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PAST, PRESENT, AND UNCERTAIN FUTURE

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Trends in Southeast Asia

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FOREWORD

The economic, political, strategic and cultural dynamism in Southeast Asia has gained added relevance in recent years with the spectacular rise of giant economies in East and South Asia. This has drawn greater attention to the region and to the enhanced role it now plays in international relations and global economics.

The sustained effort made by Southeast Asian nations since 1967 towards a peaceful and gradual integration of their economies has had indubitable success, and perhaps as a consequence of this, most of these countries are undergoing deep political and social changes domestically and are constructing innovative solutions to meet new international challenges. Big Power tensions continue to be played out in the neighbourhood despite the tradition of neutrality exercised by the Association of Southeast Asian Nations (ASEAN).

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Chinese Engagement in Laos: Past, Present, and Uncertain Future

By Danielle Tan

EXECUTIVE SUMMARY

- During the colonial period, Laos welcomed the smallest overseas Chinese communities in Southeast Asia, communities that almost disappeared after the communist forces seized power in Laos in 1975.
- Yet, this landlocked country shares a long history with China and even experienced a Golden Age thanks to the thriving caravan trade between Yunnan and mainland Southeast Asia. The Greater Mekong Subregion programme, launched by the Asian Development Bank, has revitalized these historical trade routes, causing thousands of Chinese migrants to pour onto the new roads of Laos, channelled through the North–South Economic Corridor linking Kunming to Bangkok.
- The growing link between Laos and China has alarmed many scholars and development workers, both Lao and foreign; some even speak of a Chinese “shadow state” threatening Lao sovereignty and territorial integrity.
- It is necessary to go beyond the image of Laos regularly depicted as a weak state, a victim of globalization, and of China in particular, to consider a less passive posture. The paper argues that China’s growing presence is far from eroding the power of the Lao communist regime. Instead, Chinese engagement allows the Lao state to cope with the challenges of globalization *and* to maintain its power at the same time.
- The paper will highlight Chinese engagement in Laos throughout history by emphasizing their recurrent patterns of intermediation. Then, it will describe how Chinese networks have become key partners of the Lao state’s development policies. However, rising uncertainties over the neighbouring communist ally’s economic potential may push China to revise its development strategy in Laos.

Chinese Engagement in Laos: Past, Present, and Uncertain Future

By Danielle Tan¹

INTRODUCTION

On 7 April 2010, the Lao government signed an agreement with China that sets out the financing and the construction of a high-speed railway line (420 km) linking the capital Vientiane to southwestern China. Under the original plan, China was to fund 70 per cent of the US\$7.2 billion project. The construction was initially set to commence on 25 April 2011 to celebrate the 50th anniversary of diplomatic relations between China and Laos. However, the project was postponed after the corruption scandal that led to the removal of China's Minister of Railways in February 2011. Afterwards, the Chinese construction companies pulled out of the venture fearing the rail link would not generate enough profit. Laos resolved to take full ownership of the project. Laos and China are still finalizing the details of the loan agreement with the China EximBank. In return for financing the project, "China will secure supply of around 5 million tons a year of mineral resources, mainly potash, by 2020, along with other raw materials such as timber and agricultural products that may be shipped to China," stated the Lao Minister of Energy and Mining (*Wall Street Journal* 2012). To put an end to rumours concerning the cancellation of the railway project, Prime Minister Thongsing Thammavong confirmed that the project was still on the agenda during his visit to China in April 2014 (*Radio Free Asia* August 2014).

Should this megaproject materialize, China would be fully connected to Southeast Asia, from Beijing to Singapore. It would join the multiple

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lines of communication that have been built by China over the past few years. The navigation on the Mekong River and the North-South Economic Corridor (NSEC)² seemed unrealistic just a decade ago, given the very difficult terrain of this region. These Herculean works are rather emblematic as the Chinese are on track to achieve the *mise en valeur*³ of Laos that the French only dreamed of during their colonial rule but failed to implement (Stuart-Fox 1995).

French interest in Indochina was mainly to gain access to the Chinese market to the detriment of the British. That was why building railways and a water road along the Mekong River was crucial to the colonial government. A century later, the same scenario is being replayed, but this time, the Chinese have become the dominant players, and they are considering the Greater Mekong Subregion (GMS) as the centrepiece of their “charm offensive” (Kurlantzick 2007, p. 10) in Southeast Asia. Once again, the role of Laos will be to serve as a transit corridor and as a reservoir of natural resources.

Are we then witnessing the emergence of a “neo-colonialism with Chinese characteristics” (Shichor 2008, pp. 73–85), or is there, conversely, a genuine growth opportunity presented to Laos due to the extraordinary human and financial capacity of China? This question is relevant not only with respect to Laos but also with respect to many African countries that have similarly allowed China access to their raw materials in exchange for huge investment amounts (Alden et al. 2008). Western observers tend to depict China as a “spoiler” in Africa, whose “insatiable” and “voracious” appetite for mineral resources is nothing more than a neo-colonial grab for raw materials that perpetuates African countries’ underdevelopment (Marton and Matura 2011, p. 115). China’s

² In short, the NSEC is basically a highway that links Kunming to Bangkok crossing through the northern provinces of Laos. It was inaugurated on 31 March 2008 during the third GMS Summit held in Vientiane.

³ This term refers to the colonization policy implemented by the French colonial government in Indochina. Indochina was designated as a *colonie d'exploitation* (colony of economic interests) by the French government. The objective for Laos was to provide access for trade with China, or a strategic location from which to extend French influence west to Siam.

development model exported to the world is therefore seen by many analysts as a threat to the sovereignty of weak states (Halper 2010).

I will address this issue by analysing the role played by the new Chinese networks in the economic liberalization of Laos,⁴ arguing that China's growing presence is far from eroding the power of the Lao communist regime. Instead, Chinese engagement allows the Lao state to cope with the challenges of globalization *and* to maintain its power at the same time. However, the cost of the *Great Transformation* (Polyani 1944) in Laos is exclusively borne by the weak, that is to say the minorities, the farmers and the poor living far from the centres of power, Vientiane and the regional capitals. First, I will highlight Chinese engagement in Laos throughout history by emphasizing their recurrent patterns of intermediation. Then, I will describe how Chinese networks have become key partners of the Lao state's development policies. However, rising uncertainties over the neighbouring communist ally's economic potential may push China to revise its development strategy in Laos.

THE CHINESE AND THEIR RECURRING ROLE AS MIDDLEMEN

Laos is often depicted as a landlocked country, penalized by its subsistence-oriented economy. Such images fail however to account for a longer historical portrait, with evidence of ancient caravan trade integrating the Lao Kingdom of Lan Xang into a regional, trade-oriented economy ever since its founding in 1354.

Chinese Caravans Connecting the Lowlands with the Uplands and with the World Economy

While the contribution of Chinese maritime networks to the formation of Southeast Asian coastal states is well established (Reid 1993; Lombard 1990), the role of continental Chinese Muslim traders in the political

⁴ More specifically, the analysis will focus on the three northern Lao provinces connected to the North-South Economic Corridor (Luang Namtha, Bokeo and Oudomxay), in which I conducted fieldwork between 2007 and 2012.

consolidation of the Tai kingdoms (Lan Xang, Lan Na, Kengtung, Sipsongpanna)⁵ is far less well known (Forbes 1988; Hill 1998).

At the end of the fifteenth century, the Lao Kingdom of Lan Xang blossomed due to a favourable economic environment generated by the Chinese caravan trade. Known under different names — *Hui* in Chinese (*huizu* 回族), *Haw* or *Chin Haw* in Thai and Lao, *Panthay* in Burmese — the Chinese Muslim caravan traders served as intermediaries between the highlanders and the lowland societies. They stimulated the economy within each kingdom along the trade routes through paying local taxes, and by supplying and collecting goods from the highlanders. Most importantly, they offered these landlocked kingdoms an outlet for their luxury goods — aromatic and medicinal plants, resins, benzoin, rare timber, ivory and the like — to the international market. In the long run, however, the revenue of the caravan trade alone turned out to be insufficient for Lan Xang to compete with the rising power of Ayudhya, whose economy was based both on maritime trade and agriculture. The Siamese and Vietnamese armies accentuated tensions and divisions within the realm by supporting the rivalry between the princes of Luang Prabang and Vientiane. The south seceded in turn and set itself up as the kingdom of Champassak in 1713. Split into three rival kingdoms, Lan Xang had ceased to exist.

The Overseas Chinese: “Indispensable Enemies” of French Colonial Rule

It was predominantly the disruption of caravan traffic from the mid-nineteenth century caused by the Panthay (1856–73) and the Taiping (1850–64) Rebellions in China that precipitated the decline of Luang Prabang — then under the control of Siam — and also explains its search for protection by the French.

⁵ Lan Xang, the “Kingdom of a Million Elephants” is the precursor of the country of Laos; Lan Na, the “Kingdom of a Million Rice Fields” is located in present-day northern Thailand; Kengtung is part of the Shan State in Myanmar, and Sipsongpanna, the “Kingdom of 12,000 Rice Fields” became the Xishuangbanna Dai Autonomous Prefecture in Yunnan Province.

Laos had the particularity — along with Thailand and Myanmar — of harbouring two types of Chinese communities (Halpern 1961; Rossetti 1997). In the north, the early overland Haw migration was characterized by caravan drivers, dealers, traffickers, and a few shopkeepers who were forced to settle permanently after the revolts in Yunnan. They were long thought of as hill tribes or as Muslims, but the term Haw became ambiguous because it subsequently incorporated the large number of Yunnan's Han and non-Muslim Chinese immigrants who fled into the Golden Triangle after the defeat of the Kuomintang (KMT) in 1949. In any case, these overland Chinese rejected this name. In Laos, the Han Yunnanese who had settled for five or six generations in the north, mainly concentrated in the province of Phongsaly, consider themselves both ethnic Chinese and Lao.

In contrast, larger waves of overseas Chinese (called *huaqiao* 华侨) from Guangdong, Fujian, and Hainan settled in the main cities of central and southern Laos (Vientiane, Thakhek, Savannakhet and Pakse) during the colonial period. Although they had arrived as coolies to develop the European empires, the overseas Chinese in Laos and throughout Southeast Asia rapidly came to dominate the main economic sectors thanks to their networking abilities. They organized themselves in what the French called *congrégations*⁶ (*huiguan* 会馆 or *bang* 帮) according to their dialect and/or provinces of origin (Purcell 1965; Pan 1999). The structures of colonial economies relied on the vast networks of Chinese middlemen to extract agricultural production and distribute basic consumer goods. These middlemen bought, sold, imported and exported everything available in the colonies. In Indochina, they functioned as *compradors* for the French trading houses. More importantly, they controlled a vast banking, commercial and money lending network, particularly opaque and branched, covering Cochinchina (today's southern Vietnam), Cambodia and Laos. French traders resigned themselves to working with

⁶ The French colonial regime had entrusted these *congrégations* with the responsibility for the registration of Chinese newcomers in Indochina. This system of indirect rule over Chinese communities also provided mutual aid assistance, organized social and cultural activities, mediated internal disputes, and assisted the government in implementing laws and collecting taxes.

them, considering them “indispensable enemies” (Brocheux and Hémery 2001, p. 194).

Those who ended up in Laos had actually failed to prosper in Thailand, Vietnam or Cambodia (Halpern 1961). The fact that Laos is landlocked is not the only factor that explained the small size of the Chinese communities in the country.⁷ The French also encouraged Vietnamese migration to Laos on whom they placed high hopes. Indeed, according to racial criteria established by the French colonial policy, the Vietnamese produced better officials than the Lao due to their mandarin tradition, and were considered more docile and less expensive workers than the Chinese (Robequain 1948, p. 86).

A Strategic Alliance Between the Ethnic Chinese and the Lao Elite

Although the *huaqiao* were few in number, they managed to control the Lao economy through a marriage-based integration process. The more affluent businessmen traded their economic capital for symbolic capital — that is to say, for the prestige (*kiet*) inherent in the traditional system of patronage monopolized by powerful Lao families (*phu gnay*). Similar to the outcomes in Thailand and Cambodia, these inter-ethnic marriages did not successfully assimilate the Chinese into Lao culture, but rather led to the emergence of a “creolized” community (Skinner 1996, pp. 63–65).

The Vietnam War proved to be a Golden Age for the Chinese in Laos due to American presence indirectly reviving Chinese migration. Fearing that the fall of Laos to the communist Pathet Lao forces might have a domino effect in Southeast Asia, the U.S. provided abundant assistance contributing to an economic boom and an increase in trade, especially with Thailand. A significant number of Chinese from Thailand settled on the banks of the Mekong River. In 1956–1957, it was the turn of Chinese

⁷ By the end of the colonial period in 1947, the overseas Chinese numbered 2.5 million in Thailand, 1.9 million in Dutch India, 300,000 in Myanmar, and 850,000 in French Indochina. Barely 32,500 Chinese however were registered in Laos in 1955 (Purcell 1965, p. 2; Halpern 1961, Table 3).

from Hong Kong and Saigon to take advantage of the mismanagement in the U.S. aid programme (Halpern 1961, p. 2).

The Lao elite benefited substantially from the corruption related to the assistance provided by the U.S. to keep the Royal Government of Laos (RGL) in power. The corrupt elite mainly comprised members of the royal family who made alliances with the military and with Chinese businessmen. The exercise of power was a means of accumulating wealth, for in exchange for concession rights or monopolies granted to Chinese businessmen, the Lao elite received a share of the profits. At that time, the opening of casinos by the Chinese had already become a “semi-legal” lucrative business. Profits were reinvested in the regular economy — for example in the development of the national airline company, Lao Airlines (Evans 2002, pp. 158–159).

In addition, the Secret War conducted by the CIA had catapulted Laos into the echelons of the world’s leading opium producers. In the context of its anti-communist efforts, the CIA played a significant role in the opium trade to finance mercenary armies in Laos and Thailand. Chinese merchants (predominantly Yunnanese) continued to serve as intermediaries between the highlanders and the Corsican syndicates who controlled the opium trade since the departure of the French, until its takeover in 1965 by General Ouane Rattikone, on behalf of the RGL, and with the help of Air America, one of the CIA’s airline companies (McCoy 1991, pp. 226–234). Unlike Myanmar and Thailand, there were no major drug lords in Laos, whose profits remained modest in comparison with the two other key protagonists of the Golden Triangle, the Shan state-based Haw leaders (among them, Khun Sa, the most notorious drug lord), and the Kuomintang soldiers, secretly supported by the CIA, who had settled in northern Thailand after their defeat by the Chinese Communists in 1949.

The 1960s saw the arrival of a massive number of troops from the Chinese People’s Liberation Army (PLA), tasked to build a vast network of roads in Laos’ north, then occupied by the Pathet Lao. However, cooling Sino-Lao diplomatic relations towards the end of the 1970s⁸

⁸ Due to the Sino-Vietnamese war (February 17 to March 16, 1979) triggered by the invasion of Cambodia in December 1978 by Vietnamese troops.

resulted in the withdrawal of 5,000 Chinese military workers (Walker 1999, p. 59) and in the dissolution of Chinese community life in Luang Prabang, Oudomxay and Xiengkhuang.

Chinese Presence in Laos since the 1990s

The political changes of 1975 that culminated in the Pathet Lao takeover led to a mass exodus of most of the Chinese community, which dropped from 100,000 people⁹ to approximately 10,000 in the early 1990s (Rossetti 1997). Being targeted by the new communist regime less for their ethnic origin than for their social position and economic influence, the Chinese communities in Laos — like those in Vietnam and Cambodia — sought refuge mainly in the West, particularly in the United States, France and Australia (Condominas and Pottier 1982).

The end of the Cold War in the early 1990s led to a new regional order that endorsed a revival of China's influence in Southeast Asia (Evans et al. 2000). Determined to regain its "rightful place" in a region it considered its traditional sphere of influence (Stuart-Fox 2003), the Chinese government devised a strategic "charm offensive" (Kurlantzick 2007), nurturing close economic partnerships (i.e. aid, investment, creation of a free trade pact between ASEAN and China) and promoting the idea of China's peaceful, non-threatening emergence. Moreover, China's attitude towards its diaspora has changed radically. The Chinese government has recognized the tremendous potential of its diasporic human capital within the country's soft power strategy to restore the great power status that China held for centuries before subjugation by military western superior powers in the 19th century.

The visit of Premier Li Peng to Vientiane in 1990 marked a turning point in China–Laos relations. Suddenly being Chinese was no longer problematic. Chinese schools and shops gradually began to reopen, even though the Laotian Chinese community had been reduced to a shadow of its former self. Thus, the reawakening of a Chinese community in Laos did not come from the *huaqiao*, unlike in Cambodia where they managed to regain their traditional economic role (Tan 2006). Rather, in Laos, this arose from a new cycle of immigrants (*xinyimin* 新移民), who started

⁹ This figure is given by the Association of Overseas Chinese in Vientiane. Most official sources recorded 40,000 people.

pouring into northern Laos in the late 1990s at an unprecedented scale. The vast majority of these Chinese newcomers have settled in the north of the country and in Vientiane.

The first Chinese newcomers arrived in the mid-1990s as workers or technicians on road construction projects and as part of the industrial cooperation between Yunnan and the northern provinces of Laos (Luang Namtha and Oudomxay). At the end of their contract, some stayed on and started their own businesses. They were quickly joined by a growing number of petty traders from neighbouring Yunnan and from more distant provinces, such as Hunan, Sichuan and Zhejiang. They typically engage in miscellaneous trading activities in import-export, transport, hardware and household supplies, motorcycle repair, cell phone shops, restaurants, hotels, or beauty salons, and they occupy increasing space in local markets. For most of these new migrants, Laos is not their first point of destination. The overwhelming majority of traders I met at the markets in northern Laos were from Hunan, with many of them first migrating to Yunnan, where they had engaged in commercial activities (see also Hansen 1999). Because of the fierce competition in China, they resigned themselves to exploring other migration options. They moved to northern Laos after having been told that a new road would soon link Kunming to Bangkok and bring economic development to a country still replete with opportunities. Before leaving China, some migrants told me that they had never heard of Laos or were unable to locate the country on a map.

Indeed, the completion of the North-South Economic Corridor (NSEC) has accelerated the migration of Chinese petty traders searching for a better life and new economic opportunities. Their long-term settlement has profoundly transformed the socio-economic landscape of northern Laos, in both urban and rural areas. As soon as Chinese bus companies started to connect Yunnan Province (mainly Mohan, Mengla, Jinghong, and Kunming) with the main cities of northern Laos¹⁰ and Vientiane, Chinese traders began to settle there, supplying cheap Chinese goods to

¹⁰ According to my field observations between 2007 and 2012, the major destinations were the provincial capitals, in order of importance, Oudomxay, Luang Prabang, Luang Namtha, Phongsaly, and Houeisay. The improvement of transportation has also enabled further inroads in secondary cities, such as Muang Sing, Muang Long, Xieng Kok, Vieng Phou Kha, Pak Beng, or Muang Khao.

the urban and rural populations. In particular, they have transformed Lao urban centres — Chinese markets, shops, restaurants and guesthouses have become the most visible markers of this new urbanisation (Tan 2014a).

Upon establishing a foothold in Laos, these new pioneers make contact with their home communities in order to recruit labour and business partners. While Chinese migrants in the 1990s were mostly males (Rossetti 1997, p. 33), I observed during my fieldwork that the pattern of migration has increasingly become feminized. Most of the newcomers I met run their businesses with their families, so they can go back to China regularly without having to stop their activities. The families often seize the opportunity to raise more than one child in Lao PDR. When they have children of school age, they prefer to leave them with the grandparents to receive a Chinese education. I encountered many single or married women who ran their own businesses, leaving their family behind in China. Living mostly alongside their Chinese peers, the newcomers have achieved limited integration in Lao society. Regardless of their length of stay in Laos or future plans to remain there, they view their stay as temporary and strictly for the purpose of economic advancement. Given that this circular and chain migration is still recent, the newcomers have not yet organized themselves into associations, unlike the overseas Chinese during the colonial period. Instead, hotels/guesthouses and restaurants have become crucial nodes within regional business networks. Setting up wherever buses stop over, they play multiple roles, acting as information centres, gambling houses (where *mah-jong* is played), bus ticket offices, small warehouses, intermediaries between traders and private buses, meeting rooms for Chinese companies and so on. They are frequently engaged in other activities such as running a shop in another city, even as far away as Vientiane, a transportation business, clinics or rubber production. Due to capital constraints, they tend to have only smallholdings, with many now serving as subcontractors and supervisors for large Chinese companies (Shi 2008; Diana 2009).

According to official Chinese data, there are some 30,000 Chinese currently residing in Laos, though their number may actually be ten times higher (*The Nation* 2007). As reported by a Greater Mekong Subregion