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From Landlocked to Land Linked: The Belt and Road Initiatives in Laos

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Executive Summary:

- Laos PDR, as the only landlocked country of Southeast Asia, sees its opportunity to connect with the world through China's Belt and Road Initiative (BRI).
- Both countries have been working together since the very beginning, and two of Laos' major achievements are the high-speed rail project, which was signed in late 2021, as well as the hydro-dam project to generate energy for Southeast Asia. However, the process of cooperation offers both benefits and harms.
- While Lao PDR is working on transforming itself into a land-linked country and spreading its economic development, it may run into debt-trap diplomacy, environmental pollution, and insecure community livelihoods. Therefore, Laos should strengthen cross-border trade facilitation and investment in infrastructure development as well as multifunctional networks.
- By improving the reliability and efficiency of its transport infrastructure, Laos can reduce the costs and time penalties associated with international trade operations and closely monitor development project like BRI to mitigate the possible impacts.

Laos is one of the earliest adopters of China's Belt and Road Initiative (BRI). Due to its geographical confinement and relatively limited territorial expanse, Laos has consistently demonstrated a disposition towards appeasing its neighboring countries, seeking their support or utilizing their influence¹. The small Southeast Asian nation had already begun working with China on infrastructure and connectivity-building projects well before Beijing launched the project in 2013.² Moreover, Lao leaders investigated collaborating with China to construct a railway in the country's landlocked state in the early 2000s.³

Additionally, on the 13th of April 2023, many Laotians celebrated the Laos New Year Celebration as a nation-wide holiday. This joyful day also marked the official opening of passenger services on the China-Laos railway. Just recently inaugurated, the Laos-China Railway, which began its construction in 2015, is now the first-ever bullet train with high speeds in Laos. The 1000-kilometer-long railway connects Vientiane to Kunming, China and the trip will approximately take 10 hours with 2 stops and the speed of 60 kilometers per hour.⁴ Hence, it is important to understand and analyze the impact of BRI in Laos.

Belt and Road Initiatives (BRI)

In 2013, President Xi Jinping launched a mega plan to connect East Asia and Europe using the tangible infrastructure project, the “Belt and Road Initiative (BRI)”. However, this infrastructure project was inspired by the historical and geographical passage, which is also known as the Silk Road that was established in the Han dynasty 2000 years ago.⁵ The BRI aimed to pose and extend the spread of the Chinese economic and political power and to enable a high-income economy using technology. President Xi shared his vision that the BRI will generate a big network of

¹ Chheang, Vannarith.2021. “BRI Projects in Cambodia and Laos Roll On Despite Covid-19,” no. 2021. Available at: https://www.iseas.edu.sg/wp-content/uploads/2021/07/ISEAS_Perspective_2021_99.pdf

² Kuik, Cheng-Chwee. 2021. "Laos's Enthusiastic Embrace of China's Belt and Road Initiative." Asian Perspective 45, no. 4. Available at: <https://muse.jhu.edu/issue/46780>

³ Research Gate. January 2021. “Laos's Enthusiastic Embrace of China's Belt and Road Initiative” Available at https://www.researchgate.net/publication/356425429_Laos's_Enthusiastic_Embrace_of_China's_Belt_and_Road_Initiative

⁴ Xinhua. 09 April 2023. “China-Laos Railway cross-border passenger service to boost Laos' economic recovery”. Available at: <https://english.news.cn/20230409/a84543f1e56442d3ab46ac86e4a0bcab/c.html>

⁵ World Bank. 2019. "Belt and Road Economics: Opportunities and Risks of Transport Corridors". Washington, DC: World Bank. Available at: <https://www.worldbank.org/en/topic/regional-integration/publication/belt-and-road-economics-opportunities-and-risks-of-transport-corridors>

essential physical infrastructure like railway, energy pipelines, highways and so on. Moreover, the Chinese government also sponsored many special economic zones (SEZs), digital 5G networks to those countries under BRI as well.⁶ The majority of infrastructure projects under the Belt and Road Initiative (BRI) are funded through debt, necessitating the host country's responsibility to repay the borrowed funds to China.⁷ The occurrence and predicament of excessive debt pose a significant difficulty for impoverished host nations that possess restricted capabilities to fulfill their debt obligations. On the other hand, the arrival of the Covid-19 pandemic led to the emergence of new elements such as the “Health Silk Road” to the existing BRI. The “Health Silk Road is a soft infrastructure project initiated by China during the pandemic. It aims to enhance global health cooperation and provide assistance to countries in need.⁸ China has played a significant role in this initiative by providing billions of masks, protective suits, testing kits, and vaccines to countries around the world. It has also helped in building testing labs and donating vaccines to more than 90 countries. The Health Silk Road is part of China's efforts to combat the spread of COVID-19 and strengthen international cooperation in the health sector.⁹

Overview of Major BRI Infrastructure Projects in Laos

The People’s Democratic Republic of Laos is the only landlocked Southeast Asian country. A study on the logistical cost and supply chain by the World Bank, found out that Laos, as a landlocked nation, faces significant costs due to its lack of direct access to coastal ports.¹⁰ According to a case study by Arnold (2005), the availability and cost of small-scale shipment services and consolidation into a single container are critical factors affecting export growth and diversification in Laos.¹¹ These findings suggest that Laos experiences higher logistics costs as a

⁶ Council on Foreign Relations. (n.d). “China’s Massive Belt and Road Initiative.”. Available at: <https://www.cfr.org/backgrounder/chinas-massive-belt-and-road-initiative>

⁷Jie, Yu, and Jon Wallace. “What Is China’s Belt and Road Initiative (BRI)? | Chatham House – International Affairs Think Tank,” September 13, 2021. Available at: <https://www.chathamhouse.org/2021/09/what-chinas-belt-and-road-initiative-bri>

⁸ Yuan, Shaoyu. June 2023. “The Health Silk Road: A Double-Edged Sword? Assessing the Implications of China’s Health Diplomacy.” World 4, no. 2 Available at: <https://www.mdpi.com/2673-4060/4/2/21>

⁹ Buckley, P.J.2020. "China’s Belt and Road Initiative and the COVID-19 crisis". J Int Bus Policy 3, 311–314. Available at: <https://link.springer.com/article/10.1057/s42214-020-00063-9>

¹⁰ Jean-François Arvis, Gaël Raballand, et Jean-François Marteau. 2010. “The Cost of Being Landlocked Logistics Costs and Supply Chain Reliability”. Available at:

<https://openknowledge.worldbank.org/server/api/core/bitstreams/ce55befd-5e99-50ca-9b65-6b47ac60fcbb/content>

¹¹ Arnold, John. 2005. “Trade and Transport Facilitation in Laos.” Washington, DC: World Bank. Available at: <https://landportal.org/node/32190>

result of its landlocked status. Therefore, Laos views participation in the Belt and Road Initiative (BRI) as a strategic approach to mitigate the challenges posed by its geographical constraints.¹² By embracing the BRI, Laos aims to transition from a state of being geographically isolated to being a country with improved connectivity and access to international trade routes. The high-speed rail project in Laos, funded by China, is a significant part of the Belt and Road Initiative (BRI). It is expected to bring transformative benefits to Laos by strengthening the ecosystem for national development, expanding market access to the region, and transforming Laos into a regional logistic hub. The completion of the railway is anticipated to lead to a significant increase in trade, investment, tourism, and industry development in Laos. Additionally, the rail project is seen as a symbol of China's economic influence and soft power in the region. The Lao PDR has started a number of joint development initiatives with China that aim to promote macroeconomic growth and boost employment and income for Laotians. The construction of the connectivity like railway is planned to boost foreign investments, Chinese visitors, logistics and shipping of goods, employment possibilities, educational standards, and living standards.

The country's economy relies heavily on the foreign direct investment. With the latest data, 148 countries, excluding China, signed to become a part of the BRI. 6 amongst the 148 are from Southeast Asia.¹³ On top of that, all of these countries have a very diverse economic status, ranging from low income to high income. The BRI was the right person at the right time for many least developed countries so it attracted much interest. And Laos has demonstrated her interests to improve the livelihood and well-being for the Laotians.

Kunming–Vientiane high speed railway

Currently, the Kunming-Vientiane Speed Railway runs daily between Vientiane, the capital of Laos, and Kunming, the capital of the Yunnan Province in southwest China. Including the time spent at the border for customs formalities, the total time for both is 10.5 hours. A first-class seat costs about CNY864 (118.45 USD) and a second-class seat cost about CNY542 (74.31 USD). On

¹²Ibid.

¹³ Nedopil, Christoph. July 2023. "China Belt and Road Initiative (BRI) Investment Report 2023 H1 – the first ten years", Green Finance & Development Center, FISF Fudan University, Shanghai; Available at: <https://greenfdc.org/china-belt-and-road-initiative-bri-investment-report-2023-h1/>

April 13, 2023, the Kunming-Vientiane Train began service, traveling 1,022 kilometers (635 mi) at a speed of 160 km/h (99 mph).¹⁴ It now takes 2.5 hours and 3 hours, respectively, to go from Kunming South Railway Station to the well-known southern Yunnan destinations of Xishuangbanna and Pu'er by train. Moreover, Luang Prabang, a UNESCO World Heritage Site, and Vang Vieng, a party town, are both stops in the Laos route. These are the major cultural and natural tourist attractions in Laos that drive the tourism sector of Laos.

The completion of the China Railway project concluded in December 2021.¹⁵ This project initially served at the freight-train for commercial purposes and it was running since December 2021 amidst the pandemic. During the inauguration day of this fast-speed railway, President Xi has emphasized his significant regard for the advancement of bilateral relations between China and Laos, he expressed his willingness to collaborate with the Prime Minister Thongloun in executing the action plan on the China-Laos community with a shared future as the central focus.¹⁶ Furthermore, 167 bridges and 75 tunnels, totaling 62 and 198 kilometers, have been constructed due to the predominantly mountainous terrain.¹⁷ It is a very difficult building project because of the complicated geological landscape along the line. The Laos-China Railway Company, a joint venture between Chinese and Lao state-owned firms, constructed the \$6 billion railway equal to 70% and the other 30% of the share belongs to the Lao side, which contributed \$1.5 billion in loans from the Export-Import Bank of China and \$250 million in direct government investments.¹⁸

Boten- Vientiane Railway

Additionally, Laos also opened the railway between Boten and Vientiane. The route, which begins at Boten and travels north for about 595 kilometers before terminating in Kunming, the capital of China's Yunnan Province, could considerably improve connectivity within this mountainous

¹⁴ Travel China Guide. n.d. "China - Laos Trains: D887/ D888". Available at: <https://www.travelchinaguide.com/china-trains/laos/>

¹⁵ Ben, Sokhean. July 9, 2023. "China-Laos Railway to Reap Economic Dividends - Khmer Times," Available at: <https://www.khmertimeskh.com/501321491/china-laos-railway-to-reap-economic-dividends/>

¹⁶ The State Council information office. "Xi Exchanges Congratulatory Messages with Lao President on 60th Anniversary of Diplomatic Ties | English.Scio.Gov.Cn," April 26, 2021. Available at: http://english.scio.gov.cn/m/topnews/2021-04/26/content_77441104.htm

¹⁷ Mengya, Zhou. December 4, 2021. "China-Laos Railway Now Connecting Cities of Kunming and Vientiane." GoKunming, Available at: <https://www.gokunming.com/en/blog/item/4557/china-laos-railway-now-connecting-cities-of-kunming-and-vientiane>.

¹⁸ Ibid.

landlocked nation and draw more foreign investment and tourists.¹⁹ The cost-effectiveness of the project is a topic of debate, but almost all observers are concerned about Laos' increasing reliance on China in light of the growing geopolitical tensions between Washington and Beijing. According to the U.S. research institute AidData, Laos has the biggest debt to China in the whole world, totaling 65% of GDP when off-balance sheet factors like borrowings by state-owned enterprises are included.²⁰ As a result, there are worries that Laos could fall into a "debt trap" and accumulate debt that it would be unable to pay back.²¹

Hydroelectricity

Despite being geographically landlocked and situated amidst economically more prosperous nations like Vietnam, Thailand, China, and Cambodia, Laos possesses significant hydroelectric resources, which may be seen as a valuable asset. As a plan to transform itself into the “battery of Southeast Asia,” Laos has signed a 25-year concession with China to build and manage a large part of the country’s power grid in 2018. It is claimed to give Laos state grid better bargaining power with regional countries and start to make a profit, however debt has further spiked.²² The state power company Electricite du Laos (EDL) is estimated to hold \$8 billion of debt in addition to Laos’s own sovereign debt of \$12.6 billion.²³ Furthermore, hydropower is used to export electricity to Malaysia, Singapore, Thailand, Vietnam, Cambodia, and possibly Myanmar. The Luang Prabang dam, which is expected to be finished in 2027 and have an installed capacity of 1,460 megawatts, will be more powerful than any other dam in Laos. A large portion of the

¹⁹ ASEAN Briefing. 21 December 2021. “The Completed China-Laos Railway: Bringing Opportunities for ASEAN and the Asia Pacific”. Available at <https://www.aseanbriefing.com/news/the-completed-china-laos-railway/>

²⁰ Malik, Ammar A, Bradley Parks, Brooke Russell & et.al. September 2021. “Banking on the Belt and Road: Insights from a New Global Dataset”. Available at: https://docs.aiddata.org/ad4/pdfs/Banking_on_the_Belt_and_Road_Insights_from_a_new_global_dataset_of_13427_Chinese_development_projects.pdf

²¹ Nikkei Asia. 14 January 2023. “Ambition, concern drive Lao-China high-speed rail project”. Available at <https://asia.nikkei.com/Spotlight/Belt-and-Road/Ambition-concern-drive-Lao-China-high-speed-rail-project>

²² Reuters. 09 September. 2020. “Exclusive: Taking power - Chinese firm to run Laos electric grid amid default warnings”. Available at <https://www.reuters.com/article/us-china-laos-exclusive/exclusive-taking-power-chinese-firm-to-run-laos-electric-grid-amid-default-warnings-idUSKBN25V14C>

²³ The Diplomat. 27 March. 2021. “Laos Grants 25-Year Power Grid Concession to Chinese-Majority Firm” Available at <https://thediplomat.com/2021/03/laos-grants-25-year-power-grid-concession-to-chinese-majority-firm/>

electricity it produces will be sold to Thailand. As a result, Laos' dams will assist Southeast Asia in meeting its increasing energy needs without increasing carbon emissions.

However, the impact of the BRI on the Lao economy will not be evenly distributed among industries, and there will be winners and losers. The extraction and service industries are expected to benefit, while the agriculture, manufacturing, and utility industries may face higher competition and potential losses. Additionally, the BRI may contribute to income inequality, with the benefits primarily going to rich households. Overall, the Lao view of the BRI is that it presents both opportunities and challenges for the country's economic development.

The Economic and Social Effects of the BRI Projects

Laotians perceive several benefits of the Belt and Road Initiative (BRI) in their country. They see BRI as a partnership project that aligns with the national strategy to transform Laos PDR from a land-locked to a land-linked marketplace, connecting with ASEAN member states and other global trading partners.²⁴ Laotians believe that BRI can bring advantages in upgrading conditions in various sectors such as economic, trade, investment, tourism, energy, environment, society, and culture. According to a study conducted by a Laotian scholar, the impact of infrastructure on poverty can be both positive and negative. In the case study of BRI transport in the Lao PDR, it is found that the development of transport infrastructure could help reduce the poverty rate from 17.0% to 15.7%.²⁵ This means that approximately 16,368 households could be lifted from below the poverty line.²⁶ However, it is important to note that the impact is not uniform, as some non-poor households could fall into poverty due to changes in income in agricultural and manufacturing activities. Additionally, the inequality of income would increase, primarily driven by the richest households. Therefore, while infrastructure development can contribute to poverty reduction, it is crucial to address the unequal distribution of income and ensure that vulnerable groups are not left behind.

²⁴ Sayavong, Vanxay. 31 December, 2022. "Infrastructure Integration, Poverty, and Inequality in Developing Countries: A Case Study of BRI Transport in the Lao PDR." *East Asian Economic Review* 26, no. 4. 305–36. Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4321409

²⁵ Ibid.

²⁶ Ibid.

However, on the other side of the coin, the BRI project has encountered issues such as the following. 35% of the project has endured implementation-related criticism on the governance, corruption scandals, environmental depletion and protests from the public.²⁷ Moreover, due to the reluctance from China as the financier regarding the information about grant management for the members, it has received much skepticism and controversy. The claims of “debt-trap diplomacy” were debunked by scholars; however, it is truly alarming regarding the amount of external debt that the Lao government is under. Debt trap diplomacy refers to a situation where a country extends loans to another country with the intention of gaining strategic advantages or control over the borrower.²⁸ Laos has public and publicly-guaranteed debt of \$14.5 billion, 89 percent of GDP by the end of 2021 and China is its biggest creditor.²⁹ In order to construct the China-Laos railway that is worth \$6 billion, three Chinese state-owned companies and a Lao state-owned enterprise created a limited liability joint venture and borrowed over \$3 billion from China's Export-Import (Exim) Bank.³⁰ It is still not clear whether who is responsible for the debt, but theoretically speaking, Laos is liable for roughly one-third of the debt. Amidst all the debt allegations and concerns, Laos President Mr. Thongloun Sisoulith claims that the huge external debt is still “manageable” and the country sought loans to build and develop the economy.³¹ There are concerns about Laos falling into a vicious debt cycle due to the large amount of external debt it has incurred from China for the rail project and other Chinese-backed projects.

The sustainability of the implemented project has also been the major question. To make things worse, the COVID-19 global pandemic, and the Russian-Ukraine invasion spurred the hardship and this led to the increase of debt of the host countries, that some countries debt exceeded the minimum bar of 20% of their GDP.³² From the standpoint of Laos, the advancement of hydropower

²⁷ Ibid.

²⁸ Ajnoti, Rahul. October 11, 2022. “The Complete Story of Debt-Trap Diplomacy.” The Geopolitics, Available at: <https://thegeopolitics.com/the-complete-story-of-debt-trap-diplomacy/>

²⁹ Ibid.

³⁰ Morris, Scott. n.d. “The Kunming-Vientiane Railway: The Economic, Procurement, Labor, and Safeguards Dimensions of a Chinese Belt and Road Project,”. Available at: <https://data.opendevelopmentmekong.net/dataset/8399d692-327b-43df-ae9c-4ea4ad5d8a20/resource/eccdf62-13cb-4884-825e-a0e4a417c83f/download/kunming-vientiane-railway-economic-procurement-labor-and-safeguards-dimensions-chinese.pdf>

³¹ Ibid.

³² Sharma, Anu, and Pooja Bhatt. “China in Eurasia: Revisiting BRI amidst the Russia-Ukraine Crisis.” Institute for Security and Development Policy. Available at: <https://www.isdp.eu/publication/china-in-eurasia-revisiting-bri-amidst-the-russia-ukraine-crisis/>

plays a crucial role in the expansion of energy export to the area, with the aim of becoming the prominent electricity provider in Southeast Asia.³³ While this target appears rational from an economic standpoint, it raises several inquiries when examined through an ecological and social lens. In addition, according to the vision for 2030, Laos is projected to transition into an upper middle-income developing nation by adopting a socio-economic trajectory that is knowledge-based, environmentally conscious, and sustainable. Hence, the 10-year Strategy (2016-2025) encompasses seven key priorities. These priorities entail the pursuit of economic development in a manner that is both high-quality and sustainable, while also promoting a balanced and environmentally friendly approach.³⁴ In fact, hydropower makes up the greatest portion of the world's renewable energy capacity, aiding nations in reducing their reliance on fossil fuels that contribute to global warming. However, because the locations where the dams are to be built lack suitable infrastructure, the dangers associated with the project have given rise to concerns about how they might harm safety, cultural heritage, the environment, and other facets of the community. More than that, the country's former capital Luang Prabang is situated in an area with earthquake risk due to nearby fault lines. As a result, given that Laos has previously witnessed dam failures, this raises worries regarding the security of the dam as well as the safety of those who live nearby.

On the other hand, in September 2020, Xi Jinping made a declaration that China intends to reach the maximum level of its carbon dioxide (CO₂) emissions prior to the year 2030, and then attain carbon neutrality by the year 2060.³⁵ This announcement has significant ramifications for BRI-related projects as it could lead to substantial practice in renewable energy sources like wind and solar power.

³³ Phillip Guerreiro. 03 December 2021. "What Chinese Dams in Laos Tell Us About the Belt and Road Initiative". Available at: <https://thediplomat.com/2021/12/what-chinese-dams-in-laos-tell-us-about-the-belt-and-road-initiative/>

³⁴ "National Green Growth Strategy of the Lao PDR till 2030 | ESCAP Policy Documents Management." Accessed September 12, 2023. Available at: <https://policy.asiapacificenergy.org/node/4472#:~:text=Energy%20supply%20priorities%3A-.The%20National%20Green%20Growth%20Strategy%20of%20the%20Lao%20PDR%20will,impacts%20and%20to%20ensure%20efficient%2C>

³⁵ McGrath, Matt. September 22, 2020 "Climate Change: China Aims for 'Carbon Neutrality by 2060.'" BBC News, sec. Science & Environment. Available at: <https://www.bbc.com/news/science-environment-54256826>

The 10th Anniversary of BRI: What's Next?

The Belt and Road Initiative (BRI) was proposed by Chinese President Xi Jinping 10 years ago to strengthen cooperation among countries along the ancient Silk Road routes. Over the past decade, about 150 countries have responded positively to the initiative, signing cooperation agreements with China. Chinese companies have invested around a trillion USD in mega infrastructure projects, including roads, railroads, ports, airports, and power plants. Estimating the cost of the Belt and Road Initiative (BRI) poses challenges because of the limited openness around its finance. Notably, Beijing has refrained from committing any additional state money to the program since 2019.³⁶ Based on the Green BRI Center, it has spent USD 755 billion on BRI projects by 2021.³⁷ Therefore, Laos should focus on implementing international conventions and instruments designed to facilitate transit trade, including those established by the World Trade Organization (WTO).³⁸

In Conclusion, the BRI projects have been providing Laos the opportunity to enhance the connectivity by streamlining customs procedures and improving market competition, Laos can enhance trade facilitation and attract more efficient services that help integrate its economy, which is one of the priorities of the government. When it comes to investing in infrastructure development, Laos needs to invest in the development of multimodal networks, including rail, road, air, and pipeline infrastructure projects. By improving the reliability and efficiency of its transport infrastructure, Laos can reduce the costs and time penalties associated with international trade operations.

However, there are also some certain costs that came with the projects that native Laos must understand and take it into consideration to minimize the unwanted consequences. The sustainability, the socio-economic impacts have been observed as the infrastructure in Laos rolled

³⁶ Wolff, Dr Peter. 2016. "China's 'Belt and Road' Initiative – Challenges and Opportunities," 2016. Available at: https://www.idos-research.de/uploads/media/Belt_and_Road_V1.pdf

³⁷ Ibid.

³⁸ World Bank. n.d. "Linking Laos, Unlocking Policies Lao PDR Country Economic Memorandum", p. 23. Available at: <https://opendevelopmentmekong.net/news/unlocking-reform-policies-can-help-laos-realise-economic-potential-wb/#:~:text=The%20latest%20Lao%20PDR%20Country,best%20use%20its%20natural%20advantages.>

out its plan. This case in Laos served as case study for other countries who are and will be implementing similar infrastructure projects that may relate with the BRI.

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