083>> (assessed 16 August 2006).

<sup>31</sup> Supalak Ganjanakhundee, "Illegal logging hits Lao forests", *The Nation* (Bangkok), 1 April 2008.

<sup>32</sup> Tina Qian argues in "Communist capital flows downstream: China's aid to Laos" (China Development Brief at <<http://www.chinadevelopmentbrief.com/node/454>> accessed 11 November 2008) that China wants an economic quid pro quo for its aid, rather than greater political influence. Others argue that China is waiting for the revolutionary generation to pass on (Brian McCartan, "China and Vietnam square off in Laos", *Asia Times Online*, 30 August 2008), and that this is a deliberate long-term strategy (Storey, "China and Vietnam's tug of war over Laos"; Pavin Chachavalpongpun, "With a little help from Laos' friends" at <[http://www.nationmultimedia.com/2006/12/04/opinion/opinion\\_30020631.php](http://www.nationmultimedia.com/2006/12/04/opinion/opinion_30020631.php)> (accessed 6 December 2006).

<sup>33</sup> See, for example, his speech to the National Assembly in June 2007. "PM announces improvements to Govt [sic]", *Vientiane Times*, 25 June 2007.

<sup>34</sup> Burma/Myanmar, Thailand, Cambodia and Vietnam; Malaysia being commonly grouped with the maritime states of Indonesia, the Philippines, Brunei and Singapore.

<sup>35</sup> Of close to 8,000 Hmong refugees in Thailand, almost a thousand returned to Laos in May and June 2008 and have been resettled. Others refuse to go. The Lao have complicated things by preventing independent monitors from verifying that returnees have been properly treated.

<sup>36</sup> Lao exports to Thailand have declined from 50 per cent in 2005–06 to 30 per cent in 2007–08, while imports remained at 68 per cent. Department of International

Cooperation, Ministry of Planning and Investment, Lao PDR, *Background Document: Achievements, Challenges and Future Directions within the Implementation of the National Strategies and Policies* (Roundtable Implementation Meeting, Vientiane, 24 November 2008), p 8. Major import items include petroleum products, vehicles and machinery; while exports include minerals, timber, and electricity. Two-way trade stood at almost US\$1.5 billion in 2006, a figure both sides intend to double by 2010. *Mekong News*, 28 December 2006 at <[http://209.85.173.132/u/sumernet?q=cache:FRYSamSaVAEJ:www.sumernet.org/news/mekongnews\\_detail.asp%3Fid%3D28+investment+laos&hl=en&ct=clnk&cd=2&ie=UTF-8](http://209.85.173.132/u/sumernet?q=cache:FRYSamSaVAEJ:www.sumernet.org/news/mekongnews_detail.asp%3Fid%3D28+investment+laos&hl=en&ct=clnk&cd=2&ie=UTF-8)> (accessed 24 November 2008).

<sup>37</sup> *IMF Country Report* no. 08/340, Lao People's Democratic Republic, Statistical Appendix.

<sup>38</sup> *IMF Country Report* no. 08/340, Lao People's Democratic Republic, Statistical Appendix.

<sup>39</sup> *Voice of America News*, 30 October 2008.

<sup>40</sup> For an assessment of progress in such matters as public expenditure, financial sector reform and the reform of state-owned enterprises, all of which the World Bank has been pressing for. See The World Bank Office, Vientiane, *Lao PDR Economic Monitor*, November 2008.

<sup>41</sup> World Bank, *Lao PDR Economic Monitor*, November 2008.

<sup>42</sup> Department of International Cooperation, *Background Document*, p. 2.

<sup>43</sup> *IMF Country Report* no. 08/340, Lao People's Democratic Republic, Statistical Appendix.

<sup>44</sup> As of writing, China's Minmetals was negotiating to buy OZ Minerals, the Australian company that owns the Sepone mine, though the Lao government will presumably continue to hold a 10 per cent stake in the mine. Along with the proposed Chinese bauxite mine, ownership of the Sepone mine would give China an even stronger presence in southern Laos.

<sup>45</sup> *IMF Country Report* no. 08/340, Lao People's Democratic Republic, Statistical Appendix. Of some 140 approved foreign-owned mining ventures in Laos, only a handful contribute something to government revenue. Most are small, but whatever they pay does not show up in the government's budget papers.

<sup>46</sup> "Illegal logging hits Laos forests", *The Nation* (Bangkok), 1 April 2008. Most illegal timber is smuggled into Vietnam to feed the country's US\$3 billion furniture export industry.

<sup>47</sup> Introduction of a VAT was signed into law in January 2007, but its implementation has been delayed for technical reasons until 2009.

<sup>48</sup> "Laos seeks investors for the national railway network project", People's Daily Online, 21 November 2008 at <<http://english.people.com.cn/90001/90777/90851/6538363.html>> (accessed 30 November 2008).

<sup>49</sup> World Bank, *Lao PDR Economic Monitor*, November 2008. Ben Bingham, Statement by IMF Resident Representative, Roundtable Implementation Meeting, Vientiane, 24 November 2008.

<sup>50</sup> Most pressure has come from the World Bank, which predicts revenue collection will rise to 14.9 per cent of GDP for the financial year 2007–08, but decline in 2008–09. World Bank, *Lao PDR Economic Monitor*, November 2008. Projections are for mining to contribute just under 15 per cent of revenue and hydropower more than double that. LPDR, *National Growth and Poverty Eradication Strategy*, October 2003, Table 4.1, p. 282.

<sup>51</sup> Most recent figures for this report are from 2005.

<sup>52</sup> Among ASEAN states, only Cambodia and Indonesia rank lower.

<sup>53</sup> UNDP, *Human Development Report 2007/2008*, statistics for the Lao PDR at <[http://hdrstats.undp.org/countries/data\\_sheets/cty\\_ds\\_LAO.html](http://hdrstats.undp.org/countries/data_sheets/cty_ds_LAO.html)> (accessed 26 November 2008).

<sup>54</sup> UNDP, *Human Development Report 2007/2008*, statistics for the Lao PDR.

<sup>55</sup> *EIU ViewsWire*, New York, 5 June 2008.

<sup>56</sup> WHO statistics at <<http://www.who.int/countries/lao/en/>> (accessed 29 November 2008).

<sup>57</sup> “Half of Laos’ rural children chronically malnourished, says WFP”, *The Nation* (Bangkok), 8 November 2007.

<sup>58</sup> See Olivier Evrard and Yves Goudineau, “Planned Resettlement, Unexpected Migrations and Cultural Trauma in Laos”, *Development and Change* 35, no. 5 (December 2004): 937–62; Keith Barney, “The trouble with tenure security in Laos”, *Watershed* 12, no. 2 (2007): 57–64.

<sup>59</sup> The government has promised low-paid civil servants to increase salaries, but this is unlikely to ameliorate matters.

<sup>60</sup> Reading between the lines of the World Bank, *Lao PDR Economic Monitor*, November 2008, indicates how reluctant the Lao government has been to restructure SOEs or to undertake financial sector reform. See also Nick Freeman, “Laos: Funding the Future”, *The Banker*, October 2006.

<sup>61</sup> The government wants to increase rates, which will squeeze payments made to provincial authorities, who are resisting any rise.

<sup>62</sup> Susanne Wong, “Laos: Villagers Mount Unprecedented Protest Against Dam in Laos”, *World Rainforest Movement Bulletin* no. 70, May 2003, at <<http://www.wrm.org.uy/bulletin/70/Laos.html>> (accessed 29 November 2008).

<sup>63</sup> At <<http://www.mfa.gov.sg/vientiane/Laws/Anti%20Corruption%20Law%20&%20De%20cree%20FINAL%2014-03-06.pdf>> (accessed 30 November 2008).

<sup>64</sup> Martin Stuart-Fox, “The Political Culture of Corruption in the Lao PDR”, *Asian Studies Review* 30, 1 (2006): 59–75. See also Martin Stuart-Fox, “The Persistence of Political Culture in Laos and Cambodia”, *Südostasien aktuell* 3 (2008): 34–57.

<sup>65</sup> Laos comes in at number 151 out of 180 countries in Transparency International’s Corruption Perception Index. See <[http://www.transparency.org/news\\_room/in\\_focus/2008/cpi2008/cpi\\_2008\\_table](http://www.transparency.org/news_room/in_focus/2008/cpi2008/cpi_2008_table)> (accessed 30 November 2008).

<sup>66</sup> “Laos to improve transparency”, *The Nation* (Bangkok), 16 September 2007.

<sup>67</sup> The list of these is impressive (World Bank, *Lao PDR Economic Monitor*, November 2008, pp. 30–39), and indicates how successful Party leaders have been in resisting reform. One way they have done this is to prolong discussion; another is to pass laws or issue decrees that are not implemented; while a third is to establish an institution which does no actual work (such as an independent audit authority that is not, and never can be, independent of government and the Party).

<sup>68</sup> World Bank, *Lao PDR Economic Monitor*, November 2008, p. 15. The dispute over rates to charge for land concessions shows, however, how powerful province governors remain.

<sup>69</sup> Or *meuang* dynamics. See Martin Stuart-Fox, “The Politics and Reform in the Lao People’s Democratic Republic”, Working Paper no. 126, Asia Research Institute, Murdoch University, at <<http://wwwarc.murdoch.edu.au/wp/wp126.pdf>>.

<sup>70</sup> China Economic Net, “Laos cabinet reshuffled” at <[http://en.ce.cn/World/Asia-Pacific/200707/04/t20070704\\_12058131.shtml](http://en.ce.cn/World/Asia-Pacific/200707/04/t20070704_12058131.shtml)> (accessed 1 December 2008). A second reshuffle was required in November 2008 following the unexpected death of Bosaykham Vongdara, the minister for energy and minerals. His place was taken by Soulivong Daravong, while the mayor of Viang Chan, Sinlavong Khoutphaythoun, a supporter of Bouasone, took over Soulivong’s portfolio of planning and investment. The fast-rising Hmong governor of Xainyaburi province, Sombath Yialiheu, was appointed the new mayor of Viang Chan.