

PART 2
COUNTRY CASE STUDY

Lao PDR and its Development Partners in East Asia (China and Japan)

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INTRODUCTION

The Lao People's Democratic Republic (Lao PDR) is a landlocked country situated in the center of the Indochina Peninsula where it shares borders with China, Vietnam, Cambodia, Thailand, and Myanmar. The country covers an area of 236,800 km², much of which is mountainous, forested, and covered by rivers. It has a population of 5.7 million people and a population density of 22 persons-/km². An estimated 49 ethnic groups live in Lao PDR. Its economy is basically agricultural; about 80% of the population is engaged in farming.

In 1986, the Lao government adopted a relatively comprehensive reform program called the New Economic Mechanism to shift from a centrally planned economy to a market- oriented one. Despite its political regime, the government of Lao PDR has developed a good relationship with all countries in the world, with the ultimate goal of attaining development through cooperation and collaboration with international communities. In 1992, Lao PDR joined a sub-regional economic cooperation program known as the Greater Mekong Sub-region (GMS). In 1997, it became a full member of the Association of Southeast Asian Nations (ASEAN).

Cognizant of the importance of international cooperation, Lao PDR has forged diplomatic relations with 128 countries worldwide to date (Ministry of Foreign Affairs, 2008). Foreign direct investment (FDI), foreign trade, and official development assistance (ODA) have all been addressed as important factors for the development of the Lao economy, especially in the implementation of the country's annual plan and five-year plan. The government recognizes economic growth as the primary means by

which income can be raised and poverty reduced, both of which must happen if the country is to achieve its vision of graduating from the list of Least Developed Countries (LDCs). Although the government considers investments as the most important source of growth, the country looks to foreign investments to help it attain its macro development goals because of limited domestic investments.

The foreign sector, through FDI, international trade development, and ODA, has played a significant role in the socioeconomic development of Lao PDR. Two countries from the East Asian region, namely China and Japan, have been particularly dominant in those three areas. Japanese ODA has contributed to approximately one-fourth of the total aid that Lao PDR receives yearly. Japan has also made significant investments in the country's public infrastructure and contributed to the development of its private sector.

On the other hand, China has been the second largest source of total FDI value in Lao PDR since the early 2000s. The value of the investments China has made in Lao PDR's industrial development has contributed to the country's growth. The current dynamism of China's economy is also seen as an important opportunity for the development of Lao production through the expansion of trade and economic ties between these two countries.

This paper aims to review the significance of China's and Japan's contributions to the socioeconomic development of Lao PDR as part of analyzing the role of these two countries in GMS. The paper focuses on the economic aspect, especially FDI, trade relations, and ODA, in order to analyze the characteristics of these two countries in the development in Lao PDR. The paper starts with an overview of the country's FDI, foreign trade, and ODA. An analysis of the relationship between Lao PDR and China is in Section Two and between Lao PDR and Japan, in Section Three. Section Four presents a comparison of the characteristics of the relationships, followed by the conclusion and some policy recommendations in Section Five.

1. OVERVIEW OF EXTERNAL SECTOR OF THE LAO PDR

This section gives an overview of the external sector of Lao PDR comprising FDI, international trade development, and ODA.

1.1. Foreign direct investment (FDI) in Lao PDR

Lao PDR's Law on Foreign Investment Promotion and Management was passed in 1988, revised in 1994, and revised a third time in 2004. The passage of this law and other pertinent regulations attracted increasing amounts of foreign capital into the country. The Department of Investment of the Ministry of Planning and Investment recently developed related regulation, including a one-stop service, in order to facilitate the investment process. FDI started to flow into Lao PDR in 1988, gradually increasing during the early and middle 1990s, particularly when Lao PDR joined the Association of Southeast Asian Nations (ASEAN) on July 23, 1997. FDI inflow, however, declined during the financial crisis that started in late 1997.

From 1989 up to 2008, approximately US\$17 billion worth of FDI representing some 1,600 projects (see Table 1) flowed into Lao PDR. Almost 60% of total FDI (about 47 projects) went to the electricity-generation sector, clear acknowledgment of the country's potential in hydropower generation. By 2008, total FDI in the power sector amounted to US\$9.8 billion. The handicraft and agriculture sectors received about 11% (US\$1.8 billion) and 9% (US\$1.6 billion) in FDI, respectively, while FDI in the mining sector has gradually increased since 2003, reaching US\$1.2 billion in 2008. This figure represents about 7% of total FDI (Department of Investment, MPI, 2009).

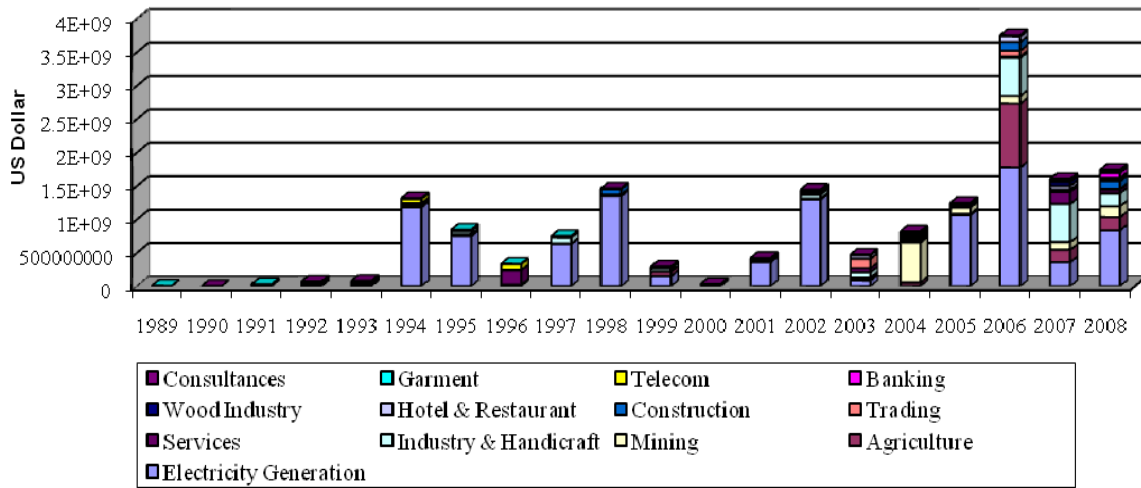
Table 1: Foreign Direct Investment in Lao PDR (1989-2008)

No	1989-2008(Dec)			
	Sectors	Projects	Total Value of FDI (US\$)	(%)
1	Electricity Generation	47	9,845,791,585	58.99
2	Agriculture	260	1,571,455,899	9.41
3	Mining	177	1,165,674,715	6.98
4	Industry & Handicraft	308	1,805,706,193	10.82
5	Services	278	643,492,893	3.86
6	Trading	178	317,509,429	1.90
7	Construction	62	424,807,707	2.54
8	Hotel & Restaurant	103	275,195,254	1.65
9	Wood Industry	65	159,769,822	0.96
10	Banking	22	171,235,535	1.03
11	Telecom	10	227,770,980	1.36
12	Garment	74	67,778,289	0.41
13	Consultancies	57	2,893,622	0.02
TOTAL		1,649	16,691,931,511	100

Source: Department of Investment, MPI, 2009

The value of FDI inflow into Lao PDR sharply increased in 1994, over 90% of which went to the hydropower sector. Within the period 1989-2008, the highest value of FDI inflow occurred in 2006, with the hydropower sector again garnering the bulk of the investments. Mining has significantly developed since 2003 and posted remarkable gains in 2004, which accounted for more than 80% of total FDI that year. From 2004 onward, the mining, handicraft, and agriculture sectors have been the most attractive sectors for FDI, aside from the hydropower sector (see Figure 1).

Figure 1: Value of FDI in Lao PDR by Sector (1989-2008)



Source: Dept. of Investment, MPI, 2009

From 2000-2008, almost 40 countries invested in Lao PDR, with Thailand making the most investments—US\$1.5 billion spread out in 200 projects. China ranked as the second largest investor with total FDI value of about US\$1.3 billion in 279 projects. Vietnam was third followed by France and Japan, with total value of US\$723 million, US\$442 million and US\$421 million, respectively (see Table 2). Table 2 also shows that total FDI within this period reached approximately US\$7 billion, while investment from Thailand, China, Vietnam, France, and Japan accounted for more than 64 percent of total FDI values or 22.2%, 19%, 10.4%, 6.4%, and 6.1%, respectively.

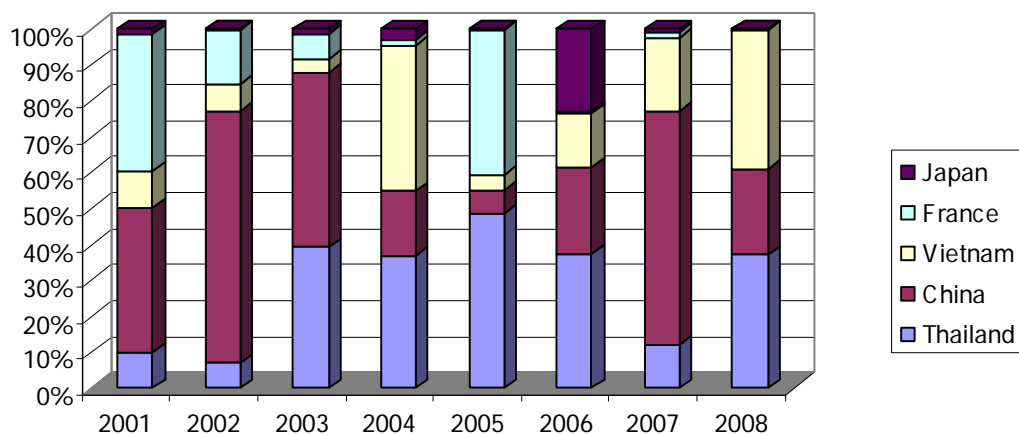
Table 2: Approved Foreign Investment by Country 2000-2008 (Sep)

Year		2001		2002		2003		2004		2005		2006		2007		2008		2000-2008 (Sep)	
No	Country	Projects	Value of Investment	Projects	Value of Investment	Projects	Value of Investment	Projects	Value of Investment	Projects	Value of Investment	Projects	Value of Investment	Projects	Value of Investment	Projects	Value of Investment	Projects	Value of Investment
1	Thailand	8	3,291,000	12	6,345,594	30	96,337,177	33	57,220,054	25	450,905,419	30	655,229,967	31	92,720,384	31	172,997,133	200	1,535,046,728
2	China	9	13,415,000	13	62,568,467	35	119,858,229	45	28,197,753	33	58,123,360	55	423,231,606	47	496,055,204	42	111,606,034	279	1,313,055,653
3	Vietnam	6	3,412,570	5	6,872,000	9	8,660,363	19	63,277,801	23	43,266,879	23	261,176,139	35	155,913,820	35	180,895,729	155	723,475,301
4	France	6	12,608,000	8	13,363,500	11	17,613,000	6	2,520,000	6	370,250,000	11	12,143,611	10	13,143,068	2	500,000	60	442,141,179
5	Japan	1	500,000	3	381,000	9	3,340,583	6	4,525,000	5	4,400,000	2	401,500,000	7	6,110,970	3	846,850	36	421,604,403
6	Korea	15	10,374,750	16	12,790,000	10	13,745,000	15	14,200,700	10	10,219,855	15	163,741,000	24	82,154,400	13	53,632,810	118	360,858,515
7	India	0	-	1	130,000	1	200,000	-	-	-	-	1	350,000,000	-	-	-	-	3	350,330,000
8	Australia	2	400,332	2	490,332	1	1,500,000	4	292,700,000	8	21,286,864	5	1,390,000	5	13,620,000	3	2,400,000	30	333,787,528
9	Malaysia	1	1,500,000	5	4,853,000	8	70,776,037	5	3,250,000	6	3,374,200	5	3,150,155	3	53,210,000	2	130,000	35	140,243,392
10	Singapore	1	250,000	3	700,000	5	36,150,000	1	3,170,000	3	1,200,000	5	43,465,000	4	15,909,000	5	2,415,000	27	103,259,000
11	Canada	0	-	-	-	3	40,100,000	1	1,000,000	1	2,930,000	1	80,000	3	4,481,750	2	6,042,000	11	54,633,750
12	Russia	1	300,000	1	950,000	2	3,000,000	2	1,100,000	-	-	3	1,275,310	1	10,700,000	1	33,000,000	11	50,325,310
13	Switzerland	1	750,000	-	-	2	300,000	2	30,000,000	-	-	-	-	-	-	1	10,000,000	6	41,050,000
14	USA	3	3,211,560	1	8,000,000	4	1,223,000	7	2,820,000	1	300,000	1	56,000	6	4,526,666	3	2,813,000	26	22,950,226
15	England	0	-	2	433,200	4	376,500	1	100,000	2	500,000	4	5,120,000	1	11,300,000	-	-	14	17,829,700
16	Taiwan	1	300,000	1	620,000	-	-	1	4,000,000	1	1,000,000	2	6,500,000	2	800,000	2	3,500,000	10	16,720,000
17	Sweden	0	-	1	12,940,000	2	150,000	-	-	-	-	-	-	1	845,135	-	-	4	13,935,135
18	Norway	0	-	-	-	1	12,800,000	-	-	-	-	-	-	-	-	1	120,000	2	12,920,000
19	Poland	0	-	-	-	-	-	-	-	-	-	-	-	1	5,000,000	-	-	1	5,000,000
20	Germany	4	1,350,000	4	500,000	1	100,000	1	100,000	-	-	1	150,000	3	2,481,508	-	-	14	4,681,508
21	Italy	0	-	-	-	-	-	-	-	1	100,000	2	3,500,000	-	-	-	-	3	3,600,000
22	Peru	0	-	-	-	-	-	-	-	-	-	1	3,000,000	-	-	-	-	1	3,000,000
23	Cambodia	2	1,949,500	-	-	1	20,000	-	-	1	100,000	-	-	-	-	-	-	4	2,069,500
24	Panama	0	-	-	-	-	-	-	-	-	-	1	1,750,000	-	-	-	-	1	1,750,000
25	Holland	0	-	-	-	-	-	1	1,000,000	-	-	-	-	1	300,000	-	-	2	1,300,000
26	Myanmar	1	200,000	-	-	-	-	-	-	-	-	2	680,000	1	300,000	-	-	4	1,180,000
27	Island	0	-	2	1,100,000	-	-	-	-	-	-	-	-	-	-	-	-	2	1,100,000
28	Israel	0	-	-	-	-	-	-	-	-	-	1	1,020,000	-	-	-	-	1	1,020,000
29	Indonesia									-	-		1	1,000,000	-	-	-	1	1,000,000
30	Belgium	1	100,000	-	-	-	-	-	-	1	100,000	-	-	2	700,000	-	-	4	900,000
31	Sri Lanka	0	-	-	-	-	-	1	200,000	-	-	-	-	-	-	-	-	1	200,000
32	Cuba	1	185,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	185,000
33	Portugal	0	-	-	-	-	-	-	-	1	100,000	-	-	-	-	-	-	1	100,000
34	Turkey	0	-	-	-	-	-	-	-	-	-	1	100,000	-	-	-	-	1	100,000
35	Nepal									-	-		1	100,000	-	-	-	1	100,000
36	Philippine									-	-		1	100,000	-	-	-	1	100,000
37	Spain	0	-	-	-	1	28,125	-	-	-	-	-	-	-	-	-	-	1	28,125
	Total	64	54,097,712	80	133,037,093	178	465,959,014	161	533,148,782	143	1,245,307,116	171	2,699,690,943	191	1,136,905,973	146	659,192,300	1,134	6,927,367,058

Source: Department of Investment, MPI, 2009

Although FDI from Thailand accounts for the highest value of investment in Lao PDR, FDI from China and Vietnam significantly increased starting 2001. From 2001-08, the average value of FDI from China rose about 35% to 40% and from Vietnam, about 15% to 20% of total FDI (Figure 2). Data also clearly show that in the fifth five-year plan (2001-05), FDI from France, which accounted for about 20% of total FDI inflow into the country, contributed significantly to the development of the hydropower sector, especially with the Nam Teun 2 (NT2) project.

Figure 2: Top 5 Countries FDI in Lao PDR



Source: Dept. of Investment, MPI, 2009

The overall picture indicates that the main source of FDI in Lao PDR is the Asian region, particularly East and Southeast Asia. While the top five investor-countries in Lao PDR account for more than 50% of total FDI value, four of these countries are from Asia, and they represent more than 45% of total FDI value. This statistic shows that Lao PDR is highly dependent on its neighboring countries. Although the country has attracted FDI from other regions in the world, the value and number of these

non-Asian investment projects indicate that Lao PDR's Asian neighbors are more active investors in the country.

Since FDI has played a significant role in the socioeconomic development of the country, especially in the growth of its gross domestic product (GDP), this could also be interpreted to mean that Lao PDR has recognized its East Asian and Southeast Asian neighbors as important contributors to its development. On the other hand, it could also indicate a low level of FDI diversification and make the country seem like an unattractive destination for FDI from countries in other regions. One important observation is that most FDI in Lao PDR is concentrated in the natural, low-technology, low-skilled, and labor-intensive sectors, including hydropower, mining, garments (C-M-T), agriculture, etc., all of which account for more than 75% of total FDI.

1.2. Foreign trade of Lao PDR

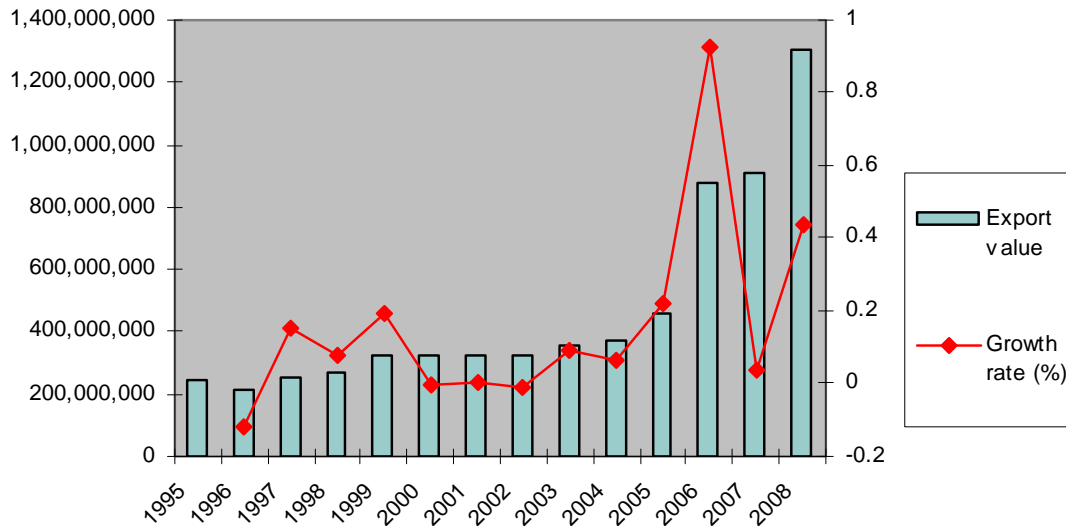
Since 1986, Lao economy has been gradually integrated into regional and global economies. The economic integration of Lao PDR derived from the growth of FDI, foreign trade including border trade, regional cooperation, etc. All of these made valuable contributions to the development of the country, especially in the form of job creation and income generation.

The government of Lao PDR is seeking ways to diversify the economy and reduce the economic vulnerability of the country. Policies and platforms include an integrated framework for cooperative trade practices. Currently, nearly 70 percent of

official Lao exports remain concentrated in natural-base products, including wood products, garments, mining products, and electricity. Lao PDR has access to several preferential treatments in many countries, including the original members of the ASEAN and other industrialized countries. It also has Generalized System of Preferences (GSP) access to the European Union (EU) under the Everything but Arms (EBA) arrangement and a special textile agreement that exempts its exports from EU quotas. Since July 2003, all Lao exports to Australia and New Zealand are admitted free of duties and quotas. The country also signed a bilateral trade agreement with the US in 2003 and was granted Normal Trade Relations (NTR) status in November 2004, opening the door for extensive import/export relations with the US market. Lao PDR applied for accession to the World Trade Organization (WTO) in 1997 and is now in the negotiation process.

As recognition of the importance of the foreign-trade sector to the country's economic growth, the government has actively promoted the country's export sector and encouraged all other sectors to develop export products. Figure 3 shows the progress of export development from 1995 up to 2008. Exports were stable from 1995-2005 after which they posted a sharp increase in 2006 that continued up to 2008. This rise was due to the inflow of FDI, especially in the mining sector and the increase in mining export products. Exports grew an average of about 35% from 1995-2008. After the sharp increase in 2006, they stabilized with almost double that value in 2007 and then rose more than 40% in 2008 (see Figure 3).

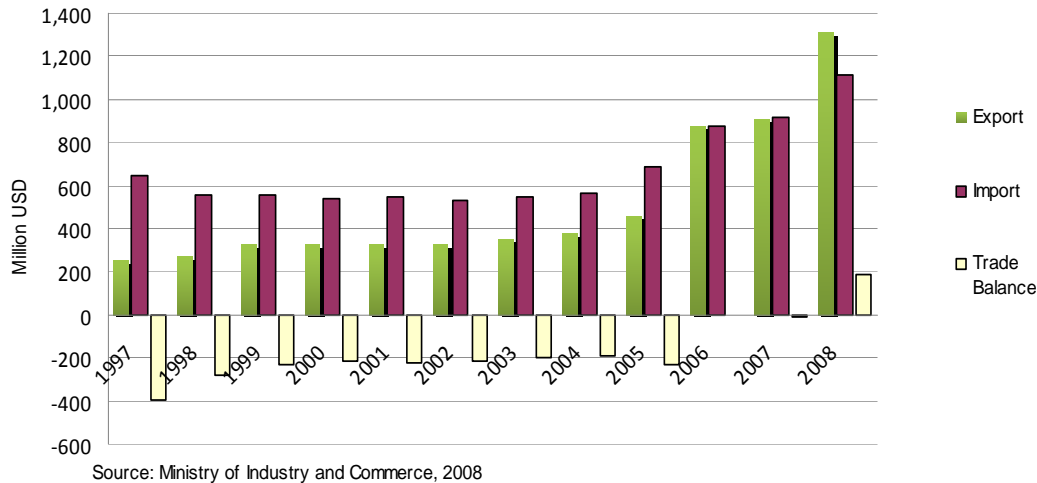
Figure 3: Value and growth rate of Laos' export (1995-2008)



Source: Ministry of Industry and Commerce, 2008

the trade structure has improved in the period covered by the sixth five-year development plan (2006-10). The trade balance was positively accounted for in 2006, equally balanced in 2007, and positively improved in 2008 (see Figure 4). The improvement in export sector was relatively affected by the growth in FDI. However, the global financial crisis poses momentous challenges for the sector in the second half of the plan.

Figure 4: Foreign Trade of Lao PDR (1997 - 2008)



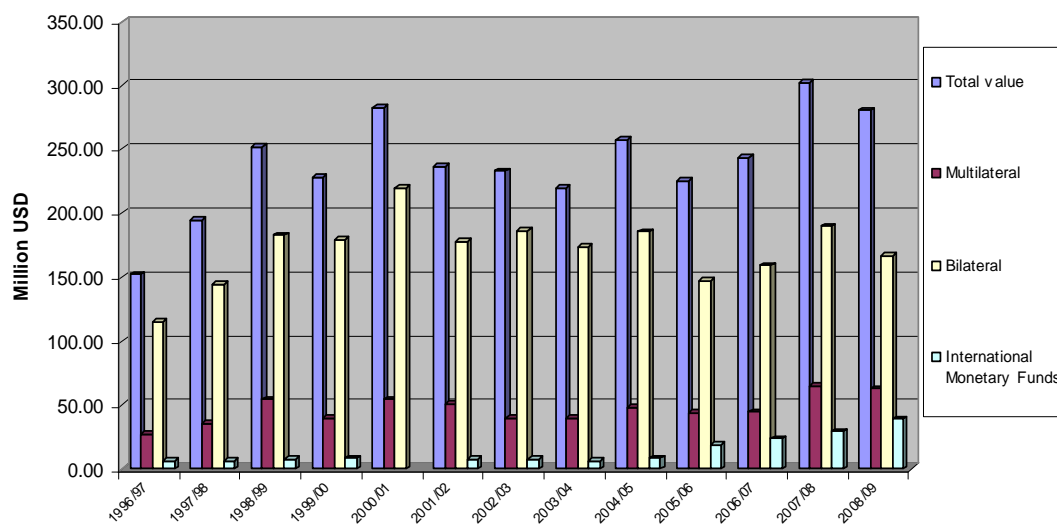
1.3. Official Development Assistance (ODA) in Lao PDR

ODA has also played an important role in the country's socioeconomic development, especially in the public sector. In 2001, ODA to Lao PDR reached US\$378.3 million, of which 63% or US\$238.27 million was grant aid. In the previous fiscal year, grant aid was 72% of the total. Loans amounted to US\$140 million (DIC, 2003). An increase in the country's ODA inflow is considered a result of the government's open policy. ODA serves as an investment fund for the Public Investment Program (PIP) in particular, which plays the most important role in fertilizing the country's economic growth. Since mid-1990s, ODA has significantly flowed into Lao PDR, which has helped the government handle the budget deficit.

Figure 5 indicates the value of ODA inflow into Lao PDR from 1996-97 up to 2008-09. The average amount of ODA inflow in Lao PDR is about US\$240 million per

year, of which bilateral sources account for more than 70%. Large amounts of ODA went to infrastructure, human resource development, health, and other social sectors. ODA is a significant factor for poverty alleviation especially since it is a means to provide the poor with roads, education, health services, and livelihood opportunities.

Figure 5: Value of Official Development Assistance (ODA) (1997-2008)



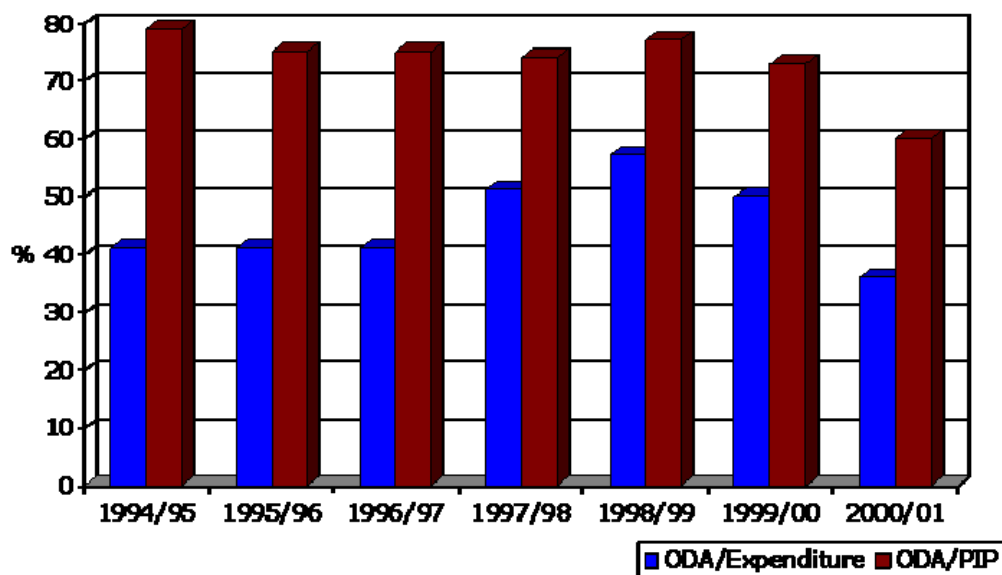
Source: Department of International Cooperation, 2008

Lao PDR uses ODA to underwrite a significant portion of public expenditures. Figure 6 shows that from 1994 to 2001, ODA has financed almost half of public expenditures and about 80% of public investment projects. This shows that ODA is necessary for the improvement of Lao PDR's economic and social infrastructure.

This section discusses how FDI, foreign trade, and ODA have all played significant roles in the socioeconomic development of Lao PDR, especially in the implementation of the public plan. We derive two significant observations from the data

presented. The first is that FDI, exports, and ODA are interrelated. Most FDI in Lao PDR is export-oriented due to the small domestic market, and ODA has also played an important role in the development of infrastructure for FDI and for the exports of the business sector. Second, the sources of FDI and ODA and the trade partners of Lao PDR come mainly from the Asian region, and consist primarily of its neighboring countries; China and Japan are at the top of the list. The subsequent sections of this paper will provide information on the relationships between Lao PDR and China and with Japan in terms of FDI, trade relations, and ODA partners.

Figure 6: ODA and Government Expenditure



Source: Dept. of International Cooperation and Bank of Lao PDR, 2002

2. SOCIAL AND ECONOMIC RELATIONS BETWEEN LAO PDR AND CHINA

This section describes the bilateral relation between Lao PDR and China as neighbors that share a 500-kilometer border with each other. Lao PDR and China officially established diplomatic relations on April 25, 1961 and have long historical ties, especially the three northern provinces of Lao PDR (Phongsaly, Loungnamtha, and Oudonxay) that share a border with China's southern province of Yunnan. However, it is not only these three provinces of Lao, but all of its other northern provinces that have established business relationships with Chinese traders. This section will also present official figures of Chinese investment, trade relation, and ODA.

2.1 Chinese Investment in Lao PDR

Currently, Chinese investment in Lao PDR ranks second in terms of total value after Thailand. Tables 3 and 4 indicate that FDI from China accounts for almost 80% of the total investment value in the industry sector or more than 50% of the total number of projects. Chinese investment in Lao PDR increased gradually in the 1990s and then grew dramatically beginning in the 2000s. In the period 1991-2000, total FDI from China was only about US\$127 million spread out over 71 projects. From 2001-08, the total value of Chinese investment grew to about US\$1.4 billion covering a total of 244 projects. The figure shows more than a tenfold increase in the past eight years compared to the previous decade. The total value of FDI from China in the past eight years accounted for over 91% of total Chinese investment value in Lao PDR from 1991-2008 (see Table 4).

Table 3: Total FDI from China to Laos USD (1991-2008)

Year	Projects	Agriculture	Projects	Industry	Projects	Service	Projects	Total
1991			2	2,209,600	1	500,000	3	2,709,600
1992			4	16,000,000	4	1,095,631	8	17,095,631
1993	2	1,227,475	5	3,012,000	9	5,395,000	16	9,634,475
1994			7	20,911,000	5	3,625,000	12	24,536,000
1995	1	997,000			1	7,500,000	2	8,497,000
1996	1	400,000	2	2,000,000	2	600,000	5	3,000,000
1997			2	3,102,000	2	708,838	4	3,810,838
1998			3	4,077,610	2	2,138,900	5	6,216,510
1999	1	878,763	5	41,534,813			6	42,413,576
2000	1	2,000,000	5	6,982,800	4	423,000	10	9,405,800
2001	1	1,550,000	5	2,120,000	3	1,345,000	9	5,015,000
2002			7	54,482,796	3	870,000	10	55,352,796
2003	2	2,000,000	13	16,922,046	8	4,236,000	23	23,158,046
2004	1	800,000	23	23,016,380	9	2,579,908	33	26,396,288
2005	5	7,970,000	20	42,545,280	3	600,500	28	51,115,780
2006	21	37,730,040	24	494,220,000	11	8,397,651	56	540,347,691
2007	14	22,240,118	10	367,223,135	14	113,470,465	38	502,933,718
2008	7	66,199,998	26	87,877,232	14	17,340,000	47	171,417,230
Total	57	143,993,394	163	1,188,236,692	95	170,825,893	315	1,503,055,979

Source: Dept. of Investment, MPI, 2009

Table 4: Total FDI from China to Lao PDR (1991-2008)

Year	Agriculture		Industry		Service		Total		(%)
	Projects	Value (USD)	Projects	Value (USD)	Projects	Value (USD)	Projects	Value (USD)	
1991-2000	6	5,503,238	35	99,829,823	30	21,986,369	71	127,319,430	8.5
2001-2008	51	138,490,156	128	1,088,406,869	65	148,839,524	244	1,375,736,549	91.5
1991-2008	57	143,993,394	163	1,188,236,692	95	170,825,893	315	1,503,055,979	100

Source: Dept. of Investment, MPI, 2009

From the time China started investing in Lao PDR, its FDI was allocated to the secondary and tertiary sectors. The third five-year plan of the country, therefore, showed Chinese investors contributing to the development of the industry and service sectors. More than 67% of the total investment value went to the industry sector, about 29% to service sector, and only about 3% to the agriculture sector (see Table 5). While

there was not much change in the FDI value from China during the implementation of the fourth five-year plan (1996-2000), the allocation for agriculture stayed at the same level as the previous years', that for the service sector decreased, and the allocation for the industry sector dramatically improved and accounted for almost 90% of total investment value in that period (see Table 6).

Table 5: FDI from China to Laos (1991-1995)

Year	Agriculture		Industry		Service		Total		(%)
	Projects	Vale (USD)	Projects	Vale (USD)	Projects	Vale (USD)	Projects	Vale (USD)	
1991			2	2,209,600	1	500,000	3	2,709,600	4
1992			4	16,000,000	4	1,095,631	8	17,095,631	27
1993	2	1,227,475	5	3,012,000	9	5,395,000	16	9,634,475	15
1994			7	20,911,000	5	3,625,000	12	24,536,000	39
1995	1	997,000			1	7,500,000	2	8,497,000	14
1991-1995	3	2,224,475	18	42,132,600	20	18,115,631	41	62,472,706	100

Source: Dept. of Investment, MPI, 2009

Table 6: FDI from China to Laos (1996-2000)

Year	Agriculture		Industry		Service		Total		(%)
	Projects	Vale (USD)	Projects	Vale (USD)	Projects	Vale (USD)	Projects	Vale (USD)	
1996	1	400,000	2	2,000,000	2	600,000	5	3,000,000	5
1997			2	3,102,000	2	708,838	4	3,810,838	6
1998			3	4,077,610	2	2,138,900	5	6,216,510	10
1999	1	878,763	5	41,534,813			6	42,413,576	65
2000	1	2,000,000	5	6,982,800	4	423,000	10	9,405,800	15
1996-2000	3	3,278,763	17	57,697,223	10	3,870,738	30	64,846,724	100

Source: Dept. of Investment, MPI, 2009

FDI from China significantly increased more than three times in terms of investment value and projects during the period covered by the fifth five-year plan

(2001-05). The industry sector accounted for more than 85%, while service and agriculture sectors accounted for about 8% and 6% of total investment value respectively. The growth rate of FDI from China during this period was about 148% compared to the past period. Agriculture grew by 276%, while industry and service was 141% and 149%, respectively.

Table 7: FDI from China to Laos (2001-2005)

Year	Agriculture		Industry		Service		Total		(%)
	Projects	Vale (USD)	Projects	Vale (USD)	Projects	Vale (USD)	Projects	Vale (USD)	
2001	1	1,550,000	5	2,120,000	3	1,345,000	9	5,015,000	3
2002			7	54,482,796	3	870,000	10	55,352,796	34
2003	2	2,000,000	13	16,922,046	8	4,236,000	23	23,158,046	14
2004	1	800,000	23	23,016,380	9	2,579,908	33	26,396,288	16
2005	5	7,970,000	20	42,545,280	3	600,500	28	51,115,780	32
2001-2005	9	12,320,000	68	139,086,502	26	9,631,408	103	161,037,910	100

Source: Dept. of Investment, MPI, 2009

The figure for the first half of the sixth five-year plan (2006-10) shows a dramatically increased amount of FDI from China to Lao PDR. In 2006 alone, total FDI increased by almost five times compared to the entire period covered by the previous five-year plan (2001-05). It was even approximately double the total FDI value in the past 15 years (1991-2005). The average growth rate of investment during the past three years is almost 300% per year, in which agriculture, industry, and service grew at about 177%, 320%, and 822% per year, respectively. Table 8 shows that the total FDI value from China in the first half of the sixth five-year plan (2006-10) was about US\$1.2 billion covering 141 projects. The industry sector accounted for about 78%, service

about 11.5%, and agriculture, 10% of total investment value.

Table 8: FDI from China to Laos (2006-2008)

Year	Agriculture		Industry		Service		Total		(%)
	Projects	Vale (USD)	Projects	Vale (USD)	Projects	Vale (USD)	Projects	Vale (USD)	
2006	21	37,730,040	24	494,220,000	11	8,397,651	56	540,347,691	44
2007	14	22,240,118	10	367,223,135	14	113,470,465	38	502,933,718	41
2008	7	66,199,998	26	87,877,232	14	17,340,000	47	171,417,230	14
2006-2008	42	126,170,156	60	949,320,367	39	139,208,116	141	1,214,698,639	100

Source: Dept. of Investment, MPI, 2009

Table 9 presents FDI from China broken down per five-year plan and the first three years of the sixth five-year plan (2006-10). Clearly, Chinese investment in Lao PDR has significantly increased in recent years across all sectors (industrial, service, and agriculture) and accounts for more than 80% of total investment value in the period 1991-2008. FDI from China has invested not only in the central and southern regions but also the northern region, which has very poor infrastructure compared to other regions in the country. Due to situation of infrastructure, northern region does not very attractive for FDI from other regions of the world, but as a geographical advantage northern region could benefit from Chinese investment and vice versa.

Table 9: Total FDI from China to Lao PDR by Five Year Time

Year	Projects	Agriculture	Projects	Industry	Projects	Service	Projects	Total	(%)
1991-1995	3	2,224,475	18	42,132,600	20	18,115,631	41	62,472,706	4.2
1996-2000	3	3,278,763	17	57,697,223	10	3,870,738	30	64,846,724	4.3
2001-2005	9	12,320,000	68	139,086,502	26	9,631,408	103	161,037,910	10.7
2006-2008	42	126,170,156	60	949,320,367	39	139,208,116	141	1,214,698,639	80.8
1991-2008	57	143,993,394	163	1,188,236,692	95	170,825,893	315	1,503,055,979	100

Source: Dept. of Investment, MPI, 2009

Overall, the total value of Chinese FDI accounted for about 8.6% of total FDI value in Lao PDR during the period 1989-2008 (see Table 10). The top five sectors that received FDI from China were hydropower, handicraft, mining, service, and agriculture. The FDI received by the hydropower-electricity sector accounted for approximately 6.3% of total FDI in the country's electricity sector. This made it the top sector in terms of clinching the bulk of investment funds from China. The industry and handicraft sectors took second place and accounted for about 17.8% of total FDI in their sector. Mining, which was the most invested-in area in 2006, was the third top recipient of Chinese FDI, accounting for about 14.3% of total FDI. Service and agriculture took the fourth and fifth spots, respectively, with service accounting for almost 20% of total FDI and agriculture, about 7%.

Table 10: Total FDI and Chinese Investment in Lao PDR (1989-2008)

No	Sectors	Projects		Value of FDI (USD)		(%)
		Total	Of Chinese	Total	Of Chinese	
1	Electricity Generation	47	9	9,845,791,585	623,204,400	6.33
2	Agriculture	260	51	1,571,455,899	108,296,394	6.89
3	Mining	177	55	1,165,674,715	166,578,335	14.29
4	Industry & Handicraft	308	78	1,805,706,193	320,799,160	17.77
5	Services	278	36	643,492,893	126,690,376	19.69
6	Trading	178	22	317,509,429	17,416,303	5.49
7	Construction	62	12	424,807,707	16,970,300	3.99
8	Hotel & Restaurant	103	18	275,195,254	7,263,714	2.64
9	Wood Industry	65	11	159,769,822	36,819,600	23.05
10	Banking	22	0	171,235,535	0	0.00
11	Telecom	10	2	227,770,980	800,000	0.35
12	Garment	74	10	67,778,289	11,957,000	17.64
13	Consultances	57	7	2,893,622	1,450,000	50.11
TOTAL		1,649	311	16,691,931,511	1,438,245,582	8.62

Source: Department of Investment, MPI, 2009

The general observation is that amount of FDI from China has dramatically increased in recent years. These investments are mostly in the natural sector, which includes electricity, agriculture, and mining. Collectively, these investments account for almost 60% of total investment in terms of value. While there are also many projects for the handicraft, services, trading, hotel and restaurant, and wood industries, there are none for the banking sector presumably because inflow of Chinese FDI started only in the past few years. Another aspect worth noting is that FDI from China has contributed to the development of the country's northern region due to that region's proximity to China. This is regarded as an important source of income and a means for poverty reduction for the people living in that region.

2.2 Trade Relations between Lao PDR and China

Foreign trade has been considered a significant source of economic growth for, and an important sector in, the country. Lao PDR's implementation of the open-door policy in the late 1980s spurred growth in foreign trade. Although it has trade relations with more than 60 countries worldwide, most of its trade activity is conducted with other countries within the region, particularly with its neighboring countries. This situation is attributed to Lao PDR's being landlocked and the fact that intraregional trade seems to be more competitive for the country than trade outside of the region.

Table 11: Lao PDR Export value by region USD (2000-2006)

Region	2000	2001	2002	2003	2004	2005	2006
ASEAN	188,602,253	167,407,507	182,089,911	183,535,174	175,587,613	230,203,621	590,039,848
EUROPE	44,874,574	100,266,612	119,198,976	93,740,357	121,805,434	119,810,395	124,690,037
America	2,304,940	8,812,034	365,849	6,275,067	5,647,114	6,260,206	6,905,085
ASIA & Oceania	14,558,063	23,689,320	17,221,905	57,949,401	71,267,703	90,124,534	156,189,353
Others	73,228,665	24,710,371	3,742,118	11,124,289	12,136	9,220,102	184,225
Grant Total	323,568,495	324,885,844	322,618,759	352,624,288	374,320,000	455,618,858	878,008,548

Source: Ministry of Industry and Commerce, 2008

Table 11 shows that almost 67% of total Lao exports goes to the ASEAN, with Thailand being the country's major export partner in this trading bloc. Asia and Oceania account for about 17.8% of total export value, with China and Australia being the country's two major export destinations in these regions. Lao PDR also imports most products from the ASEAN. Table 12 shows that almost 50% of its total imports came from the ASEAN, while Asia and Oceania both ranked second as major sources of imported raw materials for the FDI sector.

Table 12: Import of Lao PDR by Region USD (1999/00 - 2004/05)

Region	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005
ASEAN	115,533,501	123,190,512	155,547,608	222,844,469	217,346,450	333,004,615
EUROPE	-	1,495,832	1,802,209	1,631,911	471,351	30,832,582
America	-	544,564	56,133	226,553	787,500	364,947
ASIA & Oceania	18,784,812	38,145,550	22,050,899	44,660,063	36,307,604	62,454,608
Other countries	90,343,027	62,067,168	18,062,219	13,804,848	10,819,443	7,094,875
Foreign Investment	184,000,000	146,250,000	182,154,549	191,017,517	193,291,701	175,349,492
Raw material	86,900,000	80,173,333	73,685,033	55,595,961	83,272,883	72,228,949
Smuggling	45,000,000	76,404,240	80,224,452	21,338,065	19,503,068	4,690,000
Total	540,561,340	528,271,199	533,583,102	551,119,387	561,800,000	686,020,068

Source: Ministry of Industry and Commerce, 2008

Table 13 presents data on Lao exports to Asia and Oceania in the period 2000-06. On average, the total value of exports to these regions accounted for about 13% of the total export value during this period. The average growth rate of exports to these two regions was about 13% yearly during this period. Australia (Oceania) accounted for almost 65% of total export value with an annual average growth rate of about 44%. China (Asia) ranked second, accounting for about 21% of total export value and an average growth rate of about 33% annually. These figures indicate that China has been the most important country from Asia, outside of the ASEAN, that has contributed to the development of Lao PDR's export sector.

Table 13: Export to Asia and Oceania Region by Country (USD)

ASIA & Oceania	2000	2001	2002	2003	2004	2005	2006
United Arab Emirates	21,724	343,395	76,434	183,334	32,353	133,114	
Australia	94,263	115,466	65,189	40,936,229	61,248,573	83,109,560	92,673,483
China	7,134,776	13,800,000	11,911,155	10,891,602	5,326,659	7,165	40,682,780
Hong kong	1,990,792	1,996,570	617,831	271,596	896,481	195,575	
India	11,317	297,593	19,410	112,626	32,799	33,258	16,514
Japan	2,358,944	3,414,459	1,827,822	3,883,526	2,102,923	3,181,103	6,889,275
Korea (North)							
Korea (South)	2,358,944	2,502,010	1,999,280	108,738	140,278	222,585	2,815,637
Fiji						21,672	
New Zealand	6,432	3,385	157,249	22,147	24,748	13,756	30,293
Pakistan					10,500	14,822	
East Timor			204,500				
Taiwan	580,871	1,216,442	343,035	1,539,603	1,452,389	3,191,924	13,081,371
Total	14,558,063.0	23,689,320.0	17,221,905.0	57,949,401.0	71,267,703.0	90,124,534.0	156,189,353.0
Total export value	323,568,495.0	324,885,844.0	322,618,759.0	352,624,288.0	374,320,000.0	455,618,858.0	878,008,548.4

Source: Ministry of Industry and Commerce, 2008

On the import side, importations from Asia and Oceania regions accounted for only about 6.4% of Lao PDR's total import value. The average annual growth rate of imports from China is about 43%. The most significant observation here is that the products imported from China are daily-use items that, compared to products from other regions, are of lower quality but, at the same time, are also lower priced. Considering the current purchasing power of the Lao people, low-priced items imported from China come in useful, especially for those living in the country's remote regions.

Table 14: Import from Asia and Oceania Region by Country (USD)

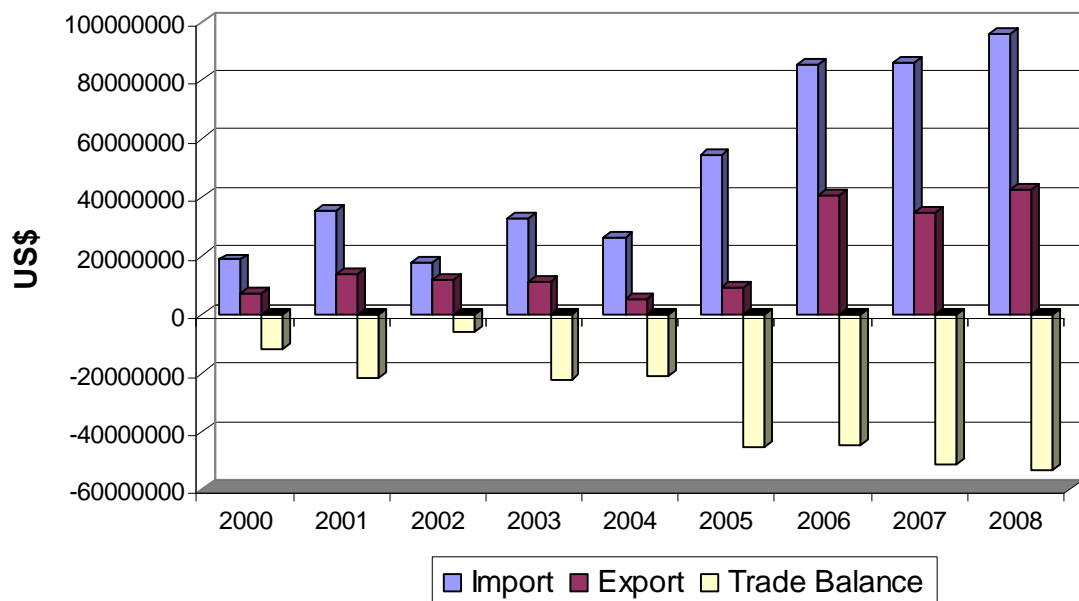
ASIA & Oceania	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005
Australia		148,577.0	1,895.0		3,447.0	
United Arab Emirates						30,230.0
China	18,705,687.0	35,471,694.0	17,687,444.0	32,996,566.0	26,176,582.0	54,732,691.0
Hong kong			9,249.8	75,801.0	15,254.0	302,800.0
India		34,719.0	42,218.6	68,321.0	29,829.0	14,518.0
Japan	79,125.0	423,110.0	1,669,727.0	5,080,986.0	1,813,516.0	1,279,518.0
Korea (South)		1,902,479.0	2,554,795.0	6,053,249.0	8,262,840.0	6,025,386.0
New Zealand			1,400.0	2,260.0		22,799.0
Taiwan		164,971.0	84,170.0	382,880.0	6,136.0	24,805.0
Pakistan						21,861.0
Total	18,784,812.0	38,145,550.0	22,050,899.4	44,660,063.0	36,307,604.0	62,454,608.0
Grand Total	540,561,340.0	528,271,199.0	533,583,102.2	551,119,387.0	561,800,000.0	686,020,068.0

Source: Ministry of Industry and Commerce, 2008

The overall trend of trade relations between the two countries (Lao PDR and China) has increased although it fluctuated during early 2000s. From 2004 onward, it improved dramatically in the growth of both imports and exports. However, data show that imports have grown faster than exports, which constitutes a deficit in the trade balance with China. Although the overall trade balance gradually improved during late 2000s, the trade deficit has nevertheless continued these past few years (see Figure 7).

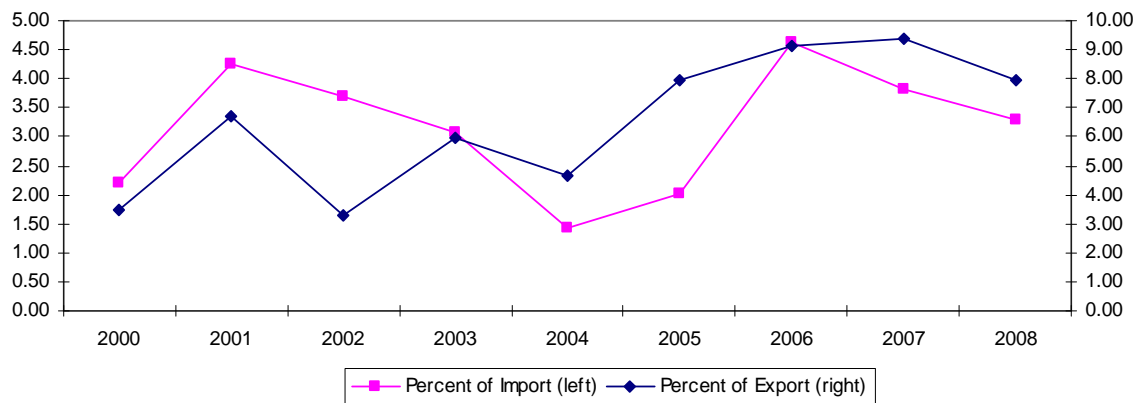
However, looking at the percentage of exports and imports to and from China to the total trade figure (total exports and imports of the country), the average component of exports to China has significantly grown from only about 3% to 4% during the early 2000s and up to about 8% to 9% of total export value in late 2000s. The component of imports from China in Lao PDR's total import value has stabilized at 2% to 4% in the period 2000–08 (see Figure 8).

Figure 7: Trading between Lao PDR and China (2000-2008)



Source: Ministry of Industry and Commerce, 2009

Figure 8: Percentage of Export and Import to and from China to Total Export and Import of Lao PDR



Source: Ministry of Industry and Commerce, 2009

Another interesting issue related to trade between Lao PDR and China involves cross-border trade, especially in the border areas like Loungnamtha and Oudomxay provinces in Northern Laos. Cross-border trade has both positive and negative effects on the social and economic activities of the people in these areas. The positive aspects include changes in the livelihood system, opportunities for employment, improvement in incomes and trade as well as other social benefits like education and healthcare. However, there are also other social issues related to cross-border trade, which will be discussed in the last part of this section using information from previous surveys conducted in the border areas of the northern provinces.

2.3 Chinese ODA in Lao PDR

ODA has played a crucial role in the socioeconomic development of Lao PDR. Sources of ODA for the country include multilateral communities and international

organizations such as the World Bank, the United Nations, WTO, and bilateral countries, especially the high-income or developed countries in the world. The International Monetary Fund (IMF) and international nongovernment organizations (INGOs) have also contributed significantly to the development of rural areas through technical and grant assistance.

Table 15: ODA in Lao PDR by Sources of Funds and from China

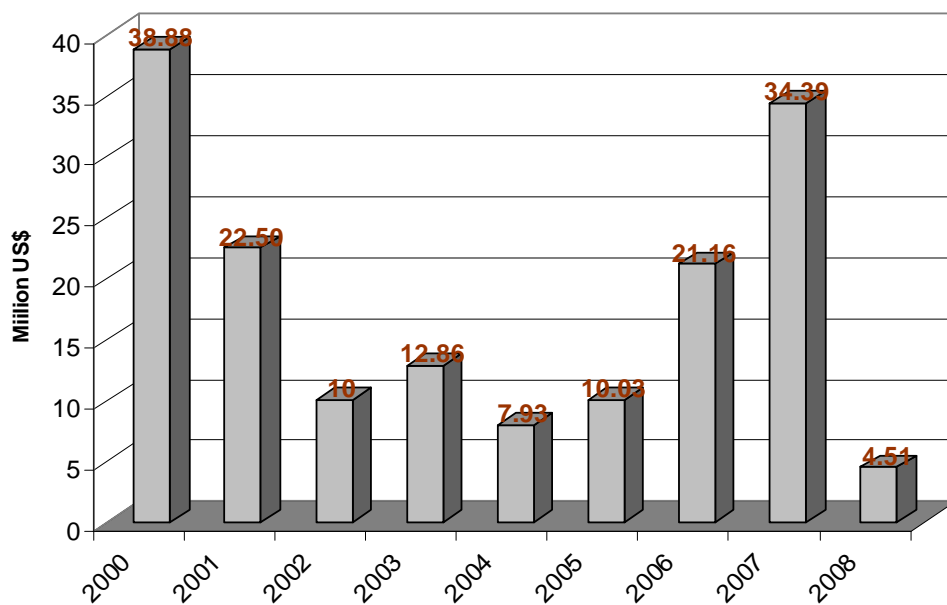
Year	Total ODA	Multilateral	Bilateral		International Monetary Funds	NGOs
			Total	China		
1996/97	151.89	26.65	114.85		6.000	4.39
1997/98	194.69	35.904	144.36		5.792	8.63
1998/99	252.21	54.51	182.52		7.180	8.00
1999/00	227.85	40.06	179.40		8.390	
2000/01	282.03	54.5	219.52	38.88		
2001/02	236.27	50.9	177.83	22.50	7.540	
2002/03	232.92	39.38	186.32	10.00	7.220	
2003/04	219.50	39.17	173.96	12.86	6.370	
2004/05	257.46	47.77	185.36	7.93	8.085	16.24
2005/06	225.27	43.37	146.88	10.03	18.780	16.24
2006/07	243.50	44.55	158.77	21.16	23.710	16.47
2007/08	301.79	64.93	189.69	34.39	29.290	17.88
2008/09	280.24	62.48	166.16	4.51	39.080	12.52

Source: Dept. of International Cooperation, MPI, 2009

Table 15 shows that bilateral ODA, excluding that provided by the IMF and NGOs, accounts for about 70% of total ODA inflow into Lao PDR. Most of the donor countries are members of the Organisation for Economic Co-operation and Development (OECD), but the country also recently received ODA from the so-called developing countries, including Thailand, China, Vietnam, and other countries in the region.

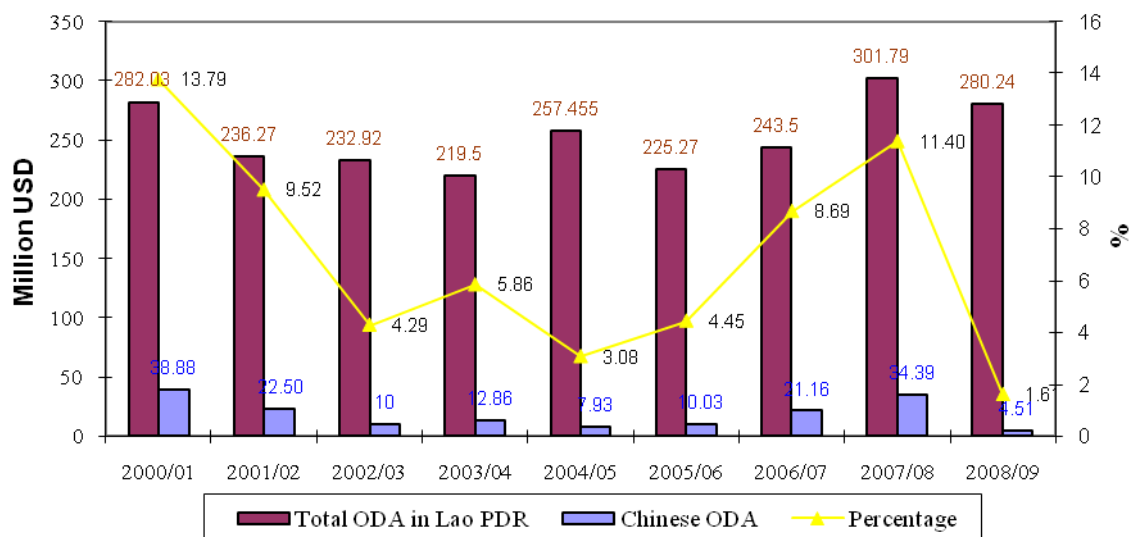
Official statistics indicate that Chinese ODA to Lao PDR started in early 2000 and has steadily flowed inward thereafter. In terms of value, it fluctuates yearly, but the average from 2000-08 was about US\$18 million per year (see Figure 9). On average, Chinese ODA accounted for about 7% to 8% of total ODA inflow value annually from 2000-08 (see Figure 10).

Figure 9: Value of ODA from China to Lao PDR



Source: Depat. of International Cooperation, MPI, 2009

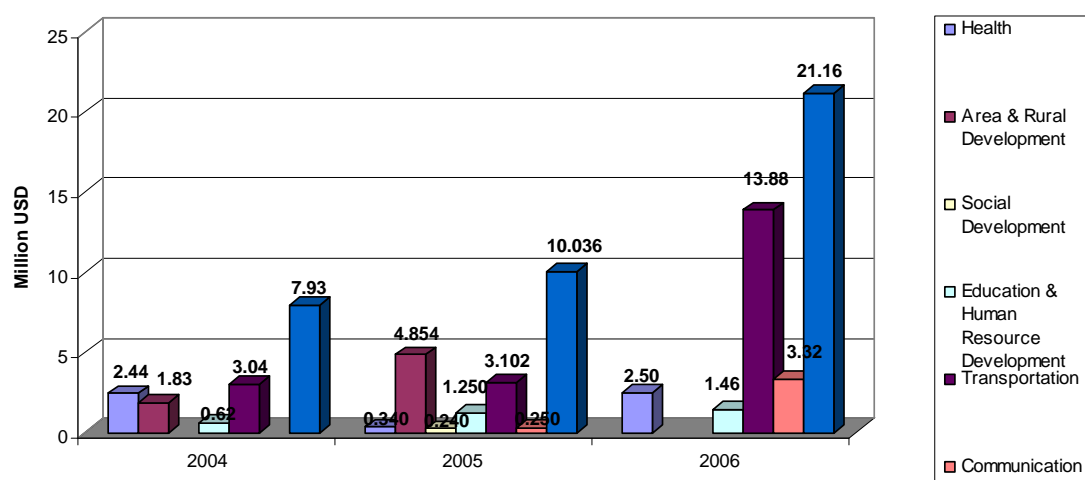
Figure 10: Percentage of Chinese ODA in Lao PDR



Source: Dept. of International Cooperation, MPI, 2009

In general, Chinese ODA has been concentrated in a few areas, such health, rural development, social development, education/human resource development, and transportation. Chinese ODA for transportation has been used to improve links from Lao PDR to some Chinese provinces, such as Yunnan and Nanning, and develop transportation infrastructure in urban areas as well as some of the country's rural northern provinces. Figure 11 shows that in 2004-06, the bulk of Chinese ODA was concentrated in the transportation sector followed by education/human resource development. The latter took the form of the Chinese government providing approximately 200 scholarships annually to Lao students to help them study in China.

Figure 11: Chinese ODA and Sector of Working in Lao PDR



Source: Dept. of International Cooperation, MPI, 2008

Table 16: ODA in Lao PDR (2006-2007)

No.	Country	Fiscal year 2006-07					
		Project		Domestic fund	Foreign's source		
		Grant	Loan		Grant	Loan	Total
1	Australia	25	—	0.33	13.97	0.00	13.97
2	Japan	8	1	0.09	68.53	3.00	71.53
3	New Zealand	9	—	0.00	1.86	0.00	1.86
4	Thailand	4	8	0.00	0.72	17.89	18.61
5	South Korea	7	1	0.00	5.92	13.64	19.56
6	Vietnam	14	—	0.00	10.47	0.00	10.47
7	China	5	7	0.00	5.12	29.27	34.39
8	India	—	2	0.00	0.00	5.82	5.82
9	France	17	1	0.00	11.24	6.20	17.44
10	Belgium	8	—	0.00	5.26	0.00	5.26
11	Luxamburge	6	—	0.00	5.68	0.00	5.68
12	Germany	11	—	0.19	8.18	0.00	8.18
13	Sweden	16	—	0.31	16.92	0.00	16.92
14	Norway	3	—	0.00	3.18	0.00	3.18
15	Finland	1	—	0.12	1.53	0.00	1.53
16	Canada	1	—	0.00	0.19	0.00	0.19
Total		135	20	1.04	158.77	75.82	234.59

Source: Dept. of International Cooperation, MPI, 2009

Table 17: ODA in Lao PDR (2007-2008)

No.	Country	Fiscal year 2007-08					
		Project		Domestic fund	Foreign's source		
		Grant	Loan		Grant	Loan	Total
1	Australia	24	—	0.33	12.73	0.00	12.73
2	Japan	10	—	0.07	78.01	0.00	78.01
3	New Zealand	10	—	0.00	2.27	0.00	2.27
4	Thailand	4	8	0.00	0.72	17.49	18.21
5	South Korea	11	—	0.00	11.45	0.00	11.45
6	Vietnam	19	—	0.00	18.93	0.00	18.93
7	China	5	6	0.00	4.51	0.00	4.51
8	France	12	1	0.00	10.02	6.20	16.22
9	Belgium	7	—	0.00	5.07	0.00	5.07
10	Luxemburge	10	—	0.00	12.27	0.00	12.27
11	Germany	11	—	0.22	9.35	0.00	9.35
12	Sweden	16	—	0.31	16.89	0.00	16.89
13	Norway	3	—	0.00	3.18	0.00	3.18
14	Finland	1	—	0.12	1.53	0.00	1.53
15	Canada	1	—	0.00	0.19	0.00	0.19
Total		144	15	1.05	187.12	23.69	210.81

Source: Dept. of International Cooperation, MPI, 2009

2.4 Cross-Border Trade (CBT) between Lao PDR and China¹

The discussion in this section is based on a study conducted as a research project to support the 3rd National Human Development Report, sponsored by United Nations Development Plan (UNDP). The study tried to answer two questions, namely: (1) to what extent do local people benefit from CBT and (2) how are their lives affected by CBT? The research aimed to expand the study of CBT in the Lao PDR and explore its economic and social impact on human development, particularly on educational attainment, health issues, access to information, and time savings as a result of infrastructure improvement and so on. It was conducted in Louang Namtha and Oudomxay provinces in Northern Laos, which shares a border with China's Yunnan province. The results of this study indicated some contributions at the micro level of relations between Lao PDR and China, but some negative issues were also raised.

The results of the study indicated that border trade in Oudomxay has a more positive impact on people in the agriculturally productive districts of Hun and Beng than on people in Namor district which is closest to the border. In the Sing district of Luang Namtha, there is no difference in the impact on households in villages close to the border and those away from the border. There is only a difference in border-crossing frequency. On other aspects like income, consumption, and wealth, the situation is sometimes even better for those living away from the border. This implies that every community could benefit from border trade as long as that community can produce something for which there is a demand on the other side of the border².

The most direct benefit of CBT is the economic impact. Loung Namtha and Oudomxay provinces, which share a border with China, gain access to the vast Chinese market, especially in the southern part of China. The production of crops mostly for the Chinese market is the main source of income and employment for local people. This income is not a quick-cash matter but has room to develop further as the Chinese agricultural consumer market is so large and the current level of production in the provinces is still far below such demand. With proper and careful strategy of local agricultural production, producing cash crops for a giant market like China could be a permanent source of income for local people. Other benefits from CBT include³:

- Improvement in living conditions and increased wealth
- Increased variety of goods
- Promotion of entrepreneurship

- Reduction of opium production and slash-and-burn cultivation
- Increased opportunities for education with rising income

The above benefits from CBT with China as well as some negative issues relating to CBT with Chinese traders and Chinese migrant laborers who work in Lao PDR can be summarized as follows:

Box 1: Supplementary survey on education and Chinese trade

In the quest to establish a relationship between education and the boom in Chinese trade a supplementary survey of 100 high school graduates chosen at random in Luang Namtha province was carried out. This revealed that 51% interviewees gave Chinese trade and business opportunities as their major reasons for entering higher education. The second reason was the boom in tourism and working in Chinese firms (25% and 20% respectively). In addition, the students were very interested in learning Chinese language. The underlying reasons were the possibility of employment in a firm (42%) and doing business with Chinese people (45%). However, as yet there are no Chinese courses in the province. These findings show that the boom in Chinese trade does indeed inspire local people to enter higher education

Source: “The Impact of Border Trade on Local Livelihoods in the North of the Lao PDR” – A Case Study of Lao-Chinese Border Trade in Loung Namtha and Oudomxay provinces, 2006

Source: “The Impact of Border Trade on Local Livelihoods in the North of the Lao PDR” – A Case Study of Lao-Chinese Border Trade in Loung Namtha and Oudomxay provinces, 2005

Box 2: An opinion of the Chinese labor problem

An interview with an immigration officer:

“In the few instances when we have caught Chinese labourers staying in the Lao PDR for longer than the time permitted or who entered illegally, and we have sent them back to the Chinese authorities, on our way back to the office, we have seen them walking along the main road in town again. They even got back faster than we did and we do not know how.”

An interview with a vegetable and fruit seller in Luang Namtha provincial market:

“I do not understand why Chinese people are allowed to work in all sectors and at all levels even in the most basic jobs like selling vegetables in this market. After they open their shop, they dominate the market because they have a network with Chinese traders so they bring in large quantities of cheap fresh vegetables every day. We can hardly compete with them now “

Source: “The Impact of Border Trade on Local Livelihoods in the North of the Lao PDR” – A Case Study of Lao-Chinese Border Trade in Loung Namtha and Oudomxay provinces, 2006

Beside this micro movement of CBT between the two countries, at the macro

Source: “The Impact of Border Trade on Local Livelihoods in the North of the Lao PDR” – A Case Study of Lao-Chinese Border Trade in Loung Namtha and Oudomxay provinces, 2005

Beside this micro movement of CBT between the two countries, at the macro level, there has been some cooperation between Lao PDR and China particularly to further promote investment and trade between the two countries. China’s Yunnan province, which shares a border with the northern provinces of Lao PDR, is the main cooperation region between the two countries. The recently drawn-up Development

Master Plan for Northern Lao PDR basically focuses on connecting Lao PDR to the regional development network by linking it with China and the GMS road network as well as the ASEAN rail link program. This is very important for the development of Northern Laos in particular and Lao PDR in general. Cooperation with China is the first step towards connecting the country to the GMS and the ASEAN region in order to solve the difficulties brought about by the country's being landlocked. Connecting Lao PDR to the regional road and rail system will improve the business environment for country's private sector. It may also become the most important source of economic growth for the country.

3. SOCIAL AND ECONOMIC RELATIONS BETWEEN LAO PDR AND JAPAN

Lao PDR and Japan established diplomatic relations on March 5, 1955 (Ministry of Foreign Affairs, 2009). Japanese ODA has been considered an important source of funds for the development of Lao PDR since Japan is a leading donor to the country. This section provides information on the relationship between Lao PDR and Japan, with special focus on FDI, trade relations, and ODA.

3.1 Japanese investment in Lao PDR

FDI from Japan ranks number five in terms of total value. The first FDI from Japan happened in 1995 and involved only two projects in the agriculture and service sectors. Since that time and up to 2005, FDI from Japan grew an average of about 12.8% yearly, with FDI for the industrial sector growing at a rate of 100% and the

service sector at about 3.3% annually. Japan does not make significant investments in Lao PDR's agriculture sector (see Table 18).

Table 18: Total FDI from Japan to Laos USD (1995-2008)

Year	Projects	Agriculture	Projects	Industry	Projects	Service	Projects	Total
1995	1	100,000			1	4,500,000	2	4,600,000
1996			1	2,000,000	2	550,000	3	2,550,000
1997	2	800,000	1	990,000	2	2,200,000	5	3,990,000
1998			2	1,529,400	2	700,000	4	2,229,400
1999					1	1,500,000	1	1,500,000
2000	1	500,000	3	2,000,000	2	275,000	6	2,775,000
2001			1	500,000			1	500,000
2002		430,000	1	100,000	2	281,000	3	811,000
2003			1	1,302,200			1	1,302,200
2004	1	200,000	2	1,500,000			3	1,700,000
2005	5	100,000	2	2,120,000	1	100,000	8	2,320,000
2006			1	400,000,000	1	100,000	2	400,100,000
2007	3	2,308,543	5	6,317,000	1	400,000	9	9,025,543
2008	1	300,000			2	610,000	3	910,000
Total	14	4,738,543	20	418,358,600	17	11,216,000	51	434,313,143

Source: Dept. of Investment, MPI, 2009

The value of FDI from Japan sharply increased in 2006, reaching over US\$400 million. This investment went to the hydropower sector. From 1995-2008, the average annual FDI value from Japan was about 7% in the industry sector and less than 1% in the agriculture and service sectors compared to total Japanese FDI.

Table 19 shows the inflow of FDI from Japan up to 2008. It is important to note that Japan started actively investing in Lao PDR starting 2000. Thus, the value of its investment from 1995-2000 accounted for only about 4% of total FDI.

Table 19: Total FDI from Japan to Lao PDR (1995-2008)

Year	Agriculture		Industry		Service		Total		(%)
	Projects	Value (USD)	Projects	Value (USD)	Projects	Value (USD)	Projects	Value (USD)	
1995-2000	4	1,400,000	7	6,519,400	10	9,725,000	21	17,644,400	4.1
2001-2008	10	3,338,543	13	411,839,200	7	1,491,000	30	416,668,743	95.9
1991-2008	14	4,738,543	20	418,358,600	17	11,216,000	51	434,313,143	100

Source: Dept. of Investment, MPI, 2009

From 1995-2000, FDI from Japan was concentrated mainly in the service sector, which accounted for more than 55% of total investment value and about half of total investment projects. Industry and agriculture sectors accounted for about 36.9% and 7.8%, respectively. The average growth rate of FDI from Japan during this period was only about 4% per year (see Table 20).

Table 20: FDI from Japan to Laos (1995-2000)

Year	Agriculture		Industry		Service		Total		(%)
	Projects	Vale (USD)	Projects	Vale (USD)	Projects	Vale (USD)	Projects	Vale (USD)	
1995	1	100,000	-	-	1	4,500,000	2	4,600,000	26.1
1996			1	2,000,000	2	550,000	3	2,550,000	14.5
1997	2	800,000	1	990,000	2	2,200,000	5	3,990,000	22.6
1998			2	1,529,400	2	700,000	4	2,229,400	12.6
1999					1	1,500,000	1	1,500,000	8.5
2000	1	500,000	3	2,000,000	2	275,000	6	2,775,000	15.7
1995-2000	4	1,400,000	7	6,519,400	10	9,725,000	21	17,644,400	100

Source: Dept. of Investment, MPI, 2009

FDI from Japan declined in the early 2000s compared to the previous period. Total value of investment during this period was only about US\$6.6 million, which decreased more than triple amount invested during 1995-2000. This is because

investment in the service sector had fallen sharply, accounting for only about 5.7% of total investment value from Japan. The industry sector accounted for over 83%; the agriculture sector, about 11% (see Table 21).

Table 21: FDI from Japan to Laos (2001-2005)

Year	Agriculture		Industry		Service		Total		(%)
	Projects	Vale (USD)	Projects	Vale (USD)	Projects	Vale (USD)	Projects	Vale (USD)	
2001			1	500,000			1	500,000	7.5
2002		430,000	1	100,000	2	281,000	3	811,000	12.2
2003			1	1,302,200			1	1,302,200	19.6
2004	1	200,000	2	1,500,000			3	1,700,000	25.6
2005	5	100,000	2	2,120,000	1	100,000	8	2,320,000	35.0
2001-2005	6	730,000	7	5,522,200	3	381,000	16	6,633,200	100

Source: Dept. of Investment, MPI, 2009

Table 22 shows FDI from Japan during the implementation of the sixth five-year plan (2006-2008). The huge investment inflow in 2006 went to the industry sector (hydropower electricity) and accounted for more than 99% of total investment that year. The total investment for 2006 alone represented over 97% of the total investment value for the period 2006-08. In terms of sector, the industry sector covered more than 99% of total investment during this period while the sum of the agriculture and service sectors accounted for less than 1%.

Table 22: FDI from Japan to Laos (2006-2008)

Year	Agriculture		Industry		Service		Total		(%)
	Projects	Vale (USD)	Projects	Vale (USD)	Projects	Vale (USD)	Projects	Vale (USD)	
2006			1	400,000,000	1	100,000	2	400,100,000	97.6
2007	3	2,308,543	5	6,317,000	1	400,000	9	9,025,543	2.2
2008	1	300,000			2	610,000	3	910,000	0.2
2006-2008	4	2,608,543	6	406,317,000	4	1,110,000	14	410,035,543	100

Source: Dept. of Investment, MPI, 2009

Table 23 indicates Japanese FDI broken down per five-year-plan periods. From this table, we can see that it was only quite recently that Lao PDR began to enjoy the high value of Japanese FDI. The total investment in the period 2006-08 accounted for more than 94% of total investment made from 1995-2008 while that made during the fourth five-year plan (1996-2000) accounted for about 3%. Total investment during the fifth five-year plan (2001-05) was only 1.5% or almost the same as the total investment amount for 1995.

Table 23: Total FDI from Japan to Lao PDR

Year	Projects	Agriculture	Projects	Industry	Projects	Service	Projects	Total	(%)
1995	1	100,000	-	-	1	4,500,000	2	4,600,000	1.1
1996-2000	3	1,300,000	7	6,519,400	9	5,225,000	19	13,044,400	3.0
2001-2005	6	730,000	7	5,522,200	3	381,000	16	6,633,200	1.5
2006-2008	4	2,608,543	6	406,317,000	4	1,110,000	14	410,035,543	94.4
1991-2008	14	4,738,543	20	418,358,600	17	11,216,000	51	434,313,143	100

Source: Dept. of Investment, MPI, 2009

Overall, Japanese investment accounts for only 2.6% of total FDI value in Lao PDR (see Table 24). To be more specific about it, the most concentrated sector for Japanese investment in terms of value is electricity generation although there is only one project for this sector. Industry and handicraft come second with the most projects

(12 projects), followed by the service, construction, agriculture, and wood industries.

Table 24: Total FDI and Japanese Investment in Lao PDR (1989-2008)

No	Sectors	Projects		Value of FDI (USD)		(%)
		Total	Of Japanese	Total	Of Japanese	
1	Electricity Generation	47	1	9,845,791,585	400,000,000	4.06
2	Agriculture	260	10	1,571,455,899	4,638,543	0.30
3	Mining	177	0	1,165,674,715	0	0.00
4	Industry & Handicraft	308	12	1,805,706,193	10,706,400	0.59
5	Services	278	8	643,492,893	4,825,000	0.75
6	Trading	178	9	317,509,429	2,897,434	0.91
7	Construction	62	2	424,807,707	4,656,000	1.10
8	Hotel & Restaurant	103	3	275,195,254	410,000	0.15
9	Wood Industry	65	3	159,769,822	4,335,200	2.71
10	Banking	22	0	171,235,535	0	0.00
11	Telecom	10	0	227,770,980	0	0.00
12	Garment	74	2	67,778,289	1,817,000	2.68
13	Consultances	57	0	2,893,622	0	0.00
TOTAL		1,649	50	16,691,931,511	434,285,577	2.60

Source: Department of Investment, MPI, 2009

3.2 Trade relations between Lao PDR and Japan

Trade relations between Lao PDR and Japan developed only as recently as 2000 since most of Lao PDR's trade is conducted with the ASEAN. Trade between Lao PDR and the ASEAN accounted for more than 50% of the country's total trade value, where exports represented more than 67% in 2006 and imports accounted for almost 49% in 2004-05. After the ASEAN, Lao PDR has the most trade activity with Asia and Oceania

while East Asian countries account for more than half of the total trade with Asia and Oceania.

Table 25 shows that Japan ranks second to China in terms of total export value from Lao PDR. The value of Lao exports to Japan in 2006 increased by double the amount but was still less than Lao's exports to China and Taiwan. The average growth rate of export value to Japan from 2000-06 was about 39% annually, a recent and significant improvement.

After the ASEAN, Lao PDR imports most from the East Asian region, with Japan placing third after China and South Korea in terms of import value. In 2004-05, China accounted for more than 87% of Lao PDR's total import value from East Asia. South Korea accounted for about 10%; Japan, only about 2% (see Table 26). The average growth rate of imports from Japan from the period 1999-2000 and up to the period 2004-05 was only about 1.7% annually.

Table 25: Lao PDR Export to ASEAN and East Asia Region USD

	2000	2001	2002	2003	2004	2005	2006
Brunei						7,165	13,052
Cambodia	17,623		55,909	118,752	406,586	19,500	33,225
Indonesia	1,015,830	43,858		123,746		441	172,800
Malaysia	90,710	112,412	68,823	170,688	54,069	24,938,542	39,794,768
Myanmar	258,377		24,740	241,740		13,467	-
Philippine			15,120	62,589	158,235	441	7,285
Singapore	932,922	1,034,033	167,345	132,264	411,667	219,117	16,404
Thailand	162,995,387	146,733,757	156,727,723	161,472,747	146,900,611	164,552,592	456,040,790
Vietnam	23,291,404	19,483,447	25,030,252	21,212,648	27,656,445	40,452,356	93,961,524
ASEAN	188,602,253	167,407,507	182,089,911	183,535,174	175,587,613	230,203,621	590,039,848
China	7,134,776	13,800,000	11,911,155	10,891,602	5,326,659	7,165	40,682,780
Hong kong	1,990,792	1,996,570	617,831	271,596	896,481	195,575	
Japan	2,358,944	3,414,459	1,827,822	3,883,526	2,102,923	3,181,103	6,889,275
Korea (South)	2,358,944	2,502,010	1,999,280	108,738	140,278	222,585	2,815,637
East Timor			204,500				
Taiwan	580,871	1,216,442	343,035	1,539,603	1,452,389	3,191,924	13,081,371
East Asia	14,424,327	22,929,481	16,903,623	16,695,065	9,918,730	6,798,352	63,469,063
Total of Export Value	323,568,495	324,885,844	322,618,759	352,624,288	374,320,000	455,618,858	878,008,548

Source: Ministry of Industry and Commerce, 2008

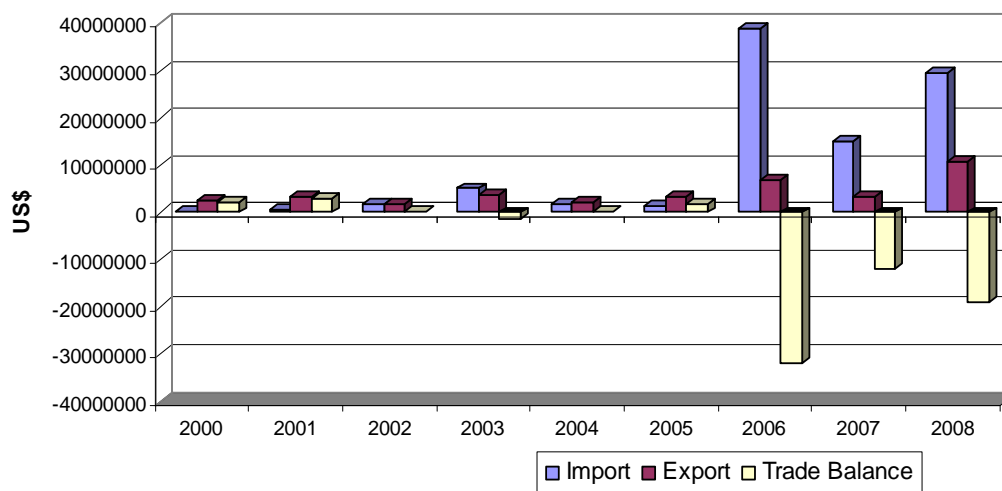
Table 26: Import from ASEAN and East Asia Regions by Country (USD)

	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005
Cambodia	73,730	228,750	52,602	99,687	2,820	67,235
Indonesia		4,887,501	187,921	166,127	74,979	151,474
Malaysia		14,089	293,745	74,867	26,993	94,946
Myanmar					1,892	
Philippine				14,296		10,000
Singapore		1,972,897	102,263	1,885,328	6,342,076	4,268,068
Thailand	91,515,357	82,335,786	142,037,545	202,754,064	193,197,993	274,176,913
Vietnam	23,944,414	33,751,489	12,873,532	17,850,100	17,699,698	54,235,979
Total ASEAN	559,346,152	566,233,453	555,588,488	595,708,869	598,074,328	748,385,268
China	18,705,687.0	35,471,694.0	17,687,444.0	32,996,566.0	26,176,582.0	54,732,691.0
Hong kong			9,249.8	75,801.0	15,254.0	302,800.0
Japan	79,125.0	423,110.0	1,669,727.0	5,080,986.0	1,813,516.0	1,279,518.0
Korea (South)		1,902,479.0	2,554,795.0	6,053,249.0	8,262,840.0	6,025,386.0
Taiwan		164,971.0	84,170.0	382,880.0	6,136.0	24,805.0
Total East Asia	18,784,812.0	37,962,254.0	22,005,385.8	44,589,482.0	36,274,328.0	62,365,200.0
Total import value	540,561,340.0	528,271,199.0	533,583,102.2	551,119,387.0	561,800,000.0	686,020,068.0

Source: Ministry of Industry and Commerce, 2008

However, the value of trade between Lao PDR and Japan significantly increased from 2006-08. Trade relation between these two was stable from 2000-05. From 2006 onward, its trade with Japan improved dramatically, posting a total value of almost US\$45 million from less than US\$5 million in 2005 (see Figure 12).

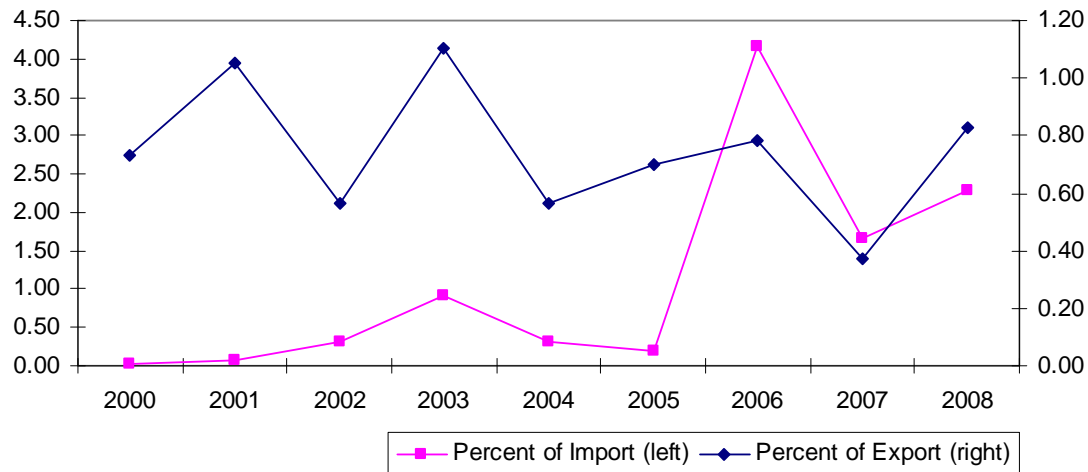
Figure 12: Trading between Lao PDR and Japan



Source: Ministry of Industry and Commerce, 2009

The import value increased almost 30 times while the export value increased approximately double the 2005 figures. The average growth rate of imports from Japan from 2006-08 was about 10% while exports was about 1% per year. Since imports grew faster than exports, Lao PDR experienced a trade deficit with Japan from 2006 onward.

Figure 13: Percentage of Export and Import to and from Japan to Total Export and Import of Lao PDR



Source: Ministry of Industry and Commerce, 2009

Figure 13 shows the portion of trade value with Japan and total trade value of the country. On average, the value of exports to Japan accounted for less than 1% of Lao PDR's total export value. Imports from Japan were only about 1% of total import value in the period 2000-05. However, the import value from Japan sharply increased and accounted for approximately 2.5% to 4% of total export value from 2006-08.

3.3 Japanese ODA in Lao PDR

Compared to FDI and trade, Japanese ODA has played a very significant role in the development of Lao PDR. The country received ODA from Japan in 1997-98 during the Asian financial crisis. Data show that Japanese ODA accounted for about one-third to one-fourth of total ODA inflow into Lao PDR. However, in terms of bilateral sources, Japanese ODA covers about half of total bilateral ODA (see Table 27). Figure 14 also

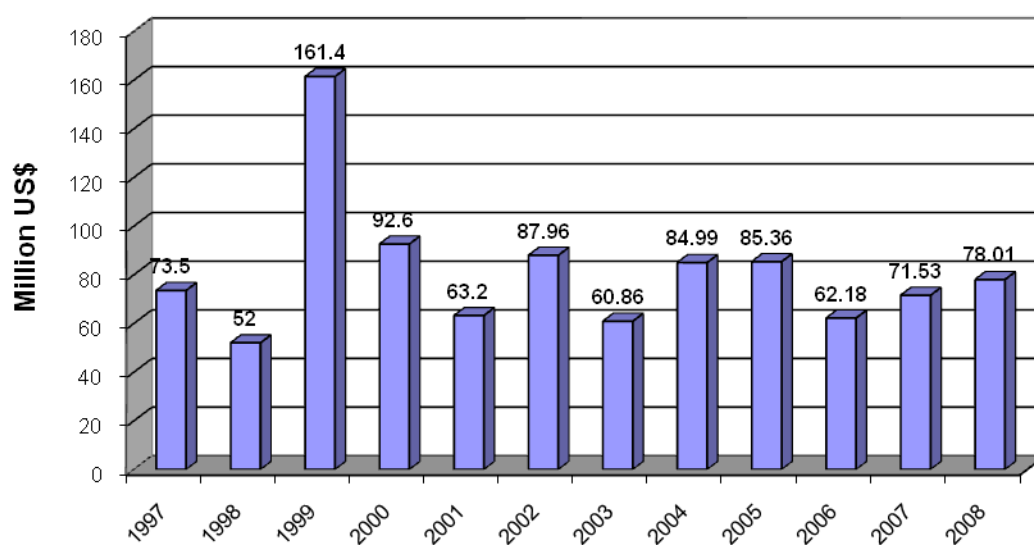
pegged the value of Japanese ODA to Lao PDR at about US\$80 million to US\$90 million per year.

Table 27: ODA in Lao PDR by Sources of Funds and from Japan

Year	Total ODA	Multilateral	Bilateral		International Monetary Funds	NGOs
			Total	Japan		
1996/97	151.89	26.65	114.85		6.000	4.39
1997/98	194.69	35.904	144.36	73.50	5.792	8.63
1998/99	252.21	54.51	182.52	52.00	7.180	8.00
1999/00	227.85	40.06	179.40	161.40	8.390	
2000/01	282.03	54.5	219.52	92.60		
2001/02	236.27	50.9	177.83	63.20	7.540	
2002/03	232.92	39.38	186.32	87.96	7.220	
2003/04	219.50	39.17	173.96	60.86	6.370	
2004/05	257.46	47.77	185.36	84.99	8.085	16.24
2005/06	225.27	43.37	146.88	85.36	18.780	16.24
2006/07	243.50	44.55	158.77	62.18	23.710	16.47
2007/08	301.79	64.93	189.69	71.53	29.290	17.88
2008/09	280.24	62.48	166.16	78.01	39.080	12.52

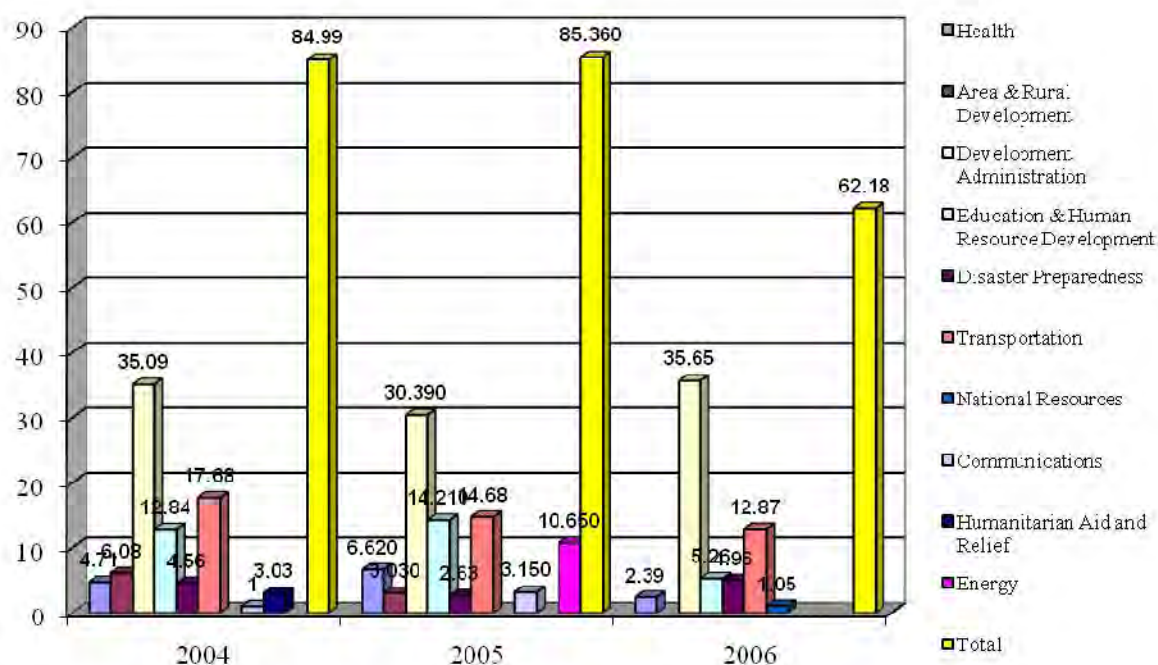
Source: Dept. of International Cooperation, MPI, 2009

Figure 14: Value of ODA from Japan to Lao PDR



Source: Dept. of International Cooperation, MPI, 2009

Figure 15: Japanese ODA and Sector of Working in Lao PDR



Source: Dept. of International Cooperation, MPI, 2008

Figure 15 presents the concentration sectors for Japanese ODA in Lao PDR. More than 43% of total Japanese ODA financed projects in the public administration sector from 2004-06. The transport sector ranked second with road- and bridge-construction projects. Education and human resource development is another area of focus as Japan has been providing scholarships since the late 1990s to enable Lao students to study in Japan. Currently, more than 50 students study in Japan annually, while about 100 government officials go to Japan to attend capacity-building programs yearly.

Table 28 and Table 29 show figures on ODA from East Asian countries including Japan, South Korea, and China in the fiscal years 2006-07 and 2007-08, respectively. Clearly, more than 90% of Japanese ODA is in the form of grants rather than loans.

Table 28: ODA in Lao PDR from East Asian Countries (2006-2007)

No.	Country	Fiscal year 2006-07					
		Project		Domestic fund	Foreign's source		
		Grant	Loan		Grant	Loan	Total
1	Japan	8	1	0.09	68.53	3.00	71.53
2	South Korea	7	1	0.00	5.92	13.64	19.56
3	China	5	7	0.00	5.12	29.27	34.39
Total		20	9	0.09	79.57	45.91	125.48

Source: Dept. of International Cooperation, MPI, 2009

Table 29: ODA in Lao PDR from East Asian Countries (2007-2008)

No.	Country	Fiscal year 2007-08					
		Project		Domestic fund	Foreign's source		
		Grant	Loan		Grant	Loan	Total
1	Japan	10	—	0.07	78.01	0.00	78.01
2	South Korea	11	—	0.00	11.45	0.00	11.45
3	China	5	6	0.00	4.51	0.00	4.51
Total		26	6	0.07	93.97	0.00	93.97

Source: Dept. of International Cooperation, MPI, 2009

3.4 Other Relations Between Lao PDR and Japan

This can be considered as a form of ODA since Japanese ODA has significantly contributed to socioeconomic development in Lao PDR especially in private-sector development, including the Chai Lao project and the recent establishment of the One District One Product (ODOP) project.

The Chai Lao project aims to promote the development of native handicraft

products, especially the quality of textile products, to facilitate their export to the Japanese market.

The One District One Product (ODOP) project is the outcome of the joint research project between Lao PDR and Japan; namely, the Macroeconomic Study Support for Socio-economic Development of Lao PDR (MAPS). After the project, the Japanese government agreed to continue support for the development of ODOP in Lao PDR. The project is currently being implemented by the Ministry of Industry and Commerce in cooperation with the Japan International Cooperation Agency (JICA). The southern provinces of Lao PDR will serve as the pilot areas. The project is also expected to stimulate the development of local products, which may, in turn, help further develop the country's private sector.

4. COMPARISON OF THE ROLES OF CHINA AND JAPAN IN THE SOCIOECONOMIC DEVELOPMENT OF LAO PDR

Overall, Lao PDR's East Asian neighbors, especially China and Japan, have played significant roles in its socioeconomic development, particularly through FDI, trade relations, and ODA. However, there are differences in the way China and Japan undertake these three activities together with Lao PDR, and these differences in their approach affect the value and percentage to the total. While Japan prefers to focus on ODA, China is more active in the FDI and trade sectors. The level of development partnership of these two countries in terms of the three areas can be summarized as follows:

- **Foreign Direct Investment Sector:**

Statistics show that both China and Japan are in the top five list of countries with high-value investments in Lao PDR. After Thailand, China has more investments in Lao PDR compared to other investing countries. China ranks second in terms of the value of total FDI while Japan ranks fifth and has about one-fourth of the value of Chinese investments in Lao PDR.

Table 30 shows that China leads in several sectors, including consultancy, as China accounts for more than half of the total investment value in this sector. Other sectors include the service and wood industries, which accounts for about 23% and 19.7% of total investment value in the sector, respectively. Industry-handicraft and garments account for almost 18% of total investment value in each sector, and mining accounts for about 14.3% of the value in total FDI in the mining sector. Total investment value from Japan is about one-fourth of the investment from China. However, FDI from Japan just increased very recently (in 2006) by virtue of a huge investment Japan made in a hydropower project. The statistics show that there is currently no concentration in investment sector by Japanese FDI. Compared to the total value of each sector, the Japanese FDI in each sector accounts for less than 1% on average with the highest going to electricity (4%), wood industry (2.7%), and garments (2.7%).

Table 30: Total FDI from China and Japan in Lao PDR (1989-2008)

No	Sectors	Projects			Value of FDI (USD)			(%) of Chinese	(%) of Japanese
		Total	Of Chinese	Of Japanese	Total	Of Chinese	Of Japanese		
1	Electricity Generation	47	9	1	9,845,791,585	623,204,400	400,000,000	6.33	4.06
2	Agriculture	260	51	10	1,571,455,899	108,296,394	4,638,543	6.89	0.30
3	Mining	177	55	0	1,165,674,715	166,578,335	0	14.29	0.00
4	Industry & Handicraft	308	78	12	1,805,706,193	320,799,160	10,706,400	17.77	0.59
5	Services	278	36	8	643,492,893	126,690,376	4,825,000	19.69	0.75
6	Trading	178	22	9	317,509,429	17,416,303	2,897,434	5.49	0.91
7	Construction	62	12	2	424,807,707	16,970,300	4,656,000	3.99	1.10
8	Hotel & Restaurant	103	18	3	275,195,254	7,263,714	410,000	2.64	0.15
9	Wood Industry	65	11	3	159,769,822	36,819,600	4,335,200	23.05	2.71
10	Banking	22	0	0	171,235,535	0	0	0.00	0.00
11	Telecom	10	2	0	227,770,980	800,000	0	0.35	0.00
12	Garment	74	10	2	67,778,289	11,957,000	1,817,000	17.64	2.68
13	Consultances	57	7	0	2,893,622	1,450,000	0	50.11	0.00
TOTAL		1,649	311	50	16,691,931,511	1,438,245,582	434,285,577	8.62	2.60

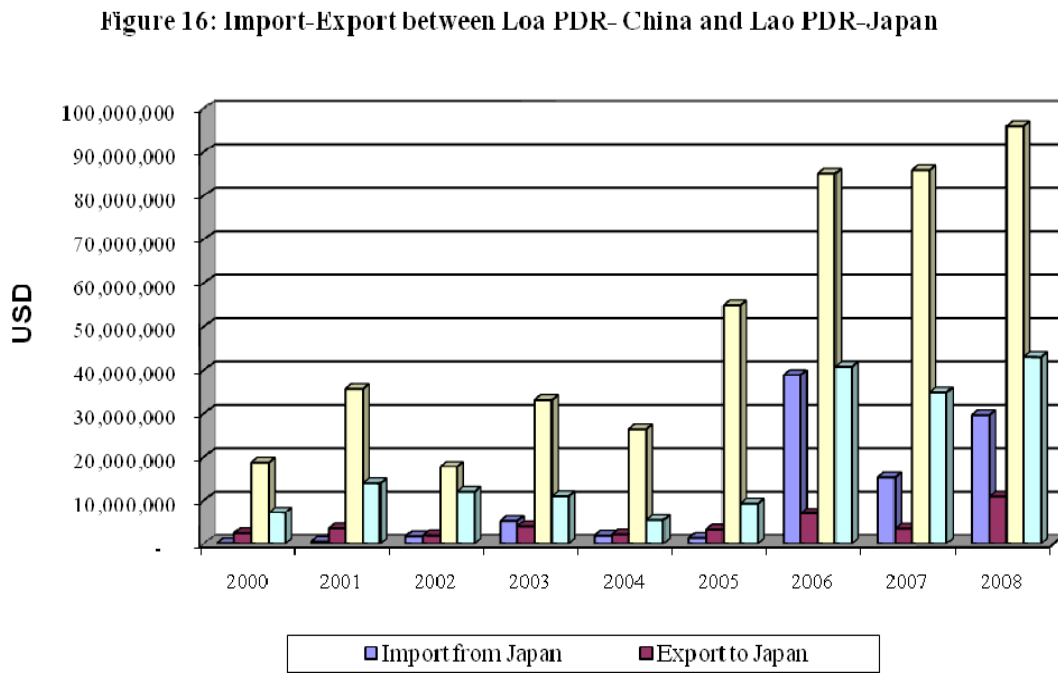
Source: Department of Investment, MPI, 2009

Since FDI is still considered an important factor for the development of Lao PDR, especially as a source of economic growth, the figure only indicates the importance of Chinese and Japanese investment for the continued economic growth of the country. If the two countries were to be compared, it appears China has played a much more active role in terms of stimulating the growth of Lao economy.

- **Trade Relations**

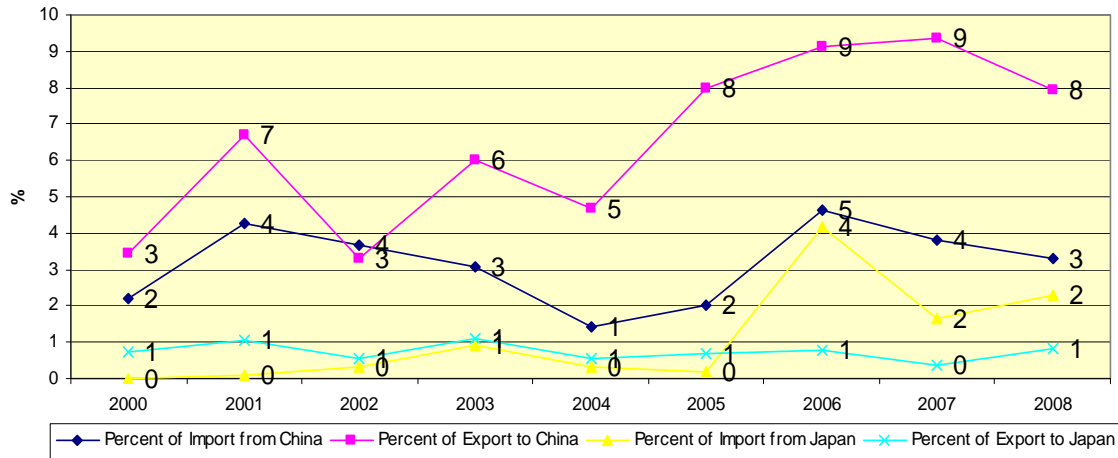
As in the case of FDI, China is the main trade partner of Lao PDR from the East Asian region. China is followed by South Korea and Japan at the second and third places, respectively. Comparing the value of trade relations with Lao PDR, between China and Japan, the level of trade relations with China is much higher than with Japan

(see Figure 16). This might be because of geographical advantage as China shares a border with Lao PDR.



Source: Ministry of Industry and Commerce, 2009

Figure 17: Percentage of Import-Export



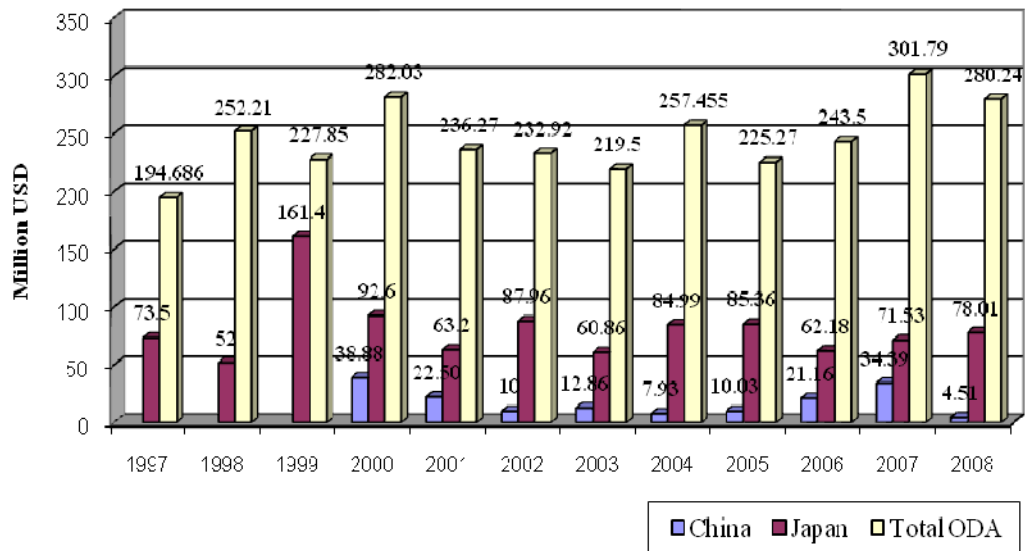
Source: Ministry of Industry and Commerce, 2009

Figure 17 also indicates that the percentage of exports to China vis-à-vis the total value of exports is much higher than that to Japan. The average percentage of export value to China to total export value is about 7% for the period 2000-08, during which exports to Japan accounted for only less than 1% on average. Also for imports, imports from China to Lao PDR accounted for about 3.5% on average from 2000-08, while imports from Japan accounted for less than 1% from 2000-05 and about 3% of total import value from 2006-08.

- **Official Development Assistance**

Statistics show that Japanese ODA has played a significant role in the socioeconomic development of Lao PDR. Japan is the leading donor in terms of bilateral ODA scheme. Figure 18 indicates that Japan accounted for about one-third of total ODA inflow into Lao PDR, while in the bilateral scheme, Japanese ODA represented about half of the total.

Figure 18: Total ODA, Chinese ODA and Japanese ODA in Lao PDR



Source: Dept. of International Cooperation, MPI, 2009

ODA has also financed a huge number of public investment projects. Currently, it is a vital source of funds for public priority projects since ODA projects have been integrated into the government's various public projects, such as infrastructure development, human resource development, public administration development, health, and so on. Therefore, Japanese ODA has contributed immensely to the development of Lao PDR through the finance of public investment projects.

5. CONCLUSION AND RECOMMENDATION

FDI, foreign trade, and ODA are considered important factors for the development of Lao PDR. These finance vital investment projects, which stimulate the growth of Lao economy. In the country's annual and five-year plans, these external

sectors have been directly identified as significant factors for ensuring the achievement of Lao PDR's strategic goals for socioeconomic development.

Besides the ASEAN, the East Asian region is acknowledged to be an important source of financial and technical assistance for the social and economic development of Lao PDR. China and Japan are the country's most important partners in this region, providing substantial funding for many priority projects in the private business sector as well as for public investment. Japan has continuously provided ODA for many important infrastructure development projects as well as human resource development projects for Lao PDR, namely: the Mekong bridges in Pakse and Savannakhet, Road No. 9 along the East-West Economic Corridor, and the various connecting bridges along Road No. 13.

Compared to Japan, China has focused more on FDI and trade relations with Lao PDR. It ranks second in terms of the value of FDI, and it has engaged in many huge private investment projects, especially in the northern provinces of Lao PDR, including the Boten-Dankham project in Loung Namtha province and the Ton Pheung project in Bokeo province, among others. China has also been a significant trade partner, being a source of many of the consumer products the Lao people use in their daily life and the products used as a means of production in factories and farms, especially in the remote northern rural areas.

Border trade in the northern provinces has also been identified as a significant contributor to the development of the local people, especially in terms of employment

opportunities, income generation, technology transfer, and knowledge transfer. Many social benefits have likewise been identified as an outcome of CBT, including education opportunities and access to health care.

Although some of the local people in the northern provinces have expressed negative experiences and effects from CBT with China, these reports are regarded as the personal perspective of these people about the issues. Looking at the macro picture and the micro situation, the northern provinces of Lao PDR, which have traditionally been considered as the poorest region in the country, have gained a great deal of benefits in terms of the development of infrastructure in their areas and the improvement in the livelihoods of the local populace.

Therefore, the overall conclusion is that cooperation and good relations with countries in the East Asian region, especially China and Japan, are important for the development of Lao PDR. The investment, trade relation, and aid that Lao PDR receives from these two countries are crucial for its continued social and economic development.

6. RECOMMENDATIONS

FDI, foreign trade, and ODA are important factors for country development, especially since they are considered as the primary means by which to achieve the macroeconomic goals of growth, poverty reduction, and graduation from the status of LDC by 2020. There is a need to address appropriate policy recommendations regarding

future cooperation with China and Japan since these two countries have been identified as significant development partners of Lao PDR. The following are some thoughts regarding the further development of cooperation with these two countries.

- Cooperation with China

It is important to take advantage of Lao PDR's geographic proximity to China; therefore, geographical collaboration, including trade relation and investment, must be developed. The joint development of the northern provinces of Lao PDR that share a border with China's Yunnan province should be a good strategy for developing Northern Lao PDR as is the plan to connect Lao PDR with the large China market. The latter could also be seen as another approach for regional development in GMS and the ASEAN. There is a need to develop a specific strategy for economic cooperation with China.

- Cooperation with Japan

Japan has been identified as an important factor in Lao PDR's development, being a source of ODA for many priority public investment projects. Continuing cooperation with Japan to develop and further improve Lao PDR's social and economic infrastructure is essential for achieving the country's goal of reducing poverty. Aside from infrastructure, Japanese ODA projects also develop an environment that will encourage the private sector and Japanese investors to further invest in Lao PDR. Thus, a specific strategy is needed to ensure (1) continued cooperation with Japan in the ODA

sector and (2) that the ODA sector would further support FDI and trade relations with Japan in the future.

ENDNOTES

¹ This section is based on the previous study of the National Economic Research Institute (NERI) on “The Impact of Border Trade on Local Livelihoods in the North of the Lao PDR” – A Case Study of Lao-Chinese Border Trade in Loung Namtha and Oudomxay provinces, 2006

² Khonthapane, Insisienmay and Norintha, 2006

³ “The Impact of Border Trade on Local Livelihoods in the North of the Lao PDR” – A Case Study of Lao-Chinese Border Trade in Loung Namtha and Oudomxay provinces.

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