



LAOS IN THE WORLD SPOTLIGHT

The East Asian Summit and Next Steps in U.S.-Lao Relations

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About the Author

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Cover Photo

Pha That Luang in Vientiane is the national symbol of Laos. (iStockphoto)

Executive Summary

President Barack Obama will find major governments and international organizations heavily involved in Laos¹ when he arrives in Vientiane to attend the East Asian Summit in September. Japan, Australia, and South Korea all have significant interests there that support the rules-based order Washington seeks. Thailand also has major interests and historical antecedents in Laos, but tends to follow its own compass there. The World Bank, the Asian Development Bank, and all major United Nations agencies are well established in Laos and enjoy leverage.

China and Vietnam, however, are the most active foreign powers in Laos today. The Lao government and the Lao People's Revolutionary Party (LPRP) – whose membership and authorities overlap – would look to Beijing and Hanoi for help if needed and try to avoid offending either of their larger neighbors.

However, China's wealth, size, and recently expanded physical connectivity to Laos give it an edge over Vietnam, whose influence is based largely on historical connections to the LPRP. Some of China's investments and activities in Laos have engendered resentment among ordinary Lao, particularly those affected by long-term land concessions given to China by the Lao government. Nevertheless, China is well on its way to achieving its primary objectives in Laos: stability on its borders; unfettered transit rights linking into its "One Belt, One Road" to markets around the world; and continued access to Laos' natural resources.

Beijing used its muscle on both Laos and Cambodia to prevent the Association of Southeast Asian Nations (ASEAN) from mentioning the landmark international court ruling on July 12 against Beijing's territorial claims in the South China Sea, first at the ASEAN-China foreign ministers' meeting in Kunming on June 14, when it leaned on the Lao to recall a statement suggesting ASEAN concern about China's activities there;² and again at the ASEAN foreign ministers' meeting in Vientiane on July 25, when it pressured Cambodia to reject language in a joint statement mentioning the tribunal's ruling against China's territorial claims.³ As one experienced analyst aptly noted, "China did not create the disunity in ASEAN, but it does exploit the divisions and uses its economic clout to try and get its way."⁴

It is equally clear that the Lao government welcomes China's investment and trade as well as Beijing's "soft power" support for development of human capital. The salient questions going forward will be how Beijing and Hanoi use their power and influence, and

whether the other major investors – Japan, Thailand, South Korea – continue to find Laos an attractive location in which to invest their money and to engage diplomatically, including provision of development assistance.

Australia, the European Union, other Western governments and international organizations, as well as foreign nongovernmental organizations, also have important roles to play in Laos' future. Whether the political climate in Laos and its resources at home will allow it to continue to engage fully will be pivotal issues to watch.

The United States has built an imposing new chancery on the outskirts of Vientiane, signaling Washington's intentions to continue to play a significant role in the country. During annual Lao-American consultations in Vientiane on May 6, the United States pledged "up to \$50 million" in new development assistance for Laos.⁵ Finding ways to use the new facility and those additional funds to advance American interests in Laos will not be easy. The needs are great, but the ability of the Lao People's Democratic Republic (PDR) government to utilize more foreign assistance is limited.

Developing the bilateral Trade and Investment Framework (TIF) the United States and Laos signed in February 2016 will require American investors to operate innovatively, as those already there have. The Lao government also will have to improve and clarify investment conditions if it is to attract a more diverse group of investors.

Geography, the new trade routes across mainland Southeast Asia, and a need for geostrategic balance in the region call for an effective American presence in Laos. Clearing the unexploded ordnance dropped on Laos by the U.S. Air Force during the Vietnam War currently absorbs much of the United States' assistance, and American policymakers should bring that effort to an end as quickly as possible. The United States and its allies also have insights into the environmental and human problems around the hydroelectric dams on the Mekong River, and should work with the concerned governments toward regional solutions to those complex problems.

The United States has expertise in the areas in which the Lao government needs assistance: education, health care, and agriculture. The operational concepts underlying the United States' assistance programs should be to bring Lao and Americans together to work on those and other specific problems of concern to the Lao. Of related concern, Lao youth need instruction that is hands-on, activity-based, and student-centered for critical thinking and problem solving. The Peace Corps, the four major

American universities with campuses in Southeast Asia, and Americans with experience and language skills in the region are resources that Washington can use to help Laos remain a fully participating member of the international community, open to mutually beneficial relationships with all.

Introduction

President Barack Obama, Chinese President Xi Jinping, and Japanese Prime Minister Shinzo Abe will join Southeast Asian and other heads of state at the East Asian Summit in Vientiane, September 6–8. The government of Laos will host the Summit as the 2016 ASEAN chairman. Obama will be the first American president to visit Laos. His attendance will underscore Washington’s commitment to the “strategic partnership” he formed with ASEAN in 2015, and follow the informal summit he hosted in California with ASEAN leaders in February.

The primary purposes of this policy brief, however, are to look at current developments within Laos’ own borders, and to examine how those developments shape this small, landlocked country’s place in Asian-American

relations, in particular its relevance for the incoming administration’s Asian policies in 2017 and beyond.

More operationally, this paper provides background for future policymakers about what the major powers are doing in Laos today and

how those activities relate to the United States’ interests there. It also assesses the impact of those activities on the Lao economy and society, and it recommends projects the United States might undertake to project its values and the rules-based order it supports in Laos and elsewhere in Southeast Asia. Finally, this policy brief highlights ways the United States can help contribute to Laos’ ability to continue its movement toward prosperity and full participation in the international community.

A History Of The United States’ Involvement⁶

The Lao People’s Democratic Republic is a landlocked country bordered by Thailand, Cambodia, Vietnam, China, and Myanmar. According to a 2015 census, Laos has a population of 6.47 million, growing at about 1.45

percent annually, and 63 percent of the total population lives in rural areas. Laos is highly diverse, with 49 tribal groups represented within its borders. Most speak the national language, “Lao,” but there are as many as 85 other languages spoken in this small country.⁷ Vientiane-dialect Lao, however, is the lingua franca, and is widely enough spoken that language is not a barrier to communication throughout the country.



The Mekong River runs through China, Myanmar, Laos, Thailand, Cambodia, and Vietnam. It is economically and strategically central to the region. (Tango7174/Wikimedia)

The Mekong River either borders or passes north to south through most of Laos. The Mekong and its tributaries provide the country with more water resources per capita than any other Asian country and are invaluable resources for hydro-power, agriculture (including fisheries), and transportation. Other important natural resources include a large strip of fertile land in the plains bordering the Mekong, extensive forests, and mineral resources (including copper, gold, and silver). However, much of the land area away from the Mekong and near the long border with Vietnam is mountainous and sparsely populated.⁸

Lao-American diplomatic relations were initiated in 1950 when the United States opened a legation in Vientiane, followed by establishment of full diplomatic relations after Laos gained independence from France in 1954.⁹ The relationship between Washington and Vientiane was intense between then and 1975, as the United States supported the country’s royalist government in a civil war against the Lao communist movement and its more potent ally in Hanoi.

For nearly a decade beginning in 1964, parts of Laos along the Ho Chi Minh Trail (near the Lao-Vietnamese border) and other areas in the country occupied by North

Vietnamese troops were bombed heavily by the United States in support of the conflict in Vietnam. The Central Intelligence Agency also supported a clandestine, but well publicized, guerrilla movement led by Lao tribesmen (*Hmong*) against the North Vietnamese and their Lao communist allies from a base in north central Laos.¹⁰

Following the change of regimes in Vietnam and Cambodia in 1975, a communist government also came to power in Laos and quickly aligned with Vietnam and the Soviet bloc. Lao-American relations deteriorated, and U.S. representation was downgraded. Full U.S.-Lao diplomatic relations were restored only in 1992, but the U.S. Embassy had remained open and staffed by Americans throughout. In July 2012, Secretary of State Hillary Clinton visited Laos, the first official consultations in Vientiane at that level since 1955.¹¹ Her successor, John Kerry, followed in January 2016, and other senior Obama administration officials have also been in more regular contact with Lao counterparts as Laos' chairmanship of ASEAN moved forward and bilateral relations intensified.

Laos And The South China Sea

Not a claimant in the South China Sea dispute and having no related national interests, Laos' current chairmanship of ASEAN nevertheless gives it a role in the association's internal debate about how to respond to the Permanent Court of Arbitration's decision on China's activities in the South China Sea. Negotiations and maneuvering related to the court's decision no doubt will extend beyond the July 12 public announcement of the ruling. However, Laos' place in those deliberations will diminish sharply – much to the relief of Lao leaders – when it relinquishes its current leadership role in ASEAN to the Philippine government next year.

For the moment, however, the Lao government is caught between China on one side and Vietnam, the Philippines, other Asian governments (Japan, Brunei, Malaysia, Indonesia, Japan), and the United States on the other. A brief snapshot of related diplomatic activity

Chinese Foreign Minister Wang Yi was in Vientiane April 22–24, announcing at the end of his meeting with his Lao counterpart that “rocks and shoals in the South China Sea are not an issue between China and ASEAN as a whole.” The Chinese diplomat further stated, while noting the governments of Cambodia and Brunei agreed with him, that the right enjoyed by sovereign states to choose on their own ways to solve disputes under international law should be respected.¹² Neither Laos nor the other two governments publicly affirmed their agreement at the time with China's views on how to resolve this important dispute. The Lao foreign minister did say, however, that “Laos will try to mobilize discussion on the execution of the Declaration on the Conduct of Parties in the South China Sea [DOC] as well as negotiations on a formal code of conduct.”¹³

Two days later, on April 25, Laos' recently appointed president, Bounnhang Vorachith, chose Vietnam as the country he would visit first after taking office. The secretary general of the Vietnamese Communist Party described the results of the trip as “confirming and enhancing the longstanding friendship, special solidarity, and comprehensive cooperation between the two (political) parties, governments, and people of Laos and Vietnam.”¹⁴

Returning from Vietnam, the 79-year-old Lao president proceeded to Beijing May 3–5, in response to an invitation from Chinese President Xi, and agreed to “strengthen relations, friendship, and cooperation between China and Laos in the near future.” President Xi said the “traditional friendship between China and Laos is their shared treasure,” stressing that “China is ready to work with the new Lao leadership to build a community with a *shared future*.”¹⁵ (emphasis added)

Japanese Foreign Minister Fumio Kishida was in Vientiane May 4–5 to “promote relations and cooperation between the two countries.” More tangibly, the Japanese foreign minister provided grant aid of some \$23 million for the “reconstruction of bridges” along a major Lao highway and approximately \$2.3 million for human resource development.¹⁶

President Xi said the ‘traditional friendship between China and Laos is their shared treasure ...’

involving Laos and leading to the aborted ASEAN declaration in China on June 14, the Permanent Court of Arbitration's ruling on July 12, and the ASEAN foreign ministers' decision on July 25 not to mention the Court's ruling in their joint statement follows.

There was little public mention of the South China Sea in connection with the Japanese foreign minister's visit. However, a senior Japanese official said privately that high-level Lao officials assured the visiting Japanese delegation they would not obstruct ASEAN-wide

recognition of a decision by the Permanent Court of Arbitration in the Hague in favor of the Philippines against China's activity in the South China Sea.

However, Lao Prime Minister Thongloun Sisoulith said in an interview in Tokyo with the *Nikkei Asian Review* on May 28 that he would ask South China Sea claimants to hold dialogues among themselves to resolve the disputes. As this year's ASEAN chair, he said Laos would press for countries to cease activities that could increase tensions in the region, adding that, "ASEAN countries will carefully consider whether to issue a joint declaration in response to the upcoming Permanent Court of Arbitration ruling."¹⁷

The public debate continued when the ASEAN foreign ministers issued a statement on June 14 at a Special ASEAN-China Foreign Ministers' meeting in Kunming, expressing "deep concern over escalating tensions in the South China Sea."¹⁸ However, the organization quickly retracted the statement, a move which a report in the June 19 *Washington Post* attributes to Chinese pressure on its "close ally Laos."

China appeared to score another diplomatic victory on July 25 in Vientiane when ASEAN's foreign ministers dropped a proposal supported by the Philippines and Vietnam – and backed by the United States – to mention the tribunal's ruling in a joint statement. According to press reports, Secretary of State Kerry met with his Lao counterpart, Saleumxay Kommasith, and "urged ASEAN to reach consensus and issue a joint statement on the tribunal's recent ruling on the South China Sea."¹⁹ However, Reuters reported on July 25 that Cambodia had rejected the wording, supporting instead China's call for bilateral discussions. The Philippines subsequently backed down to prevent disagreement leading to failure to issue a joint statement of any kind.

Major Players Have Long-Term Interests In Laos

Whether this level of diplomatic activity continues through the end of Laos' ASEAN chairmanship or not, it is clear that China, Vietnam, Japan, Thailand, Australia, and others all have long-term interests in Laos that reach beyond the South China Sea dispute and are likely to extend beyond its resolution, whatever form that might take. A host of other governments – including the United States – also have reasons to maintain an effective presence there, whether based on bilateral or regional considerations.

Viewing China's maritime actions in the context of its impressive involvement in this remote part of mainland Southeast Asia documents Beijing's larger goals in the

region. Vietnam, Japan, and Australia apparently have reached a similar conclusion, but from different optics, and all have been working assiduously to balance China's influence in Laos in ways that coincide with Washington's interests. As has been its wont through history, Thailand appears to have a more nuanced view and is more inclined to accommodate China than to oppose it publicly.

Details on those governments' activities in Laos follow and form the context of the assessments and related recommendations on why and how the next U.S. administration can best advance the United States' interests there.

China: Well On Its Way To Reaching Longer-Term Objectives In Laos

China began large-scale involvement in Laos in the late 1990s by funding an imposing, city block-wide National Cultural Center in Vientiane and constructing a 20,000-seat stadium that the Lao government used to host the Southeast Asian Games in 2009. The Chinese government also reconstructed the main thoroughfare in Vientiane, Avenue Lan Xang ("Avenue of a Million Elephants") and the gardens around the city's major monument (*Patou Sai*, "door to victory," modeled after the Arc de Triomphe in Paris).

Today, China is well on its way to achieving its overarching objectives in Laos: stability on its borders; unfettered transit rights linking into its "One Belt, One Road" to markets around the world; and continued access to Laos' natural resources, including hydroelectric power, minerals, lumber, and agricultural products.

China's ambassador to Laos announced proudly on January 30, 2014, that China's cumulative investment in Laos had reached \$5.1 billion, pushing it ahead of Vietnam and Thailand for the first time,²⁰ and increasing to \$6.7 billion in 2016.²¹ However, those numbers are hard to assess since it is not clear how larger amounts of Chinese money, such as the estimated \$7.2 billion cost of building the long-planned rail line through Laos from Kunming to Thailand, will be funded and how those funds will be categorized. Whether a traditional foreign investment or not, China's launch of a communications satellite for Laos on November 21, 2015, "Lao Sat-1," at a cost of \$258 million illustrates the range and magnitude of Beijing's vision of its place in Laos.²²

China also is actively disseminating information about its economic prowess and the potential for increased commercial involvement in Laos. An article in Vientiane's English-language newspaper – based on a recent press tour organized by Yunnan Province's

Daily Press Office – reports that plans are “progressing well toward establishing a multi-billion U. S. dollar economic cooperation zone in Yunnan near the Lao border.” China would invest \$31.4 billion in the zone located in Xishuangbanna prefecture, the ancestral home in Yunnan province of many present-day Thai and Lao peoples.²³

In the meantime, China is busily solidifying its reach and influence in Laos, building shopping malls, apartment complexes, hotels, and entertainment centers on land provided by the Lao government on long-term leases, while also funding large commercial agricultural projects and

supporting expansion of hydroelectric power generation. Scholarships for Lao students to attend Chinese universities are plentiful, and a Lao educator responsible for the Chinese studies program at the National University of Laos said

privately that the demand for graduates by Chinese companies with interests in Laos exceeds the supply.²⁴

Beijing also hosts regular training programs for Lao officials on a wide range of topics, from the Lao government’s tax collection and auditing practices – or lack thereof – to countering terrorism. Chinese military leaders have had contact with their Lao counterparts, inviting them to meetings and training programs in China, but strengthening the Lao military – the smallest and weakest in Southeast Asia – does not seem to be a high priority for Beijing. It would be easy for China to move large numbers of its own troops into Laos quickly if there were such a need.

BUT SOME LAO RESENT THEIR “CHINESE BROTHERS”

All has not gone well for China in Laos. On March 23 of this year, unidentified gunmen killed a truck driver and wounded six Chinese nationals on a tour bus headed to Vientiane from Kunming in China’s Yunnan province. In early March, a Chinese man was killed and eight other people were injured by unidentified “bandits” in three near-simultaneous shootings in the northern part of Laos. Other unidentified gunmen attacked a passenger bus in January not far from the March 23 incident, leaving one of about a dozen passengers in the vehicle injured, but causing no deaths. In January, two other Chinese were killed and one wounded in a bus bombing. The shootings received little publicity in Laos and the perpetrators’

motives were not entirely clear, but a Chinese foreign ministry spokeswoman said China had requested “Laos to pay close attention, severely punish the assailants and protect the safety of Chinese citizens.”²⁵

During Lao President Vorachith’s state visit to Beijing in May, a joint communiqué released by China’s official Xinhua news agency said China and Laos had “agreed to expand military cooperation, including personnel training and other forms of support.” They also agreed to take, “effective measures to protect the safety of each other’s people, organizations and important projects.”²⁶ No details were included, although one assumes the “other forms of support” included intelligence sharing and related training.

PROBLEMS WITH GAMBLING CASINOS

Some Lao are uneasy about China’s self-serving negotiating style and the land concessions given to Chinese investors by the Lao government. A Chinese-built gambling casino and resort complex built on one of those properties along the Lao-Chinese border in the small town of Boten was closed in 2011 after Chinese gamblers from Yunnan were held hostage there, probably by the casino’s Chinese managers, for not paying debts.²⁷

A follow-on agreement was signed on September 1, 2015 by Chinese and Lao authorities to re-develop the border area but little had been done by April 2016. Previously built hotels and other large buildings remain vacant, some starting to crumble in the tropical heat. Publicly available information about the size of the initial Chinese investment is not available, but surely totals in the millions of U.S. dollars. However, with a 50-year concession on the land and the new rail line from Yunnan to Vientiane scheduled to pass nearby, the planned complex likely will be restored in the future. In the meantime, Chinese engineers are building another hydroelectric dam on a river that runs through the land provided by the government in the original concession.²⁸

Yet another casino and resort area built by a Hong Kong-based company, “Kings Romans,” in the Golden Triangle Special Economic Zone where Myanmar, Thailand, and Laos meet along the Mekong River, has been criticized by the London-based Environmental Investigation Agency (EIA) for trafficking in endangered species of wild animals. The EIA published a report calling the area a “lawless playground” where tourists can buy banned wildlife products: tiger bone wine, pangolin scales, bear paws, and python meat.²⁹

One restaurant offered “sautéed tiger meat” and kept a complete skeleton of a large cat in a wine-filled tank, according to the EIA. Prostitutes – mostly poor

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Thai, Burmese, and Chinese women – were said to be widely available in the resort area, although prostitution is illegal in Laos. On March 31, 2015, Lao National Television reported that police raided businesses in the zone after the report was released and found illegal items in four “foreign owned restaurants.” The Lao government reportedly sent police from Vientiane to inspect the facilities, and the restaurants were closed.³⁰

CHINESE-MANAGED BANANA PLANTATIONS

RAISE QUESTIONS

More recently, a researcher at the Lao National Agricultural and Forestry Research Institute raised the possibility that Chinese agricultural companies that have contracted with Lao farmers to grow bananas on their land are using excessive amounts of chemicals on their crops. The researcher claimed that workers on the banana plantations and those who eat the fruit in Thailand could be at risk if the use of chemicals is not properly controlled. Banana plantations are big business for Laos, particularly for subsistence farmers growing the fruit for Chinese companies. Banana exports from Laos increased tenfold from just under \$4 million in 2011–12 to \$40 million in 2014–15; the Lao press reported 600,000 tons of bananas were exported from Laos to China and Thailand by early 2016. The overwhelming majority of the fruit (88 percent) goes to China, the rest to Thailand.³¹

The Lao government welcomes Chinese investments, and China is in Laos to stay. Nevertheless, there is growing concern and resentment among some ordinary Lao about their government’s willingness to give Chinese government-sponsored immigrants, and others who come on their own, control over relatively scarce arable land. As in the case of the banana plantations, however, some Lao benefit from Chinese involvement and are willing to tolerate it.

Vietnam: Seeking To Maintain Laos As Buffer Against China

Vietnam has had significant links to Laos since the French colonial period. More than 80,000 ethnic Vietnamese live in Laos today, where they are traders, factory owners, and merchants. Some have Lao passports; others maintain Vietnamese credentials. Yet others walk across the long, mountainous border that Vietnam

shares with Laos to visit relatives and to seek work. Vietnamese can be found in substantial numbers in all the provinces bordering Vietnam and in the major cities along the Mekong River and its tributaries: Vientiane, Luang Prabang, Savannakhet, and Pakse.³²

The phrase “special relationship” between Laos and Vietnam came into general use by both parties after 1976. In July 1977 the 25-year Lao-Vietnamese Treaty of Friendship and Commerce legitimized the stationing of Vietnamese army troops in Laos, “to protect the Lao against hostile or revolutionary neighbors.” Another element of cooperation involved hundreds of Vietnamese advisors who mentored their Lao counterparts in virtually all the ministries in Vientiane.³³

However, Vietnam’s ability to assist Laos financially was limited by the physical destruction of war and the deadening orthodoxy of its economic structures and policies. After the Vietnamese troops left Laos and the most senior Vietnamese and Lao revolutionary leaders passed away, the “special relationship” started to fade. Also, Laos struck out ahead of the Vietnamese government when it decided to institute a “New Economic Mechanism” (NEM) to introduce market mechanisms into the economy.

The NEM opened the door to rapprochement with China, Thailand, and others for Laos at the expense of its “special dependence” on Vietnam. Laos had broadened its range of donors, trading partners, and investors independently of Vietnam’s attempt to accomplish the same goals. Vietnam remained, however, as a mentor and a reliable ally that Laos could turn to when needed.³⁴

Vietnam is far from an outlier in Laos’ foreign and commercial policies today. As previously noted in comments about Laos and the South China Sea dispute, the newly appointed President of Laos, Bounnhang Vorachit, traveled to Vietnam on his first overseas trip, May 3–5, pledging to work closely with Vietnamese leaders in several areas.³⁵

The Lao President’s visit produced more than diplomatic rhetoric: Vietnamese investors reportedly have poured \$4.9 billion into Laos, helping to create jobs for about 40,000 Lao laborers. Vietnam is the second largest foreign investor in Laos and its first choice as an investment site. Bilateral trade between the two generated \$1.26 billion in 2015, and both sides agreed recently that their countries’ bilateral import-export turnover will grow to \$3 billion by 2020.³⁶

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Vietnam also continues to attract large numbers of Lao students, following a precedent established during the French colonial period. Lao civil servants who aspire to move up in their government's management structure are encouraged to go to Vietnam or China for training. A recent press report stated that there are "more than 400 Lao students" at the Ho Chi Minh National Academy of Politics and Public Administration in Hanoi, adding that, "almost all Lao officials in high positions have graduated from the academy and are now valuable resources for national defense and development."³⁷

Hanoi wants to maintain Laos as a buffer against Chinese encroachments and as an ally. It also wants to protect its commercial interests and primacy with the Lao communist party, which it was instrumental in forming during the Vietnam War. However, China's money, size, and location represent challenges that are difficult for Hanoi to overcome. Also China and Laos' shared interests in using the Mekong River as a source of hydroelectric power generation clash with Vietnam's absolute need to maintain the flow of water down the Mekong to its delta. The rice cultivation and fish caught there are staples in the Vietnamese diet and an important element in the country's traditional culture.

Thailand: Separated By History, Linked By Language And Culture

Those who believe British-American relations suffer from their people speaking the same language and sharing portions of the same culture might think the same about Thailand and Laos. The posh Englishman with an Oxbridge accent who looks down on Americans who pronounce his language differently than he does could easily find a native of Bangkok who feels the same way about a monolingual speaker of the Lao language. Lao often find Thai, particularly those who are monolingual speakers of central Thai, arrogant. The latter view the Lao as country bumpkins who speak an antiquated form of their language with amusing and sometimes earthy connotation (for more details see *Quora*, "Do Thai and Lao understand each other's language very well?").

Thai-Lao relations also have been influenced over the years by disputes over border demarcations, leading to outright gun battles. During the Vietnam War, Thailand sided with the United States in seeking to establish Laos as a buffer between it and Vietnam. Some current Lao government officials who were in active opposition to the Thai-American alliance recall that period. Further, a patrol boat shooting incident on the Mekong occurred in 1980 that was overshadowed by another border dispute and Thai-Lao military clashes in 1984 and 1987 in Sayaboury province west of the Mekong.³⁸



While Laos has experienced dramatic economic growth, it also still depends on traditional agriculture and industry. Here, a group of women plant rice seedlings in a field near Sekong. (Jim Homes/AusAID/Flickr)

Thailand's interest in Laos today is primarily economic. Thailand is Laos' top trading partner and its third-largest foreign investor today. In 2012, its exports to Laos were worth \$3.5 billion, while imports totaled \$1.2 billion.³⁹ Thailand also provides a large market for the electricity generated by hydroelectric dams in Laos, some of which Thai banks have financed and Thai construction companies have built.

Six bridges join Laos and Thailand over the Mekong today. People from both sides go back and forth daily, some on the bridges, others in small boats and ferries. This traffic in turn increases Laos' claim to be "land-linked" rather than "landlocked" as commerce from China, Thailand, and Vietnam is conducted through its territory.

Many Lao have gone to Thailand, primarily Bangkok, over the years to study in Thai universities. Thai language radio and television broadcasts reach across the Mekong River every day. Many Lao who live in the urban areas along the river like to watch Thai soap operas. As a result, Lao linguistic nationalists claim that their language is being influenced by the tones and phrases of central Thailand, and that Lao youth are losing control of their own language.

Whatever the complaint from either side of the river, Thailand and Laos share a rich history and culture. Thailand was never colonized, an obvious but easily overlooked fact by some who bemoan the Thai government's sometimes easy accommodation to China's ascending power. An astute Thai journalist who writes regularly about Thai foreign policy and has had experience in the United States told the author that the Thai government is neither "pro-American" nor "pro-Chinese," only "pro-Thai." Speaking with no rancor, he said that Washington would have to accept this and find areas of mutual interest on which to work with the Thai. He also suggested the Lao might take note of this over time, and stiffen their own spines the next time China comes knocking with requests for favors that do not mesh with their own interests or those of their other friends.

Japan: Aiming To Protect Its Interests

Japan is pushing hard to protect its extensive commercial and security interests in mainland Southeast Asia. Tokyo particularly wants to maintain a level playing field on which to advance its interests in Laos and Cambodia, the countries most vulnerable to Chinese influence.

Japan has accordingly upped its involvement in Laos in response to China's increased reach there, establishing a "strategic partnership" with Laos in March 2015. The Asian Development Bank is expanding its lending base for Laos, largely with financial support from Japan. The latter

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subsequently pledged over \$7 billion to insuring regional stability and "quality growth" in the Mekong region, 2016–18.⁴⁰

As previously noted, Japan is also playing an active role in urging Laos to support recognition and adherence by ASEAN to the International Court of Arbitration's decision on the Philippine government's case against China's activities in the South China Sea.

Following Japanese Foreign Minister Kishida's May 4–5 consultations in Vientiane noted above, Prime Minister Abe told visiting Lao Prime Minister Thongloun Sisoulith in Tokyo on May 28 that in addition to attending the East Asian Summit in September he also wanted to make an official bilateral visit to Laos around the same time. In the meantime, the number of Japanese investors in Laos had doubled to 126.⁴¹

South Korea: Leveraging Strategic Interests

Like Japan, South Korea is also putting more emphasis on "official development assistance" projects in Laos. However, South Korea has unique interests in Laos linked to inter-Korean relations and North Korean defectors. For example, Laos returned North Korean defectors to North Korea in 2013 – with alleged pressure from China – despite domestic opposition in South Korea. A few weeks later, South Korea provided \$4.3 million in aid to Laos, aiming to create leverage on the Lao government and preclude a repeat of such incidents in the future.⁴²

In January 2014, South Korea granted a \$200 million low-interest loan to Laos for unspecified projects to boost the country's poverty reduction and development efforts in the wake of budgetary tensions. The loan will be good through 2017.⁴³ South Korea is also funding the construction of Souphanavong University in Luang Prabang while providing scholarships for Lao students to further their studies in South Korean universities.

Australia And New Zealand: Supporting Education⁴⁴

The Australian government will provide an estimated \$41 million in official development assistance to Laos in 2016–2017, including about half of that in bilateral funding. Canberra is focused on three areas this year: basic education, human resource development, and trade and business environment reform. In 2014–15, the Australian government awarded 50 students with scholarships to study in Australian universities; and 140 scholarships to study at the National University of Laos and Souphanavong University in Luang Prabang.

The Lao-Australian Institute (LAI) has also provided English language training for more than 60 Lao government officials, and supported the development of the National Human Resource Development Strategy approved by Prime Minister Thongloun Sisoulith on April 27. This year, the LAI program will assist the Ministry of Education and Sports with organizational reform, provide technical advice to the Ministry of Home Affairs on civil service administration, and introduce a competency-based training pilot to improve human resource management in both ministries.

The New Zealand government also provides scholarships for Lao students to study in New Zealand universities, and has sponsored specialized English language training in New Zealand for small groups of Lao to study language used in specific topics. According to an administrator at the LAI Institute, the latter programs have been particularly successful, both in terms of language learning but also in establishing personal contacts and friendships among students and teachers.⁴⁵

Regionalism: A Balancing Factor

Regionalism is an important element in the geo-strategic balance in Laos today. Membership in the ASEAN Economic Community and the World Trade Organization (WTO) encourage Laos to move toward compliance with transparent international structures and norms for doing business. Integration into regional structures has been good for Laos, but it also has led to increased migration out of the country for Lao who are unable or unwilling to develop the necessary skills to compete for jobs at home.⁴⁶

After insisting that its claims in the South China Sea be negotiated strictly bilaterally and complaining loudly when regional organizations have opposed their actions there, China is using its geographical proximity to Laos and other countries in mainland Southeast Asia to advance

Investment Bank and for insuring that its interests in resource exploitation, particularly those involved with generating hydroelectric power on the Mekong, are maintained.

Laos Benefits From Economic Opening

Opposition and a collapsing economy during a dark period following the change in government, 1975–79, forced the communist party, the Lao People’s Revolutionary Party (LPRP), to modify its hard line on collective farms and other strict communist dogma. In 1986, the LPRP embarked on its NEM reform program, which set in motion the transition from a centrally planned to a free-market economy.⁴⁸

Laos was open for business after 1986 and money started coming in, initially from Thailand, Vietnam, and China (in that order) but later from a host of other sources including Japan, South Korea, Australia, Malaysia, India, and, to a lesser extent, the United States. Stoked with this outside money, the Lao economy has grown by 7–8 percent annually since 2006, and is expected to continue on that pace through 2016 and beyond. According to the World Bank, “the economic outlook (for Laos) remains broadly favorable, supported by the power sector and growing ASEAN integration. Lao PDR has made good progress on a number of Millennium Development Goals, reducing hunger and improving education and health outcomes.”⁴⁹

The population of Vientiane has ballooned from less than 70,000 living in near total darkness at night in 1975 to some 800,000 enjoying air conditioning and bright lights in 2016.

its interests regionally. For example, Beijing identifies with ASEAN when it is in its interests to do so, and recently formed the “Lancang River Cooperation” agency, officially separate from ASEAN but linked through China’s participation in the “ASEAN Plus Three” mechanism. Meeting in China’s Hainan province on March 23 of this year, Chinese Premier Li Keqiang and his five counterparts in mainland Southeast Asia pledged to “join forces to build a peaceful and prosperous community.” Practical cooperation is to be carried out through three pillars: political and security, economic and sustainable development, and cultural and people-to-people exchanges, thereby largely paralleling ASEAN’s structure.⁴⁷

China presumably will use the Lancang River Cooperation organization as a base for planning infrastructure projects financed by its Asian Infrastructure

As a result, the population of Vientiane has ballooned from less than 70,000 living in near total darkness at night in 1975 to some 800,000 enjoying air conditioning and bright lights in 2016. Land prices have skyrocketed as new buildings have risen out of former rice paddies. Cars, trucks, and motorcycles clog streets and form traffic jams. Restaurants and bars have proliferated.

The justifiable fear that drove some 360,000 Lao out of their country between 1975 and 1992 is no longer present. By 1992, approximately 10 percent of the population had left the country, including most of the business and educated classes.⁵⁰ Some of those same people now have returned to start businesses or simply to finish out their lives near friends and relatives.

Tourism is big business in Laos today. More than four million international tourists came to Laos in 2015,

generating \$670 million in revenue. Foreign visitors are expected to increase to five million in 2016.⁵¹ Tourists are everywhere, in urban centers and on “eco-tours” in the countryside. Many are day trippers from neighboring Thailand or young backpackers on limited budgets, but groups of prosperous seniors also come with tour groups and stay longer.

Lao citizens come and go from Thailand regularly in search of jobs, relatives, education, and medical care in Thailand’s first-class hospitals, some not far from the border. A study by the Lao Ministry of Labor and Social Welfare showed there are more than 277,000 Lao working legally in Thailand. Numbers of illegal workers were not available, but there are likely even more in that category.⁵² Only a personal identification card is required for Lao citizens who remain within a prescribed area near the border. However, some cross the border at night without travel documents.

Exterior Stakeholders Look In

Looking beyond the expensive cars and large houses, however, the big money sectors in which the Chinese, Thai, and others have invested – energy and mining – do not employ many entry-level workers. Agriculture and real estate, which have also attracted foreign money, have provided more employment opportunities for Lao workers but mostly in low-paying jobs.

The relative wealth in cities and improved telecommunications have allowed the LPRP to tighten its grip on the country. A crackdown began in late 2012, adding to the impression that earlier reforms had been abandoned. One experienced analyst noted, however, that this could have been an effort by the government to maintain political and financial control, not to propagate communist dogma.⁵³ Whatever the motivation, following behind-the-scenes negotiations within ASEAN, the annual gathering of nongovernmental organizations concerned with human rights that is traditionally held in the capital of the ASEAN chairman will be held in East Timor in 2016, not Vientiane.

The LPRP also has sought to bolster its authority through its “three-builds” (*sam sang*) directive, a decentralization program aimed at reinforcing central control through resource management and revenue on a provincial, district, and village level, thereby contributing to tighter controls from the capital.⁵⁴

The educational system is weak, and corruption is an impediment to development. The respected international organization Transparency International ranked Laos as number 139 out of 175 countries on its worldwide corruption index in 2015. This was a slight improvement

over 2012, when Laos was 160 out of 175, but it documents how far Laos still has to go to rid itself of the debilitating drag of wasted investment and economic assistance funds.⁵⁵

The Lao government has opened itself to business with powerful governments but has only limited capacity to conduct those affairs. The government is collectively aware of this weakness and therefore proceeds cautiously, if at all, sometimes to the frustration of potential donors. It recognizes that it needs to improve its educational system and raise the standard of instruction, particularly in teaching training schools. It is also aware that it needs more technical capabilities at the working level. Despite considerable foreign assistance and widespread awareness of these deficiencies among all concerned, progress has been slow.⁵⁶

Nevertheless, the Lao government is an active member of ASEAN and the WTO. The ASEAN Economic Community, officially formed on January 1, 2016, brings Laos closer to full implementation of the principles on which those organizations are based. Related training and interaction with foreign donors takes place regularly in those contexts.

The Lao government officially wants preparation for its more complete assimilation into the world economy to continue. It says it wants to avoid overdependence on any single outside power, suggesting a willingness and desire to re-establish closer ties with the United States, Japan, South Korea, Australia, and other like-minded governments.

Further, Prime Minister Thongloun Sisoulith has shown himself to be open to improving communication with the Lao society, holding a rare public press conference on April 29 during which he pledged to “crack down on corruption and other undesirable forms of conduct.” He asked the Lao press to help with that major task.⁵⁷

A Fresh Approach Is Needed

Regardless of the fluid, sometimes confounding, scene in Laos today, Washington needs to remain actively involved there in support of its interests in Southeast Asia and in Laos itself, whose future direction will affect the rest of the region. The Lao have been manipulated by outsiders throughout their history, and they want to live in a fully independent nation. The more broad-minded and better educated among them view the United States and its allies as sources of help in that regard.

President Obama’s visit to Laos, the related preparation and follow-on assessments of the East Asia Summit,

and the other meetings he and his senior staff will have there should provide important reference points for a fresh, innovative approach to Laos for the new administration. The needs are great, but other governments and organizations with more money than the United States will have available for Laos are already well established there. Also, the ability of the Lao government to absorb and use more assistance is limited in some cases. Nevertheless, a combination of technical expertise, patience, insight, and cultivation of personal relationships can overcome these obstacles. Washington customarily focuses on high policy, but the United States should operate at the human level as much as possible in Laos.

Trade And Investment

The bilateral Trade and Investment Framework (TIF) signed in February 2016 by the United States Trade Representative and the Lao Minister of Industry and Commerce provides a forum for increased American investment in Laos. Developing the TIF will require American investors to work innovatively and the Lao government to improve and clarify investment conditions.

There are successful American commercial enterprises in Laos (Coca Cola, high-end silk production), and the Lao government officially welcomes both domestic and foreign investment. Its Special and Specific Economic Zones provide venues for investors to conduct large-scale commercial activities, and the government recognizes the need to proactively attract foreign investment. A recently issued Lao government report says \$27 billion of foreign direct investment – 30 percent of current gross domestic product – will be required to maintain continued economic growth, 2016–20.⁵⁸ The obstacles are well known – lack of human resources, corruption, an uncertain judicial system – but there appears to be a growing political-level commitment to overcoming them among recently appointed Lao leaders.

Educational Opportunities

The United States should continue, and expand, its efforts to help the Lao integrate further into the ASEAN Economic Community, the WTO, and beyond. The proposal should not be limited, however, to vocational or job training for specific tasks. It also should include imaginative, comprehensive academic and vocational training at the secondary level similar to that provided in the late 1960s and early 1970s through the USAID-funded Fa Ngum School system. American educational experts who were directly involved with that project are available and eager to assist.

In addition, the proposal should provide for advanced study in major American universities leading to master's

The United States should continue, and expand, its efforts to help the Lao integrate further into the ASEAN Economic Community, the World Trade Organization and beyond.

and PhD degrees that could provide the basis for good governance, as well as legal, ethical, and inclusive economic development following the students' graduations and return to Laos. Opportunities to study in the United States through the Fulbright Scholarship program should be expanded and made more accessible through one-on-one counseling

and easier-to-reach information. This should not be a one-off program, but rather an effort extending over a decade or more.

The Australian government has had extensive experience in preparing Lao students for study in Australia, and the United States should seek to work closely with Canberra as it plans its own program for study in the United States and/or at one of the four major American universities with campuses in Southeast Asia: Yale, M.I.T, and Duke University Medical School in Singapore; and the Fulbright University scheduled to open in Ho Chi Minh City in September. There might well be mutually beneficial ways to draw these institutions into programs in Laos through medical research, summer internships, and specialized targeting of research and operational needs.

The Lao Ministry of Education's decree requiring English to be taught starting in the third grade provides an opening for assistance and consultation, most immediately on whether that is a prudent approach to language learning. A proposal to provide a small team of highly trained, energetic, and imaginative American English teachers to lead intensive fast-track courses in Laos in specific fields selected by the Lao government might also be well received and serve to facilitate further people-to-people contacts, including an agreement to assign Peace Corps volunteers to Laos in the future. In the meantime, the Peace Corps might well facilitate the organization of special "advance" teams of teachers to meet these needs.

Agriculture And Health Care Delivery

Education and training should be key elements in the United States' involvement in Laos, particularly in the priority areas of agriculture and health care delivery. There should be an ever-expanding inventory of issues on which Americans could collaborate with Lao in those areas. A Lao-speaking American coordinator, based in a location in which he/she could not be captured by administrative requirements within the U.S. Embassy, would in effect bring American experts to Laos to work in close contact with Lao counterparts on specific problems identified by the Lao government. High-level political buy-in to this concept in the Lao government would be a prerequisite for success. The program should not be launched until the concept has been endorsed.

The Hydroelectric Debate

Individual proposals to resolve the environmental and social impacts of the dams that are advocated by single experts or states outside the Mekong region are not likely to be accepted or fully implemented by all concerned parties. To compound the problem, the Mekong Commission – established by Western governments to serve as an honest broker and regional arbitrator of problems associated with the dams – has lost credibility. However, with careful diplomacy, a coalition of interested parties – Vietnam, Cambodia, the United States, Australia, and possibly others (Myanmar, Thailand, China) – could propose a series of international studies and consultations leading to improvements in the situation. For example, multi-country studies of alternative sources of energy or designation of locations for future dams that would minimize their environmental impact could be helpful. The United States should take a behind-the-scenes leadership role – with Vietnam and possibly Cambodia up front – in making this happen.

End The Unexploded Ordinance Problem

Surveys reportedly are under way by nongovernmental experts that could define the number and approximate locations of all previously undiscovered unexploded ordinance in Laos. After those efforts have concluded (2017–18), and an approximate end date has been announced for full-scale clearance activities, the United States should move quickly and publicly to announce an increased number of support activities for residents in the Lao provinces most directly affected by the ordinance – assistance for farmers, local scholarships for children, and an open-ended offer of medical assistance for previously untreated victims of the buried bombs. The overall effort should be turned from a “clean up this deadly

mess” operation to a more positive, caring, and humanitarian effort that contributes to the development of Laos.



Unexploded ordinance removal remains a significant problem in Laos, and an opportunity for better U.S. cooperation. Here, cluster bomb casings are so abundant near Thacock village that they are used as ad hoc building materials. (MAG [Mine Advisory Group]/Flickr)

Concluding Thoughts

The United States used Laos during the Vietnam War. Following the end of that tragic phase of Asian-American relations and the change of government in Vientiane in 1975, Washington largely ignored Laos through the end of the millennium. That changed with the Obama administration's 2011 decision to rebalance its foreign policies by giving more attention to Asia. Economic prosperity there and related American involvement and commercial interests; the aggressiveness with which the Chinese government has moved into and through mainland Southeast Asia, particularly its current activities in the South China Sea; and the gradual increase in cohesion of ASEAN all have contributed to Laos' importance for the United States. Washington has the wherewithal to respond successfully if it can continue to muster the resolve to do so.

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