

# The Problems and Countermeasures of the Bilateral Trade Between China and Laos

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## Abstract

The bilateral trade and economic cooperation between China and Laos has a long history, although the trade volume is relatively not such huge, but trade grows quickly. The economies of the two countries are highly complementary and have a wide range of areas for cooperation. The prospects for the economic and trade relations between the two countries are very promising. A good stable political relationship, the Mekong sub-regional international cooperation provide a broad platform for China and Laos bilateral economic and trade development. The establishment of the Asian infrastructure investment bank will provide financial services in Laos' economy. There are also some problems in the bilateral trade relationship. Such as trade volume is low, unbalanced trade patterns, the investment structure is unreasonable, financial services lag issues such as insurance, are all factors which hinder the further development of trade between two countries. To solve above problems, we give some suggestions. To promote trade development by investment, make full use of complementary advantages, accelerate the construction of transportation infrastructure, create a good investment environment, etc. To further deepen the bilateral economic and trade cooperation, the joint efforts of the government and people of the two countries are needed. It is believed Laos and China's economic and trade relations between the two countries will come cross a brighter future.

**Keywords:** China, Laos, Bilateral trade, Problems, Countermeasures

## 1. Introduction to the Laos Economy

Laos's economic development is backward, but in recent years it enjoys rapid economic development, per capita GDP from 323.32 US dollars in 2001, to 1408.28 US dollars in 2012 and 1460 US dollars in 2013.

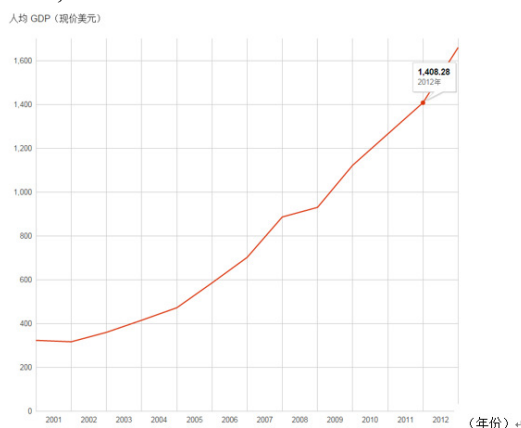


Fig 1 per capita in Laos from 2001 to 2012

Data Source: World Bank:

<http://databank.shihang.org/data/views/reports/tableview.aspx>

After 20 years of development, the proportion of agricultural output in Laos national economy has dropped from 58.2% to 33%. The service industry develops rapidly, the total output value accounted for 30.2% of the national economy and the industrial development is slow, the total output value accounted for only 36% of gross national product. Therefore, although the rapid development of the national economy of Laos, the agriculture still holds a large proportion and the industrial base is underdeveloped.

### 1.1 Agriculture

In 2011-2012 fiscal year, the total value of agricultural production is about \$ 2.403 billion, with an increase of 2.8% compared to last year, accounting for 26.7% of the GDP. Laos is a tropical - subtropical monsoon climate country, rich in river resources, which is suitable to produce rice. In addition, Laos also plants coffee, peanuts, sugar cane and other economic crops. Laos is rich in arable land, but the existing farmland is about 800,000 hectares, accounting for only one tenth of all land reclamation area, so there is a lot of room for development. However, due to Laos backward production technology, lack of adequate pesticide and fertilizer production capacity; no advanced breeding techniques, resulting in agricultural productivity is not high. Due to agricultural technology

and financial constraints, Laos new land reclamation in each year is very small, and the agricultural economic development is slow. However, due to the impact of some export-oriented cash crops, farmers have a high enthusiasm for planting. They expand the acreage, and make a substantial increase in production. In general, Laos agricultural development is still in the extensive development level, taking too much human resources but production is too low. It is needed to introduce agricultural science and technology and improve agricultural productivity.

### *1.2 Industry*

In the 2011-2012 fiscal years, Laos industrial output was about \$ 2.538 billion, with an increase of 14.4% compared to last year, and covered 28.2% of GDP. Laos is rich in natural resources, the corresponding industrial include power generation, sawing, mining, iron, cement etc., but its industrial technology level is rather backward. Laos industry is mainly light industry, such as clothing, food, beer, small repair shop and weaving, bamboo processing and other workshops. Lao owns Mekong River, so its water resources are extremely rich. Its power resource per capita is about 53440 degrees, which reaches developed countries. However, as there is no enough industrial capacity to consume these power resources, a large number of hydropower has to export to the neighboring Vietnam, Thailand and other countries.

From the above we can know that Laos has a low degree of industrialization, backward infrastructure, and low level of urbanization. Laos is rich in cheap labor resources, suitable for the development of labor-intensive industries, but the current type of industry is single and the scale is too small. General speaking, the economy of Laos is underdeveloped.

### *1.3 Service Industry*

Laos's service industry is weak and started late. Since the implementation of the reform and opening up policy, its service industry has made great progress. In the 2011-2012 fiscal years, the services output value was about \$ 3.51 billion, with an increase of 8.1% compared to last year, covering 39% of GDP. In recent years, benefited from Laos superior geographical advantages the services industry in Laos develops rapidly. Mekong sub-regional development and China-ASEAN economic integration provide opportunities for the development of multilateral trade services.

Laos's infrastructure is relatively backward and lack of rail transport industry. Road traffic is the main mode of transport in Laos, followed by river transport and animal power. Laos has a wealth of tourism resources, but did not get a good development and utilization. Its tourism infrastructure is poor, with great potential for development. In addition, the post and telecommunications industry in Laos is starting to develop, with good investment potential.

## **2. The status of China-Laos Trade**

### *2.1 China-Laos trade volume*

Economic globalization and regional economic integration have strengthened economic and political ties between Laos and ASEAN countries, and also have promoted the cooperation between China and Laos in the political, economic and other fields.

China-Laos bilateral trade volume have reached US \$2.74 billion, up 58.6% year-on-year in 2013 according to the Ministry of Commerce of the People's Republic of China. Among them, China's exports to Laos reached 1.72 billion US dollars, with an increase of 83.6% compared to last year. China's imports from Laos were 1.02 billion US dollars, with an increase of 29%. China mainly imports copper, wood, agricultural products and exports cars, motorcycles, textiles, steel, wire and cable, communications equipment, electrical and electronic products. From January to June 2014, the trade between China and Laos amounted to 2.3 billion US dollars, with an increase of 142% year on year.

### *2.2 China- Laos Trade Structure*

The level of economic development between the two countries is reflected in the commodity structure of bilateral trade. As China's economic development level is higher than Laos, especially industrial technology, the China and Laos trade structure has presented its unique characteristics.

Chinese industry is more developed than Laos, so China mainly exports industrial products to Laos, such as industrial products, motor vehicles and spare parts, construction equipment materials, large- scale agricultural machinery etc.. According to the data of 2014, China's top five products exported to Laos are electronics, machinery, vehicles and spare parts, steel products and chemical fertilizers, accounting for 71.7% of the total exports. Among them, electronics is the largest export products, amounted to 816 million US dollars, with an increase of 18.1% year on year; followed by machinery, amounted to 491 million US dollars, down 3.15%; followed by vehicle and its spare parts, amounted to 158 million dollars, with an increase of 16.7% by last year; steel ranked fourth, amounted to \$129 million, with an increase of 9.1%; the fifth one is fertilizer with an amount of 31 million dollars, up 83.7% compared to 2013.

China's agriculture is basically self-sufficient, but still needs to import agricultural and sideline products from neighborhood. In addition, China consumes a lot of energy as "world's factory", therefore it needs to import energy and industrial raw materials. In 2014, China's top five products imported from Laos were wood, ores, copper, rubber and cereals, totaling \$1689 million, accounting for 81.8% of China's total imports from Laos. Among them, woods ranked first with the amount of 1.029 billion US dollars, surging 136.7% year on year; followed by ore, amounted to 452 million US dollars, up 25.5%; the third one is copper, amounted to 85 million US dollars, with an increase of 8.5%. Rubber ranked fourth, amounted to \$78 million, down 2.4%; the fifth one is grain, amounted to \$44 million with an increase of 33.8% compared to 2013.

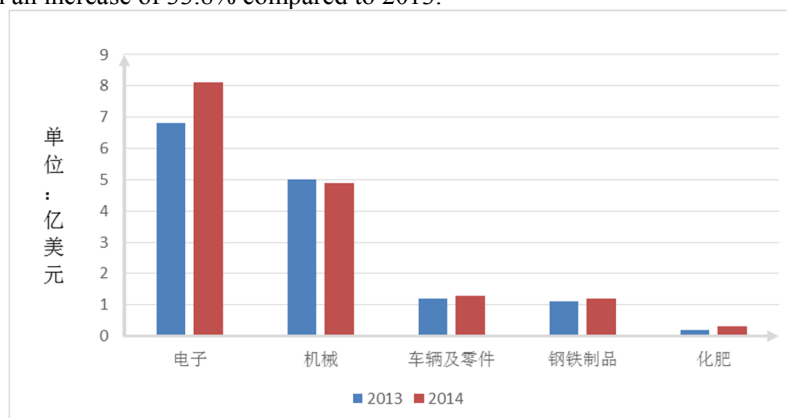


Fig 2 China's top five export products to Laos in 2014

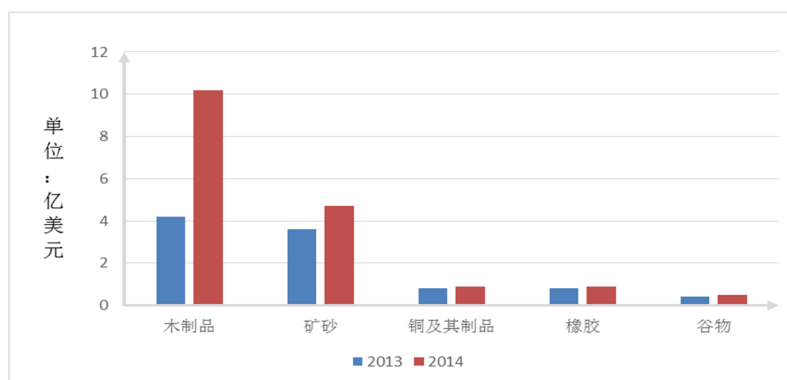


Fig 3 China's top five import products from Laos in 2014

### 3. Favorable Conditions for the Development of Bilateral Trade between China and Laos

#### 3.1 Good Political Relationship

Since the two countries solved the border issue through peaceful negotiations, the two countries have no political dispute on the territorial issue and lay a good political foundation for trade development. In the 1990s, the two countries signed a series of border treaties and achieved stability which cleared the last obstacle for port trade and border trade. In November of 2000, during his visit to Laos, China's top leader, Jiang Zemin signed and issued "Joint Statement" on bilateral cooperation. The statement establishes friendly bilateral relations between the two countries and has a milestone in history. At present, the two countries have developed into a comprehensive strategic partnership and have continued to deepen cooperation in the trade, education, finance, infrastructure and other areas. China and Laos and both ruled by the Communist Party, the national nature is similar. The good and stable political relations have laid a solid foundation for trade between China and Laos. With the two sides continuing to enhance mutual understanding in political and economic fields, cooperation has broad prospects in the future.

#### 3.2 Economic Complementarity

For now, China and Laos have unbalanced economic development. China has advantages in technology and manufacturing capacity, while Laos has advantages in the natural resources. Thus the two countries are complementary in many ways. This strong complementarity provides the possibility for the two countries to develop bilateral trade.

Due to the unique geographical location and environment of Laos, Laos has rich mineral resources, water and forestry resources, and the unique culture of Laos has created its own characteristic tourism resources. This

complementarity of resources is an important basis for economic exchanges between the two countries. It is necessary to give full play to the two regions and geographical advantages, through the strengthening of all aspects of cooperative development, to achieve complementarity of resources. Absorbing and learning modern science and technology from China is particularly important for countries with weak economic base and rich resources like Laos. This kind of cooperation can help Laos get rid of poverty effectively. To achieve a win-win situation, it requires the strengthening of China and Laos cooperation and complementarity in resources and technology.

### *3.3 International Cooperation in the Mekong Sub-region*

China's Yunnan borders on Laos. Laos is a must for Chinese goods to enter the vast market in the southwest region of Southeast Asia. With the continuous expansion of China's economy, the Southeast Asian market for China is having a pivotal role. The development of Mekong sub-region can provide Chinese goods access to these areas so that can expand China's export market. What's more, through resource integration, China can make full use of the rich natural resources in the sub-region. Therefore, the Mekong sub-regional development for China does mean a lot. In this context, bilateral cooperation between China and Laos is particularly important. China has its own advantages in spilling and rectifying the river, building terminals, manufacturing ships, producing handling equipment, etc., and China has strong demand for the development of Mekong River, so it is very considerable that China and the Lao government cooperate to develop the Mekong River shipping.

## **4. The Main Problems in China-Laos` Bilateral Trade**

### *4.1 Low Trade Volume*

For a long time, China and Laos bilateral trade cooperation development scale is small, bilateral trade volume is very low. In 2014, the trade volume between China and Laos is still less than 4 billion US dollars. The reasons for this phenomena is as follows. First of all, Laos economic development level is backward, the income level is low, consumption capacity is limited, leading to the import capacity from China generally low; Second, the Lao population is scarce. As of the end of 2012, Laos nation only has 6.5 million population, so the domestic market is very small. Third, the Lao industry is lagging behind, leading to its export of Chinese goods are only primary products, minerals, agricultural products, which greatly limits the bilateral trade potential to play. In addition, Laos backward transport facilities, high logistics costs, also hampers the smooth development of bilateral trade.

### *4.2 Unbalanced Trade Pattern*

China's economic development level is much higher than Laos and has been dominated in bilateral trade, so that the commodity structure in the trade is obvious. In terms of product categories, Laos mainly exports primary products to China, while China exports manufactured products to Laos at the same time. In the trade volume, China's trade with Laos has been a surplus, the long-term trade deficit makes Laos at a disadvantage, which is not conducive to the healthy development of trade relations between the two countries. The long-term persistence of this situation will allow Laos to take trade protection measures on some products and restrict import of products that they are capable of producing. In the long run, it will inevitably be detrimental to the health and stability of bilateral trade between these two countries.

### *4.3 China's Irrational Investment Structure in Laos*

From now, China's investment in Laos is mainly concentrated in some labor-intensive products, such as textiles but rarely introduce capital-intensive and technology-intensive products. However, Laos is rich in natural resources with high development value, such as mineral resources and water resources, and the Lao government also encourages foreign investors to invest in these areas. However, Chinese companies seem not to know enough and hasn't pay attention to the areas mentioned above. This kind of structure, on the one hand is difficult to meet the domestic market demand in Laos, on the other hand will miss some valuable investment areas, and not conducive to the competition of Chinese enterprises.

### *4.4 High Trade and Transportation Costs*

In the bilateral trade between the two countries, the cost of transport affects the to a large extent between China and Laos, especially in the context that natural resources and energy are keeping tight, transportation costs are a large part of proportion in the cost of the product.

Yunnan province is bordering Laos and China should have a strong geographical advantage. At present, due to lack of funds, the existing road in Laos are neglected for many years, so the road is bumpy. Therefore, to strengthen the transport infrastructure between China and Laos and reduce logistics costs does have an important role for the development of the two economies.

### *4.5 Trade Barriers*

The unbalanced trade structure between China and Laos has led to the unequal status of bilateral relations. China

has long been dominant and Laos trade deficit is serious. In order to protect their economies, Chinese goods often encounter trade protectionism. Especially with the expansion of trade cooperation between the two countries, the status of bilateral relations will be more and more unequal. Trade protectionist barriers will also become a restrictive factor in the development of trade between China and Laos.

## **5. Suggestions on Promoting the Development of Bilateral Trade between China and Laos**

### *5.1 To Promote Trade Development through Investment*

The Chinese government should actively encourage powerful enterprises to implement the strategy of going out, increasing investment in Laos and stimulating growth of bilateral trade. On July 11, 2012, the two sides signed the “Agreement between the Government of the People’s Republic of China and the Government of the Lao People’s Democratic Republic on the Vientiane Sea Tower Comprehensive Development Zone”, which opened the first pilot cooperation zone between China and Laos. In the near future, Chinese enterprises will meet new opportunities on investment in Laos. In addition, continuing to increase investment in the manufacturing sector, and vigorously promoting the upgrading of industrial structure in Laos will also lay economic basis in the bilateral economic cooperation.

### *5.2 Complementing Each Other to Promoting Economic Development*

There are many complementary resources in China and Laos. According to the factor theory of production factor, China is rich in technical factors, and Laos is rich in resources. The two countries can use their respective advantages to complement their cooperation and promote the development of economic and trade. In the cooperation, on the one hand, Laos’s rich natural resources, such as forest resources, hydropower resources and mineral resources, which can be developed more efficiently; On the other hand, China’s technological advantages can be played to promote the development of Laos productivity. For example, Laos is rich in mineral resources, especially aluminum iron and copper, but lack of appropriate efficient mining technology. However, China has mining technology and mining equipment, but the resources gap in these areas is great. The two countries can make use of this complementary advantage to strengthen cooperation and promote economic development. What’s more, in agriculture, Laos has fertile land and suitable climate and China has a world-class agricultural technology in hybrid rice and super rice. The two countries cooperation in agriculture will greatly promote the development of their agricultural economy.

### *5.3 Improving the Investment Environment to Attract Funds*

First is to improve the legal construction. With the rapid economic development, the two sides need to adjust the laws and regulations in time to adapt to the current trade activities, and regulate the trade behavior of both sides to provide a solid legal protection for China- Laos’s trade cooperation. Although China has a large number of investment projects in Laos, and is ranked second in Laos’s foreign investment. But China’s investment in Laos still only holds a very low proportion in its whole foreign investment and there is also great potential for trade cooperation between the two countries.

Second is to strengthen the construction of infrastructure. Now Laos has joined the Asian investment bank and became one of the founding members. Laos has to seize the opportunity to actively develop infrastructure construction, improve transport capacity, make efforts to improve the investment environment, attract more Chinese investors, and thus further promote the development of trade between China and Laos and the development of the national economy

Third is to promote interoperability projects. Laos, located in the central part of the Indochina Peninsula, has a superior geographical location, and is an important channel for China and ASEAN trade. In addition, Laos needs to pay special attention to the railway construction of the two countries and improve the infrastructure construction of railway traffic. It is of great significance to strengthen the trade cooperation between China and the Laos and strengthen the economic exchanges between China and ASEAN. The construction of interconnection projects requires a lot of money, and ADB can become an important financing channel.

### *5.4 Actively Play the Role of Government*

Due to the low level of domestic economic development in Laos, the market economy system construction is still in the initial stage and the supporting facilities are particularly backward. The government-driven cooperation is still the main mode of bilateral trade cooperation and development in the next few years. In this context, the government should actively build a variety of cooperation platform to encourage both sides to form a friendly city, hold various commodity promotions, to provide policy guidance and system protection for enterprises to go out.

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