

# Chinese aid to Laos – a mixed blessing

Phanthanousone (Pepe) Khennavong (PhD)

National Technical Advisor

Round Table Process in Lao PDR

(Aid Coordination & Development Effectiveness)

Department of International Cooperation

Ministry of Planning and Investment, Lao PDR

# Presentation outline

1. Laos & aid
2. Literature review and research gap
3. Research questions and methodology
4. Findings and implications
5. Ending remarks

# **1. Laos and Aid**

# Country background

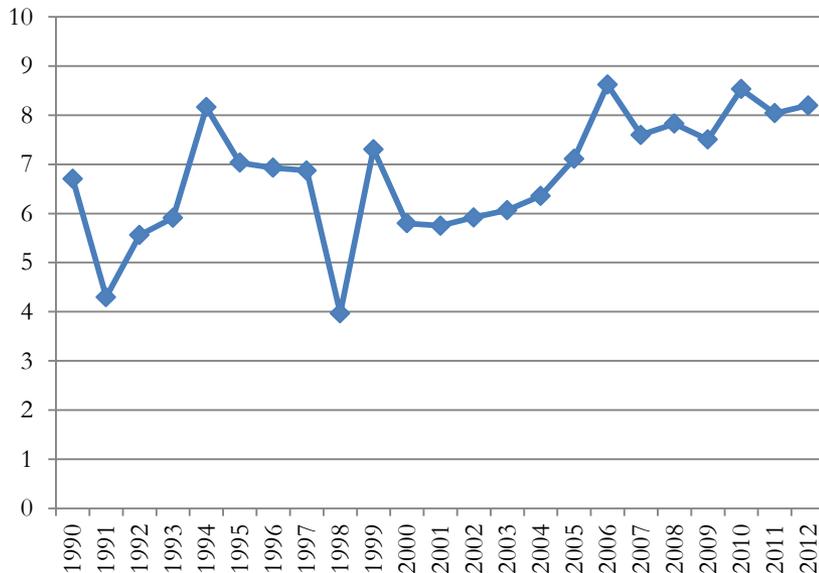
- + Lao People's Democratic Republic (Lao PDR) was established in 1975.
- + Only landlocked country located in Southeast Asia.
- + A population of about 6.6 million people in a land of 236,800 square kilometers.
- + 80% of the population lives in rural areas.



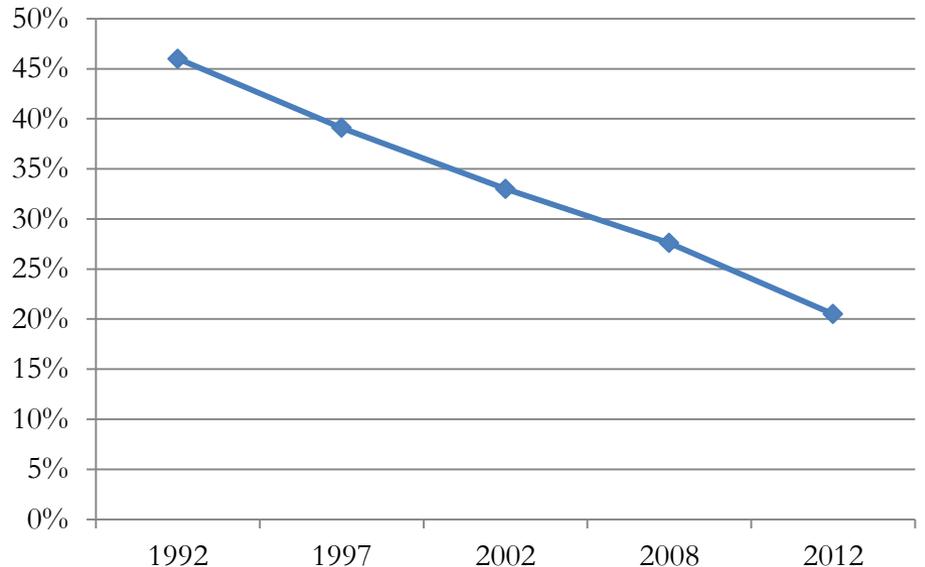
# Reform and development

- + The adoption of the New Economic Mechanism in 1986
- + Admission to the WTO in 2013.
- + Steady economy growth since 1990, and declining poverty.
- + Graduated in 2011 from being a low-income country to a middle-income country.

**GDP growth (annual %)**



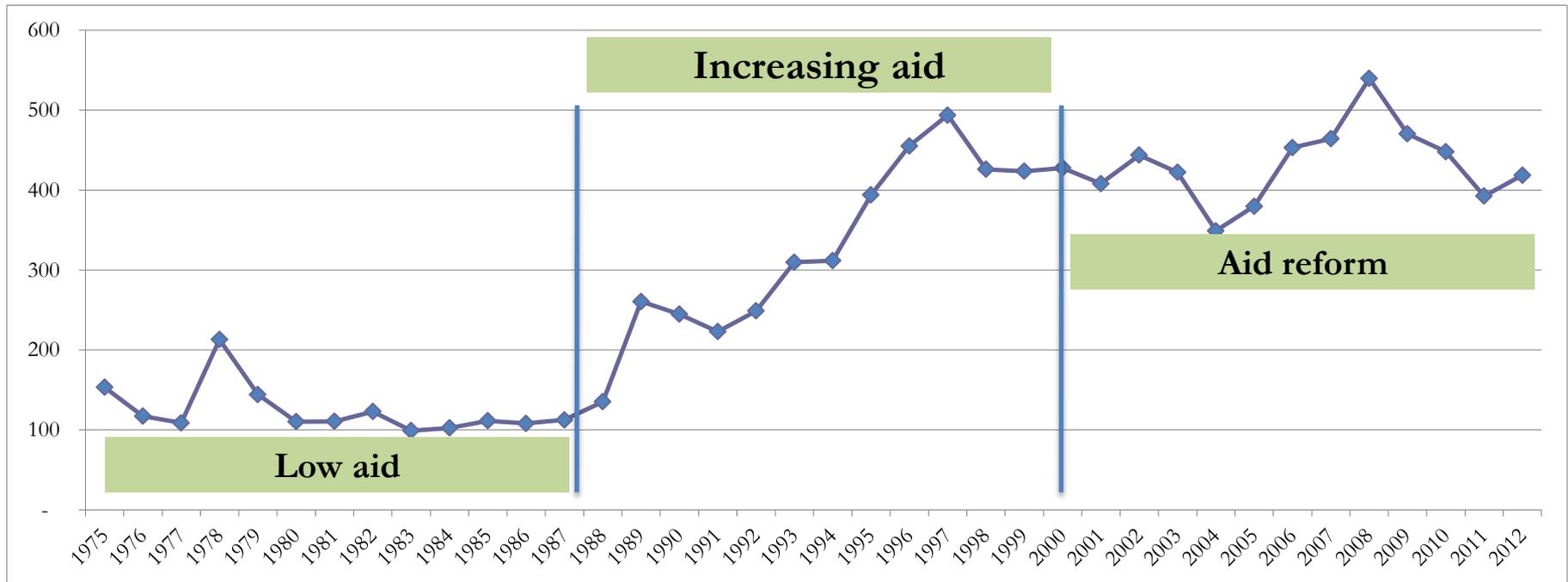
**The proportion of people below the national poverty line**



# Aid from OECD countries to Laos

- + Aid from OECD countries has been very important to Laos for the last few decades (Typically aid/GDP >10%)
- + Since 1975, the flow of Official Development Assistance (ODA) to Laos from traditional (OECD) donors has gone through three phases.

Total ODA to Laos since 1975 (2011 constant prices; USD millions)



# What we know about Chinese aid to Laos

- China has been providing aid to Laos since 1961
- Chinese aid to Laos has gone through ups and downs over the decades
  - 1970s and mid 1980s – China withdrew its aid as a result of Lao support for the Vietnamese invasion of Cambodia
  - In early 1990s, China and Laos resumed their relations leading to a resumption of aid
  - Since then, the aid relationship, and indeed the broader relationship, between Laos and China has gone from strength to strength
    - 1997 – Chinese support to Laos in face of the East Asia Financial Crisis
    - November 2000, the first Chinese head of state, President Jiang Zemin, visited Laos
- Many construction projects have been supported by China such as public facilities, the National Conference Center, the National Stadium, the highway linking China to some ASEAN countries, etc....

# What we know about Chinese aid to Laos (continued)

It would be a mistake to analyse the aid relationship between Laos and China without reference to the broader relationship between the two countries

- China has become a major trading partner and source of investment (Top three Lao trading partners – Vietnam, China and Thailand)
- Lao economic policies are often similar to those in China, for example, with an emphasis on gradual economic reform and special economic zones.
- What China wants for its support to Laos are three things:
  - backing Chinese foreign policies;
  - accessing to Lao resources and;
  - accessing through transport links to the Southeast Asia region.

# What we do not know about Chinese aid to Laos

- Figures on Chinese aid to Laos are not publically available – changes over time?, sectoral composition? and comparison of aid from aid to Laos and traditional donors?
- How Chinese aid is negotiated is not known and documented
- No formal analysis on what the Lao Government officials think about Chinese aid, for instance

## **2. Literature review and research gaps**

# The rise of Chinese aid

- The literature on the impact of Chinese aid is contradictory with both positive and negative arguments.
- The bulk of the literature, especially the more empirical literature, is quite positive, stressing the benefits and with little evidence of actual costs.
- The body of in-depth case studies looking at the rise of Chinese aid from the recipients' perspective is still very limited. Key studies are:
  - Dornan and Brandt (2014) - Pacific;
  - Sato et al. (2011) - Cambodia; and
  - Woods (2008) – Global.
- Study of Laos gives a chance to add to this body of literature, and to contribute to this broader debate.

# **3. Research questions and methodology**

# What are the implications for Laos of the rise of Chinese aid?

## Break this topic down to 4 main questions:

- How much aid does Laos receive from China, and for what? (largely unknown)
- How is aid from China negotiated? (Dornan and Brandt 2014; Sato et al. 2011)
- Why is Chinese aid “so attractive”? (Woods 2008)
- Is it “a cause for alarm”? (Woods 2008). Specific concerns are:
  - ‘The rise of Chinese aid is a threat to Laos’ development’
  - ‘Chinese economic policy runs counter to the policies long pressed by Western donors’
  - ‘Chinese aid to Laos seems to undermine what traditional donors are doing on good governance and environmental standards’

# Methodology

The research has three components

1. Quantifying for the first time the trends, and extent and nature of Chinese aid to Laos
2. Semi-structured interviews were carried out with 25 government research informants in Laos from early October 2011 till the end of August 2012
3. Analysis and ethnography
  - My own work at UNDP
  - 6 months with the Lao Government working on aid coordination as part of my thesis
  - Review of grey literature.

# Government research informants

Descriptions	No	%	Male	Female	Average years of experience	Median
<b>Officials approached for this study</b>	<b>39</b>	<b>-</b>	<b>27</b>	<b>12</b>	<b>-</b>	<b>-</b>
<b>Total government research informants(75% response rate)</b>		<b>-</b>			<b>17</b>	<b>15</b>
<b>Government officials in total</b>	<b>31</b>	<b>52%</b>	<b>21</b>	<b>10</b>	<b>18</b>	<b>15</b>
Senior (58%)	18	30%	12	6	24	23
Middle-Manager (26%)	8	13%	7	1	12	12
Technical (16%)	5	8%	2	3	6	6
<b>Officials who declined to participate</b>					<b>-</b>	<b>-</b>
<b>Government officials</b>	<b>8</b>	<b>40%</b>	<b>6</b>	<b>2</b>	<b>-</b>	<b>-</b>
Senior	6	30%	4	2	-	-
Middle-Manager	1	5%	1	0	-	-
Technical	1	5%	1	0	-	-

# Government research informants (who agreed to be interviewed)

Total research informants who agreed to be surveyed (interviewed after completing the survey for other chapters of the thesis)				31 (25)
I. Government officials in total	Line Ministry	Provincial Department	Central Agency *	
Senior	4(3)	6(6)	8(6)	18(15)
Middle-Manager	3(3)	1(1)	4(3)	8(7)
Technical	3(1)	-	2(2)	5(3)
<b>Sub-Total</b>	<b>10(7)</b>	<b>7(7)</b>	<b>14(11)</b>	<b>31(25)</b>

# 4. Findings and implications

## (i) Quantitative analysis

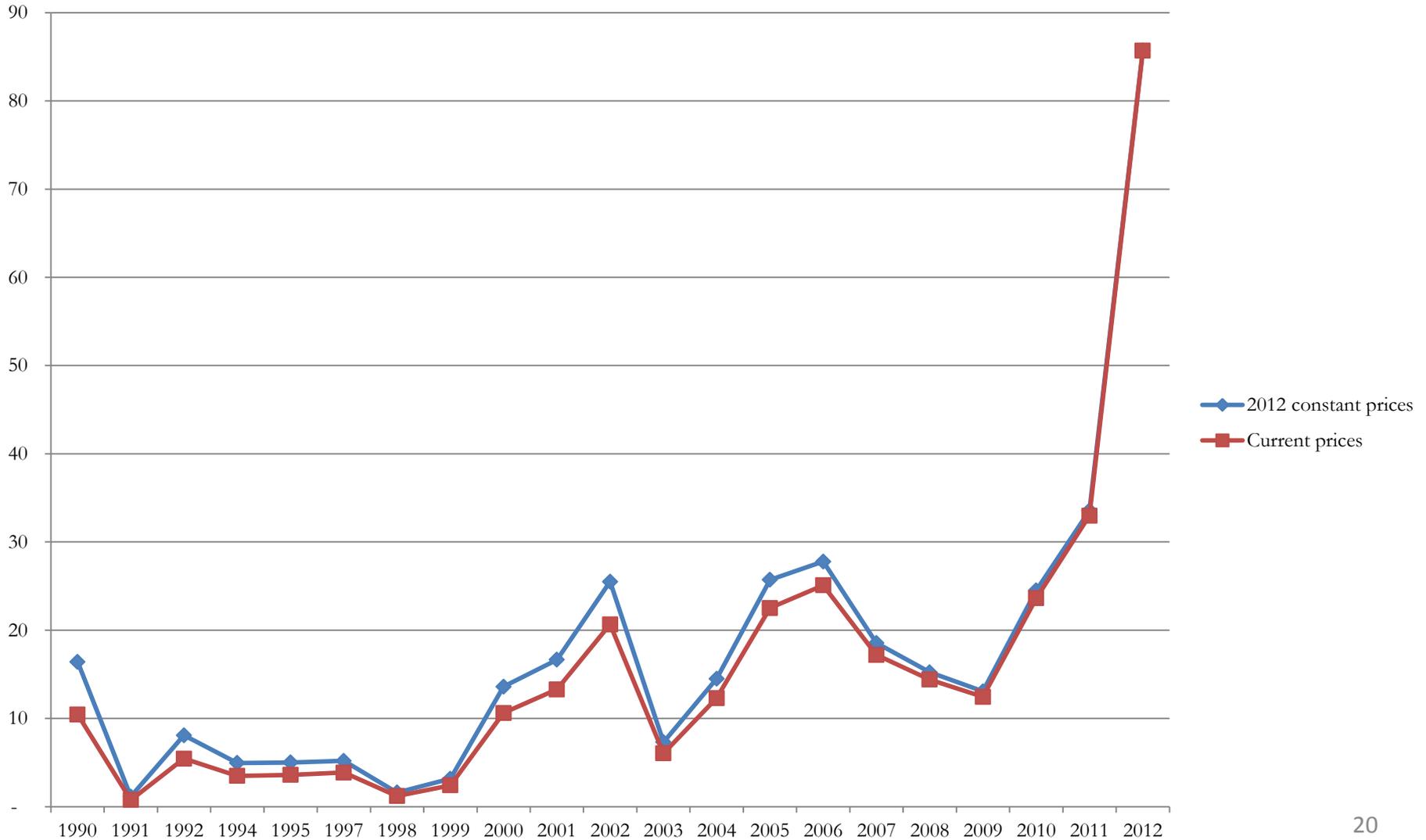
- First (for Laos; worldwide?) project level database of Chinese aid.
- Chinese aid is increasing rapidly.
- China has become one of Laos' top three donors.
- Chinese aid split between grants and concessional loans.
- Focus on infrastructure and public facilities

# A summary of Chinese aid to Laos – 1990 to 2012

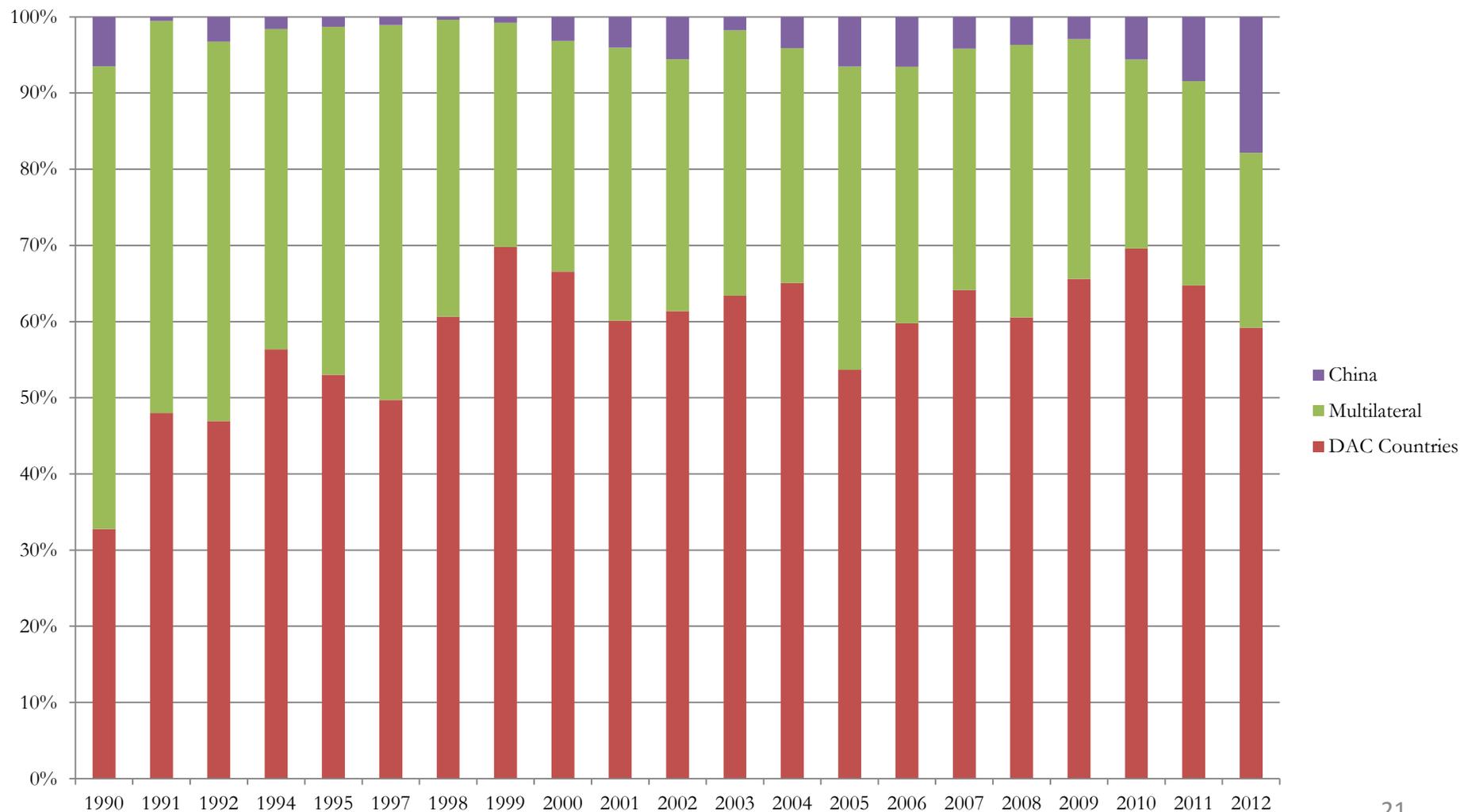
Types of Chinese aid to Laos	Number of grant (loan) projects	Amount in Million	
		Chinese Yuan	USD ***
<b>Grants (Chinese Yuan 1,362 Million = USD 188 Million) &amp; Concessional Loans (Chinese Yuan 979 Million = USD 140 Million)*</b>	<b>55 (15)</b>	<b>2,341</b>	<b>328</b>
• Transportation (roads, small bridges and commercial planes)	13 (9)	1,138	152
• Public facilities	20 (2)	701	105
• Hydropower & telecommunication	6 (2)	183	27
• Others	(2)	120	19
• Health and agriculture facilities	8	147	18
• Education (mostly training courses for Lao officials)	8	52	7
<b>Special loans</b>		<b>4,846</b>	<b>768</b>
• The bail out during the Asian financial crisis (1999) **			300
• Construction of the Lao national stadium (2009) **			100
• Initial loan for the construction of the high speed railway (2012)**			368
<b>Grand Total = Grants + Concessional loans</b>		<b>7,187</b>	<b>1,096</b>

# Chinese aid to Laos, 1990-2012 (grants & loans, excluding special loans - USD million)

(The US price index used for calculating the Chinese aid at 2012 constant prices)

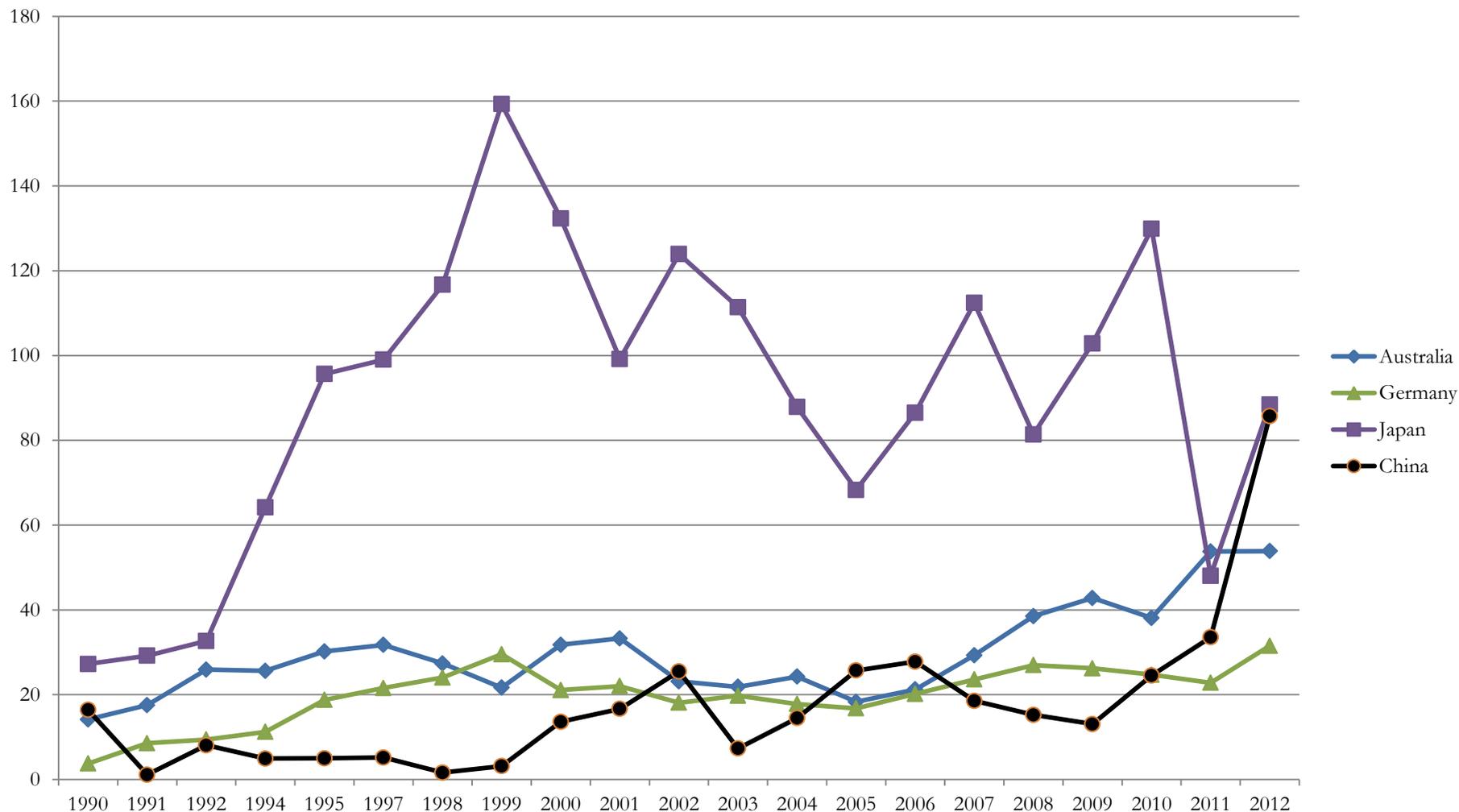


# Comparison of aid from China (grants and loans) and traditional donors (DAC countries and multilateral donor agencies) to Laos 1990-2012 (2012 constant prices – percentages of total aid)



# Comparison of aid from China and selected traditional donors to Laos 1990-2012 (2012 constant prices – USD million)

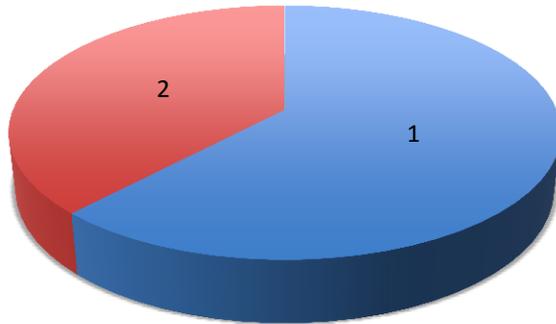
(The US price index used for calculating the Chinese aid at 2012 constant prices)



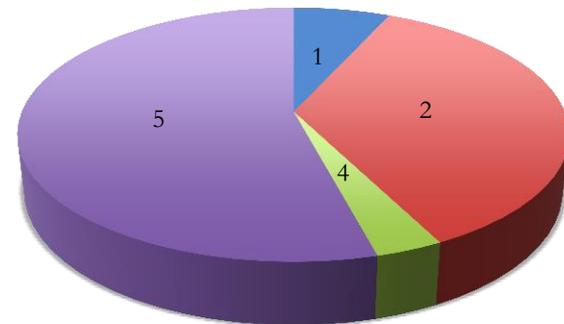
# Sectoral composition of Chinese aid (grants and loans) to Laos (1990-2012) by sub-period

1 – Hydropower & telecommunication, 2 – Public facilities, 3 – Transportation, 4 – Education, 5 – Health and agriculture facilities, and 6 – Others

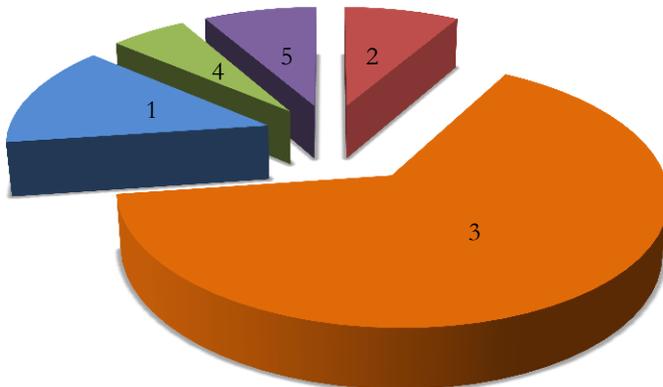
**(1990-1995)**



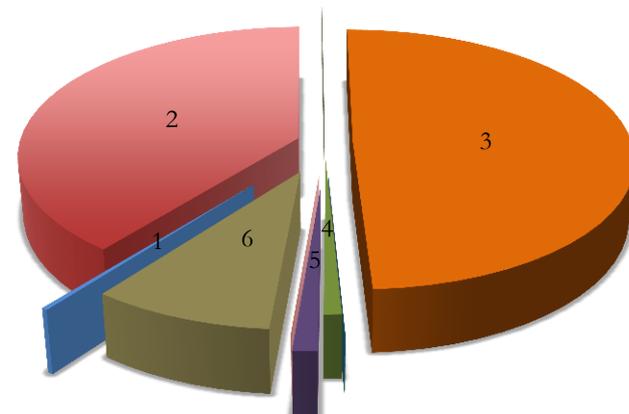
**(1996-2000)**



**(2001-2005)**



**(2006-2012)**

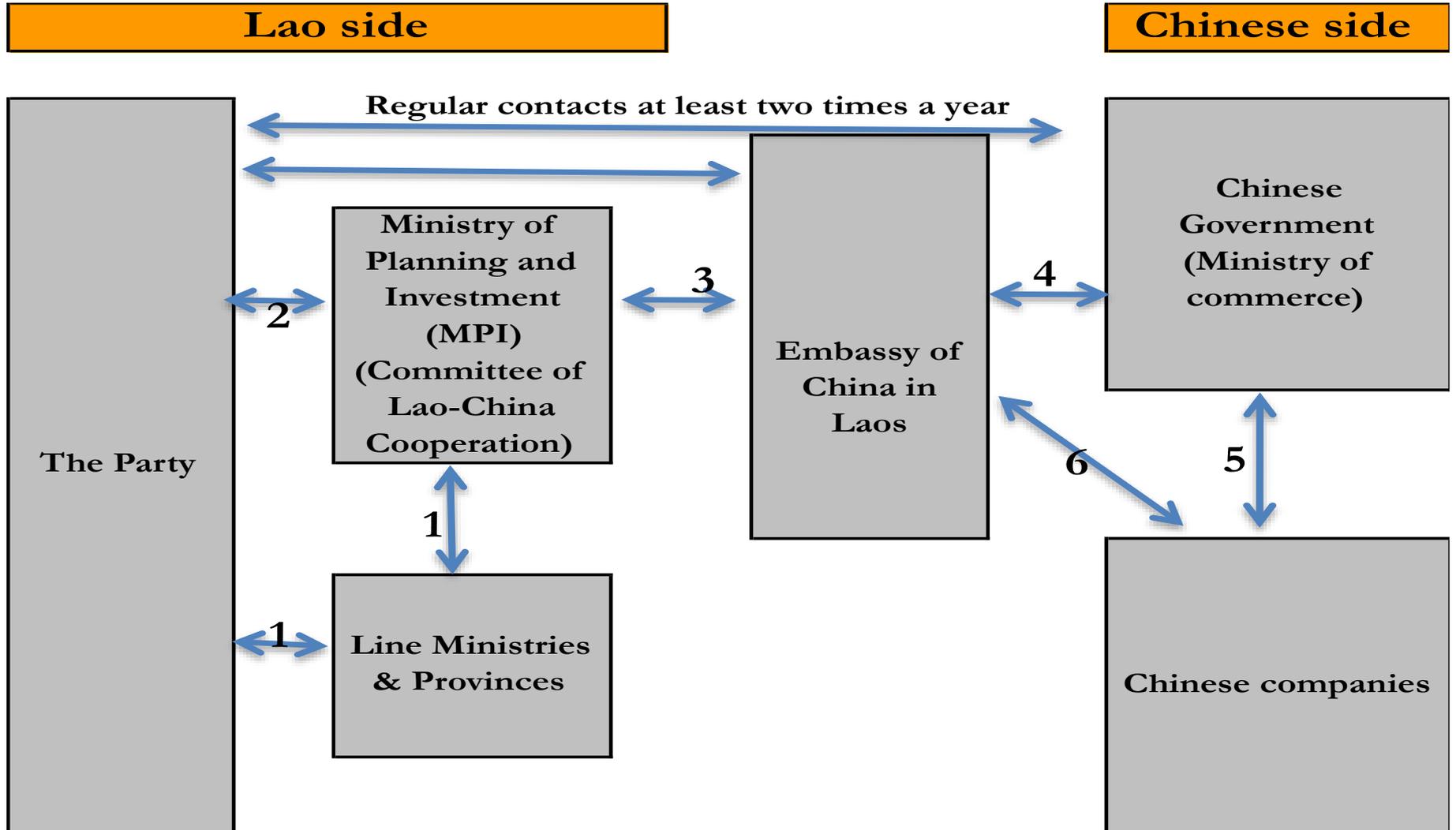


## (ii) Negotiation of Chinese aid

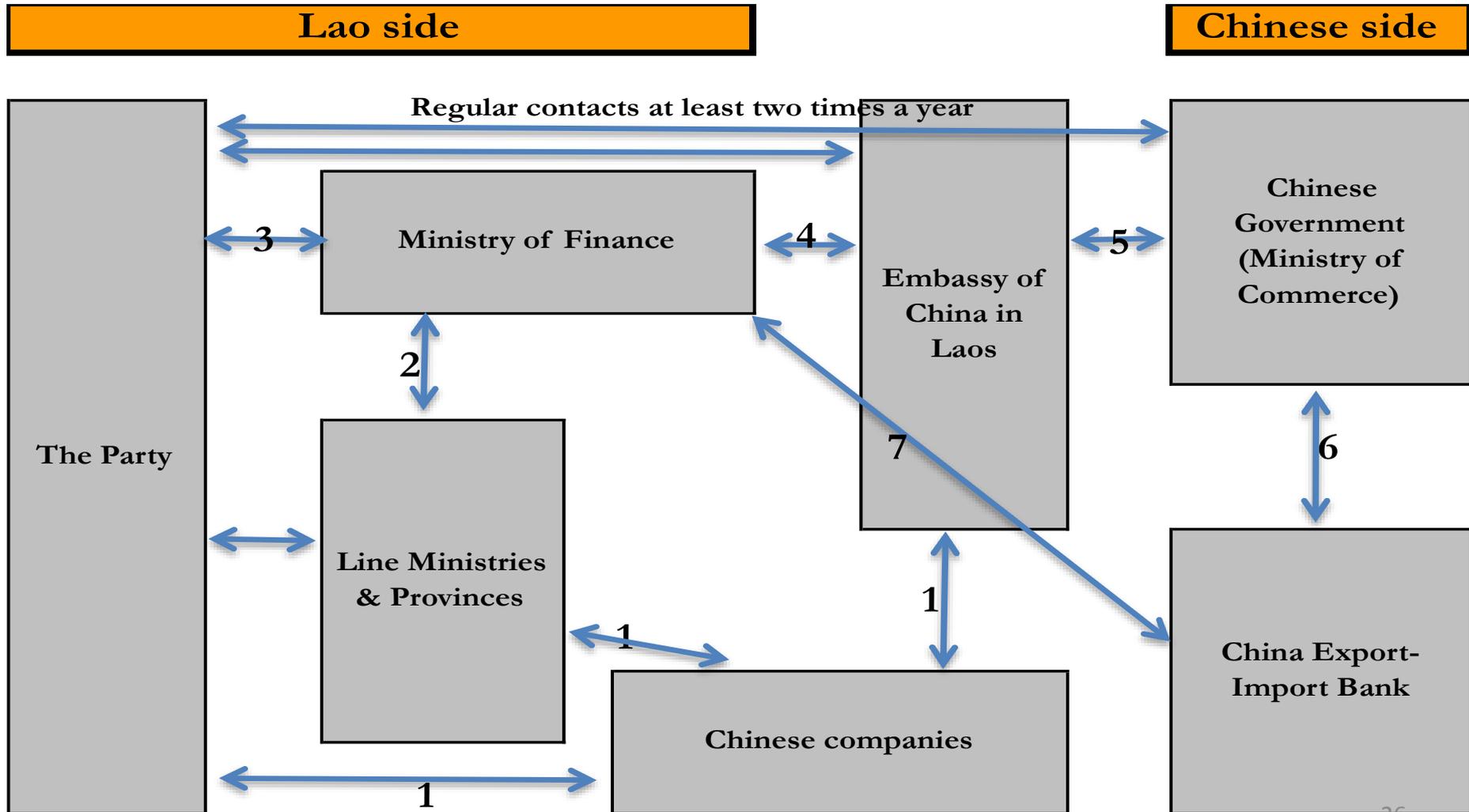
Key findings based on interviews & field work:

- Separate from OECD aid, but has own established process.
- Different for grant and loan aid.
- Loans often initiated by Chinese companies.
- Decisions often made with Party, and bureaucrats kept out of the loop – often Chinese companies have direct access to the Party members
- Similar conclusion to Dornan and Brandt (2014) on Vanuatu.

# Negotiations over Chinese grants to Laos



# Negotiations over Chinese (interest-bearing) concessional loans in Laos



### **(iii) Why is Chinese aid so attractive?**

Five categories of responses from government officials, in descending order of popularity.

1. 'China's aid delivers concrete outputs',
2. 'China's aid increases choice'
3. 'Chinese officials treat us as equals',
4. 'We are dissatisfied with traditional donors', and
5. 'China's aid is less complicated and time consuming'.

# Some quotes from the interviews

- The only way that the Party can prove its legitimacy is to produce tangible outputs ...So, to come up with something concrete quickly and to avoid long process of consultations, the assistance from China has become very attractive for the Party. So far, Chinese aid has been helpful for both the Lao Government and the Party as a number of outputs such hospitals, roads, schools, sport facilities, conference venues etc were constructed within a short period of time. ....there is no doubt that the Party is strongly committed to further strengthen China-Lao development cooperation as more Chinese aid means more concrete outputs.

- Laos does not want to be a Chinese client state but our strategy is to ensure the rise of Chinese aid as it provides an alternative resource for the Party. What will we do if there is no support from other sources tomorrow? I don't think it will happen. However, we need to have an alternative choice in case we do not agree with the terms and conditions attached to aid provided by some other donors.

- When Chinese officials talk to us, they seem humble and modest about their capacities. They hardly mention that they have technical skills and they are in Laos to help us. Chinese officials often reiterate their position that they are still learning on how to put things together to ensure economic growth and sustainable development.

## (iv) Concerns about Chinese aid

Many officials did not want to discuss this, but those who did gave some very clear answers.

- + Overall they welcome Chinese aid and they do not see it as a threat.
- + But they recognize the Chinese model (which is promoted by Chinese aid) is different to that promoted by Western donors.
  - State-led capitalism
  - Authoritarian development
- + And they acknowledge that Chinese aid undermines good governance and environmental standards.
  - By reducing traditional donor leverage.
  - And because of the back-door way in which it is negotiated.
    - This makes Chinese aid more susceptible to corruption and less likely to follow environmental standards.
    - The greater interaction of Chinese officials with Lao Party officials - reduces traditional donor influence.

# Some quotes from the interviews

## China's experience is valued

- Laos looked for Russia in the past but then the system failed. So, the Government turned to traditional donors for useful advice and suggestions. However, what has happened with the West causing the recent global financial crisis has made the Lao Government more skeptical about the Western economic policies.
- There should not be 'one size fits all' when it comes to development. So, the rise of Chinese aid is good for Laos as we do not only rely on the development model introduced by the West but also learn from the Chinese experience.

## China's influence and reform

- It is difficult to make a case to the Party that we need to adopt economic policies as suggested by traditional donors as some of officials are also making a case to the Party about the success of the Chinese economic model.
- The Party understands that Laos will be taken by China if the country development solely depends on Chinese support. Therefore, opening up of the national planning process in Laos is a strategy of the Party to balance and counter the power and influence of China.

## Corruption and environmental issues

- Now, with the increased number of big Chinese firms in Laos, corruption has become a normal practice and the scale of the deals becomes hundreds of thousands or even millions of dollars. Whether it is true or not, I think one thing for sure is that people who are in positions and who have connection with authorities look to Chinese firms for money. So, what is the point to have all these anti-corruption laws and regulations?
- To me, it is clear that with the rise of China in Laos, many Chinese firms seem to have direct contacts with the Party members and those senior officials seem to be in positions to issue contracts to exploit natural resources without proper social responsibilities and environmental safeguards.

# Implications for Laos

- Debates over aid reflect a broader division within Laos ruling elite.

Clear sense from government officials that the country is at a crossroads, and that the Party is unclear as to which direction to follow.

‘Certainly, there are those within the Party who want to follow the West’s economic policies and those who think that Chinese model is better for Laos. However, I don’t think that the Party members agree now what to do next.’

- While China has become & will become much more influential, there are also fears around China’s growing influence, which motivates government officials to welcome Western donors.

# Implications for the literature

## **Substance**

This study comes out in the middle on the debate around Chinese aid. For the first time, provides direct evidence that government officials, while welcoming Chinese aid, are aware of the risks around it in terms of undermining traditional donor influence, governance and environmental standards.

## **Methodology**

The responses on Chinese aid illustrate the value of research into aid undertaken by nationals of the countries being studied, and in the language of national interlocutors, especially for revealing views on sensitive subjects (Compare the study of Chinese aid to Cambodia by Sato et al. 2011 which was conducted in English reveals no concerns at all around Chinese aid.)

# Limitations and possible extensions

## + Limitations

- Views from Chinese officials were not obtained
- Very difficult to distinguish between the role of Chinese aid and rising role of China more generally.

## + Possible extension

- More detailed analysis of some key projects funded by Chinese aid

## 5. Ending remarks

- There is a difference between having concerns about China's aid, and not welcoming it. Lao government officials welcomes Chinese aid , but still have concerns, and these would seem to be well-justified.
- We would characterize the position of Lao government officials as being one of seeing the rise of Chinese aid, and of China more broadly, as a mixed blessing, rather than an undiluted one. They welcome Chinese aid, but with their 'eyes wide open'.

**Thank you**