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A Review of Literature on the Economic Cooperation between the PR China and the Lao PDR.

Bounlith KHEMTHONG[1] (China Agricultural University)
Professor Xiaoyun LI[2] (China Agricultural University)

ABSTRACT: Currently, the People's Republic of China(referred to as PRChina here after) is the top froreign direct investment (referred to as FDI hereafter) in Lao People's Democratic Republic(referred to as Lao PDR here after), and so, Chinese investments play a crucial role in Lao PDR's economic development. Some of the benefits of Chinese FDI in this country include: technology transfer, productivity increases and employment creation,foreign exchange earnings, increased gross domestic product,knowledge transfer, human capital development, *etc*. Conversely, FDI is not always the catalyst of economic growth that it has been celebrated as. There are cases where FDI means an exploiation of certain conditions present in the host countries,such as cheap labor and natural resources, less environmental regulation, tax havens, unfair competition to local enterprises,*etc*.

This paper is a literature review that explores Chinese FDI in Laos PDR. In so doing, it explored the normative and legal framework as well as the historical ties that have enabled this relationship to be the long-term and stable comprehensive strategic partnership and economic development cooperation it is today.The paper found that Chinese FDI, particularlyin the agricultural and commerce sectors have made significant contributions to poverty reduction of many Lao people;however, the high domination of Chinese investors and investments have negatively and positively affected the Lao industries.

The review recommends that future studies should place emphasis on the long term positive and negative implications of the domination of Chinese investment on the local ecosystem of Lao people as an outcome of the cooperation between Lao PDR &PRC This review is a chapter of a doctoral thesis.

KEYWORDS: Lao PDR, PR China, Chinese FDI &FDI

I. INTRODUCTION

Available literature asserts that economic development is a multidimensional process that involves interactions among different goals of development and therefore would require systematically designed policies and strategies. Development issues are complex and multifaceted. There is no one single pathway for economic development that all countries can pursue. In the long term, the economic development process requires changes in policies to account for new emerging factors and trends. Designing these economic development policies also need to take into consideration the social, cultural, political systems and institutions as well as their changing interaction over time in a country.The goal of economic development goes beyond the growth of gross domestic product (GDP) per capita. Economic development is about growth plus organizational change.Without growth, the change is unlikely to occur, since a country needs resources to realize other long-term objectives. Growth and change will thus continue to be central to any development strategy (G. Dang and L. Sui Pheng, 2015).This paper is a review on economic cooperation, specifically Chinese FDI and its role in achieving economic growth in countries, specifically LaoPDR.

Earlier Theories on Economic Growth & FDI

Theory	Author	Main Concept	Theoretical Weakness
Neo Classical Growth Theory	Robert SOLOW, 1956	FDI inflows increase the stock of capital in host countries thereby allowing higher rates of economic growth than would be possible from reliance on domestic savings	The problem of FDI in Solow model is that capital accumulation by itself cannot foster economic growth in the long run. Long-run economic growth can only be affected by exogenous variables, especially technological progress.
Production Cycle	RaymonVernon,	There are four stages of	

Theory	1966	production cycle: innovation, growth, maturity and decline. If in the first stage of the production cycle, manufacturers have an advantage by possessing new technologies, as the product develops also the technology becomes known.	
Endogenous Growth Theory	N. Gregory et al, 1992	Technological advancement stimulates economic growth by creating externalities that compensate for diminishing returns to capital	No assumption of diminishing return of capital inputs, capital stock, determined by saving and investment, In long-run economic growth is driven by accumulation of knowledge.
Empirical Studies of FDI and Economic Growth	Aitken and Harrison, 1997 De Mello, 1997; And many others	- Instead of positive advanced technology spillovers, FDI may even adversely affect local firms in the short term, - The macro studies often find FDI positively affect economic growth, but the recipient economy has to satisfy certain conditions: characteristics of the recipient economy, the degree of human capital, the liberalization of their trade regime, macroeconomic stability, the character and effectiveness of financial markets. Ans the recipient economy must develop to a certain threshold to have enough absorptive capacity to benefit from FDI.	Their results do not rule out the possibility of positive spillovers over the long run

Figure 1.1 shows some earlier theories of FDI and EconomicGrowth.
Source : Developed by the Author, based on literature reviewed.

FDI & Economic Growth

For the purpose of this paper, FDI will be defined as : *" the long term participation by country A into country B, it usually involves participation in management, joint-venture, transfer of technology and expertise and acquisition of at least ten percent of the ordinary shares or voting power in a public or private enterprise by nonresident investors. Direct investment involves a lasting interest in the management of an enterprise and includes reinvestment of profits"* (Gaurav Agrawal, 2011). Likewise, economic growth wil be defined as: "*the percentage increase in real gross domestic product (GDP) and target understanding the disparity, identifying the problem, providing solutions, and hence promoting economic growth, living standards and material wellbeing for the human society in the long run"(*Mankiw et al., 1992). FDI can enhance growth by allowing host countries access to advanced technologies that are lacking in recipient countries and it involves training of domestic labor, as the strengthening of human capital will generate positive externalities that could raise economic growth (UNCTAD, 1999). Other benefits includefulfilling the rising investment requirements to boost economic growth at higher pace and helps for macroeconomic stability in recipient economy and contributes to growth through several channels, as it directly affects growth through being a source of capital formation that refers to net additions to capital stock of an economy, including the creation of factories, new machinery and improved transportation. The economic growth provide citizens with a high level of social welfare, improved methods and technology and raise the returns to the productive factors by increasing the outputs of each worker.Additionally, it has the potential to expand access to export markets.

For those developing countries with limited industrial bases, increased export earnings facilitate the imports of capital goods that can lead to higher levels of economic growth (Ullah et al, 2014). There are four salient motivations for firms to engage in FDI, namely: pursue new market opportunities, secure natural resources, engage in production cost arbitrage and generate intangible strategic assets(Dunning, 1993).This non debt foreign inflow eases the pressure on balance of payment distortion. Technological transfer from investors countries to recipient countries occurs through FDI which paves the way for economic development in recipient countries.FDI affects economic development of the recipient country at macro and micro level. At the macro level, it is beneficial for real sectors of the economy in areas such as investment, exports, economic growth, and so forth; whereas, at the micro level, it creates technological spillover and training of manpower and enhances management skillsand so forth (Irfan Ullah et al, 2014).FDI is found to have a positive and significant impact on growth when host countries have better level of initial GDP and human capital. The important determinants of economic growth through FDI are: level of financial development, technology transfer, export, exchange rate and human capital. The inflows of foreign capital does not only create more employment to the host countries, but it also provides a dynamic benefit to those countries in term of technological transfer and influences other macroeconomic variables, such as export, consumption and savingshese, These in turn, enhance growth. In Lao PDR, the law on promotion and management of FDI or national policies of recipient countries are important factors to attract FDI and obtain the full benefits for economic development (Anitta,2015). Likewise, the socioeconomic condition has a positive and significant effect on FDI (N.Zeynep*et al*, 2013).

FDI enhances the marginal productivity of the capital stock in the host economies and thereby promote growth. In addition, higher efficiency of foreign firms may help lower prices and hence increase consumers' surplus and raises employment by either creating new jobs directly or using local inputs (thus creating more jobs indirectly).However, empirical evidence has shown that the effect of FDI on economic growth is dependent upon a set of conditions in the recipient economy or local economy, such as the level of human capital, government policies, location, infrastructure andfinancial development as well as a high degree of trade openness (Sauwaluck, 2013). High income economies thus have a greater advantage in this aspect to gain greater benefits from FDI than the lower income economies. The middle- and low-income countries need to invest more on education and infrastructure openness (Sauwaluck, 2013).

Low-income economies such as Lao PDRalso need to develop policies that promote greater trade openness (PolpatKotrajaras, 2010), as income, interest rates and the exchange rate are the most important and influential determinants of FDI for recipient countries. However, openness proved to be the main factor, whereas exchange rate, human capital and income are the substantial variables for recipient economy (Fayyaz Ahmad, 2017). Economic growth of any country depends upon investments, increasing assets and infrastructure (Qaiser Abbas *et al*, 2011). Therefore, Governments of developing countries and emerging markets often strive to find policies to stimulate an upgrading of the national production structure. Beata argues that, attracting inflows of FDI can help recipient countries achieve economic development goals. Attracting inflows of FDI may serve as a catalyst for upgrading the national production structure in an emerging economy and FDI can be a force for intra-national convergence as smaller and less sophisticated firm appear to benefit more from knowledge brought by foreign investors(Beata et al, 2017).

Available literature suggests that benefits from FDI spillover into arecipient economy, include technology transfer, productivity increases and employment creation have been limited (Magnus, 2009; Phanhpakit, 2013; Wan Ping Tai et al, 2014; Nulist, 2015; Natalia, 2015; and Srinivas & Hlaing, 2015). It leads to increased competition in the domestic market which can cause greater efficiency of domestic firms. The financial benefits to host countries of asset transfer appear to be small. Land rents demanded for concessions are typically low, while the various tax concessions offered to foreign investors means tax revenues foregone (Srinivas and Hlaing 2015). While job creation is often cited as a key benefit of land investments, there is evidence suggesting that large concessions provide limited opportunities for wage labor for those displaced from their land by large enterprises and often involve poor working conditions. Meanwhile secure employment opportunities outside agriculture remain quite limited for the growing numbers of landless (Natalia, 2015).

Many developing countries believe that FDI would spark growth through knowledge transfer, export growth, or job creation but it was found here that FDI was not the catalyst of economic growth that it was thought to be. It must be bornedin mind that Multinational Enterprises (referred to as MNEs hereafter) do not move operations to recipient countries to transfer knowledge; they establish subsidiaries in order to exploit a certain condition present in the host country. It may be cheap labor, abundant natural resources, less environmental regulation, proximity to markets or lower taxes that inveigle the MNE to move operations. It is in the interest of the MNE to protect their knowledge.Thus, FDI is associated with both import and export trade in goods, and the host country can benefit from an investment-led export growth.FDI contributes to the transformation of the industrial structure of host economy and the commodity composition of its exports. The presence of foreign firms in the economy with their superior endowments of technology and management skills will expose local firms to fierce competition. Local firms may also be under pressure to improve their performance and to invest in research and development (R&D).

Lao PDR's Economic Developmental Mechanism

Lao Government Policy for Attracting Foreign Direct Investment

The Government of Lao PDR (referred to as GoL hereafter) is promoting FDI in order to reduce dependence on aid. GoLhas promoted economic development , supported its economic reforms and has achieved significant development (Pemasiri, 2008). As such, several laws were enacted to directly and indirectly promote investment. Primarily, the Law on Investment Promotion (No. 02/NA, 8 July 2009) covers foreign investment as well as domestic investment, and reflects a pro-investment stance by offering income tax holidays of one to 10 years, depending on investment sector and location(Anitta, 2013). According to Articles 40 to 55 of the 2009 Investment Promotion Law, there are three levels of promoted sectors which cut across agriculture, industry and handicraft and services. In addition to these tax holidays, investors are exempt from import and export duties and can carry balance sheet losses forward for a period of five to 10 years. Income tax exemptions are also available for investments in education, energy, transport and healthcare, as the cash-strapped GoL seeks to crowd in private investment to upgrade public services (the 8th NSEDP, 2016) and adopt a revision that would further enhance the legal framework for investment. Specifically, the revision could include clearer definitions of scope and content of existing protection provisions (especially expropriation), revision to Investor State Dispute Settlement (ISDS), provisions to clarify procedural requirements and scope of the provisions, adoption of detailed and clear legal language, consistency with other laws and with provisions of the ASEAN Comprehensive Investment Agreement (referred to as ACIA here after)and particular attention to the definition of investment (OECD, 2016).

The normative and legal framework for FDI in Lao PDR provide a number of other national laws relevant to investment. For example, theNew Competition Law (July 2015); Law on Bankruptcy of Enterprises (No. 06/94, 14 October 1994); Land Law (No. 04 /NA, 21 October 2003) and the Tax Law (No. 05/NA, 20 Dec 2011): represents the first legislative amendment to the Tax Law (No 04/NA, 19 May 2005). Others include the Labor Law (Amended) (No. 43/NA, 24 December 2013); Enterprise Law (Amended) (No. 46/NA, 26 December 2013): Repeals Enterprise Law (No. 11/NA, 9 December 2005) and the New Competition Law (July 2015) which was approved by the National Assembly. Encouraging FDI in large scale industrial agriculture as a means to "modernize" agriculture and make use of "unproductive" land was also seen as means to increasing agricultural productivity and growth in a sector that has stagnated from lack of investment (Natalia, 2015). The strategy focused on modernizing agriculture by transitioning from subsistence agriculture to commercial agricultural production to engender a process that raised producer prices and levels of compensation for work to replace shifting cultivation by permanent field cropping through extension and land allocation schemes (John V. Dennis). The legal system of Lao PDR has also been influenced by the legal and economic transitions taking place in neighboring countries such as PR China and Vietnam (Pemasiri J. Gunawardana, 2008).

FDI and contract farming have been promoted by the GoL over the last decade as a mechanism for alleviating poverty among farmers and remains central to future plans (David Fullbrook, 2011). FDI has benefited the country in terms of its contribution to the socio-economic development, foreign exchange earnings, technological advantages, increased gross domestic product and employment creation. In addition, FDI flows have assisted the Lao PDR on poverty alleviation and is the starting point of economic growth and social development that remains as an incentive for FDI in Lao PDR. Moreover, there are many international investors and capital inflow (mostly from China, Vietnam and Thailand) to invest into many sectors.As a landlocked country, Lao PDR trade partners started with the neighboring countries such asPR China and Vietnam to reduce its dependency on Thailand (Hatthachan, 2012) and maintain strong diplomatic, commercial and trade links with its neighbors. In recent years, with the Greater Mekong Sub-region Programme boosting infrastructure development, in particular roads and railways, investors in Lao PDR could also reap the benefits from better transportation services, more integrated markets and the free flow of goods and labor within the sub-region the community participation has become an effective method for the economic development of Lao PDR (Hatthachan, 2012).

GoL efforts to promote economic diversification such as agreements to facilitate trade are also noted. Fifteen years after it first sought membership, Lao PDR became the 158th member of the World Trade Organization (referred to as WTO hereafter) in February, 2013. Accession to the WTO provided Lao PDR with more market opportunities to diversify trading partners, realize gains from trade and enhance investor confidence. As part of the process, Lao PDR opened its economy to foreign access in several sectors, with the most important being services. Progress was also achieved in structural reforms as the national assembly enacted more than 90 laws and regulations, including those related to import licensing, custom valuation, investment, sanitary and pay to sanitary measures, technical barriers to trade and intellectual property rights in order to better align its laws and regulations with international norms. Recent reforms to improve the business climate also seek to promote economic activity in the non-resource sector. Some of these measures included:

(1) Efforts to simplify business startup procedures, notably with the establishment of a one-stop shop to coordinate the application for foreign investment;

(2) modernizing electronic data interchange systems to better facilitate cross-border trade;

(3) establishing the Lao trade portal to facilitate international trade and enhance transparency of transactions.

The authorities believe that these initiatives will help create a more favorable business climate that is conducive to broad-based and inclusive growth (the 8th NSEDP, 2016). Visansack asserted that trade liberalization and capital expenditure would promoteFDI in Lao PDR in the long run. Capital expenditure and labor force are the main impact factors that contributeto GDP in Lao PDR. To secure that,FDI and trade openness will bring about the benefit to the nation, which would be a significant factor to assist the growth of economy (Visansack et al, 2017).

Lao Government Policy on Economic Cooperation with PR China

The rapid growth of PR China's economy and the steady rise of its international prestige are seen by Lao PDR as a great opportunity for its own economic development. Lao PDR not only values China's development experience, but also attaches great importance to aid and investment from PR China (SIIS, 2016). In order to promote and attract investment from PR China, Dr. Khamlien emphasized that investors are special guests of the government which should be taken care of in a special way. Government and investors must have mutual benefits or win-win benefits; consequently, the problems of investors are the problems of the government. Thus, the government must solve those problems in order to enable the business environment. The Lao PDR- PR China Investment Forum focused onareas such as investment in special economic zone (especially in the Xaysetha special economic zone), investment in tourism (especially 2018 is the Visit Laos Year) and investment in agriculture (especially exporting rice) (MPI, 2017).Lao PDR's position in the so-called 'Global South' as a fairly poor and 'underdeveloped' country is highly dependent on the other countries in the region and especially PR China (Anna-Klara Lindeborg, 2016).

PR China's Strategy on Outward Direct Investment.

In the late 1990s, the Chinese government began to actively encourage Chinese enterprises to invest overseas and, in the process, laid the foundations for what became known as the "going out" or "going global" strategy(Christopher, 2016). This strategy was formally recognized in the 10th Five-Year Plan (2001-2005) and officially endorsed under Jiang Zemin in 2002. It encouraged State Own Enterprises (SOEs) to invest abroad, primarily in extractive industries and secure the commodities and resources needed to fuel PR China's growth. Since then,PR China's overseas investment has increased significantly and in 2015, for the first time, Chinese outbound Southeast Asia formed three major international railways in the east, middle and west regions investments exceeded incoming foreign investment. PR China's Belt and Road Initiative (mentioned as BRI here after) has now injected new energy into PR China's overseas investment, and these trends can be expected to continue (Christopher, 2016).

Chinese Multinationals Enterprises (referred to as CMNEs hereafter) invest abroad primarily for natural resource and strategic asset-seeking considerations (Ilan Alon et al, 2018). Cozza asserted that the rise in Chinese investments spurred by its government's strategy of promoting the internationalization of domestic firms is leading to improved performance in domestic sectors. On the basis of our results, we can reasonably contend that the stock of accumulated experience in overseas investments is directly related to an increase in the size of the gains accruing to domestic firms (C. COZZA et al, 2015). Ping Deng argues that a quest for strategic resources is the primary motivation behind Chinese MNCs' investment activities in industrial countries. In an effort to enhance their competitive advantage in the global marketplace, Chinese firms use asset-seeking FDI to access and obtain strategic resources that are available in advanced foreign markets, but which are limited in their home country. The combination of strategic asset acquisition via FDI in developed countries and a cost advantage at home supported by a huge domestic marketplace would bring significant competitive advantages to Chinese MNCs. Chinese firms that invest in advanced foreign countries, particularly through R&D affiliates, aim to access the host countries' centers of innovation and sources of new technology. It is a very encouraging signal that more countries, including developed economies have set up investment promotion agencies to attract new sources of FDI from PR China (Ping Deng, 2007)

Since 2005, China has greatly enhanced its presence in the global landscape of Overseas FDI(referred to as OFDI hereafter). The total volume of China's OFDI has exceeded $200 billion in the past five years. The number will further rise as China looks for outlets to spend its $3.3 trillion in foreign exchange reserves (The People's Bank of China, 2012).There are three major players,namely: government agencies, policy and commercial banks and Chinese companies which range from wholly state-owned, to joint-stock, to privately owned companies.The state-owned enterprises dominate all outward investment, especially in the energy and resources sector (Gianluigi Giorgioni, 2018). Consequently, China has established the bilateral trade development in Southeast Asia as is seen in three major strategies:

(1) establishing the China-ASEAN Free-Trade Area (CAFTA);

(2) expanding border trade;

(3) developing a trade network comprising Chinese businesses, businesspeople, and cultural exchanges.

In the last ten years, PR China has led East Asian economic development, replacing Japan. PR China is now the leader of economic development in East Asia. It has intentionally established friendly relationships with the ASEAN countries. Being a good, stable and wealthy neighbor and helping to bring about a peaceful rise in prosperity are core elements of PR China’s policy regarding Southeast Asia. These elements are obtained direct national benefits for PR China and a positive image that helps to extend its power, enabling PR China to gradually influence Southeast Asian affairs by applying its political and economic capabilities. Developing good neighbor partnerships and mutual trust with the ASEAN countries and establishing a stable, prosperous surrounding environment are China’s long-term objectives (Wan-Ping Tai et al, 2014).

The Chinese government sees a way to offset part of the existing domestic overcapacity by exporting its well-developed engineering and construction capabilities, materials and equipment and self-developed technology. Apart from PR China’s experience in building world-class infrastructure, it will mostly export excess capacity with low opportunity cost and therefore there isn’t necessarily a need to gain quick returns. At the same time, PR China hopes to spur further demand for its goods and services by enhancing connectivity and trade between regions across Asia, Europe and Africa, creating medium and long-term growth momentum and a boost to the country’s GDP. To bridge this transition, PR China needs to ensure secure energy supply routes and open up new market opportunities for both its established low-value and its increasing volume of high-value goods(Yeroen, 2016).

In 2014, PR China proposed the BRIPolicy, which has pushed PR China’s OFDI to over tens of billions of US dollars. This confirmed that the boosting effect of BRI initiative on PR China’s OFDI, rather than a pure policy effect which mainly reflects the different economic, institutional and cultural characteristics of the BRI countries from the non-BRI countries(Yeroen, 2016).In March 2015, China released the vision states that BRI will promote economic prosperity, develop regional economic cooperation, strengthen exchanges and promote peace and development. To realize these objectives, PR China seeks to develop new memoranda of understanding, plans and bilateral cooperation projects with countries within the BRI (Mark, 2017).

The BRI countries have been carefully assessed based on country’s characteristicssuch as natural resources, market size, infrastructure, institutional distance and culture proximityin which cultural proximity and market size are especially important for inclusion into the initiative. BRI is also PR China’s grand strategy for developing a larger leadership role on the international stage and enhancing ties with neighboring nations. With a strategy that seems largely based on loans and aid and therefore helping China to build financial power (including the wider international use of its currency) alongside its trade power, the country hopes to expand its influence in a geopolitical marketplace where global powers are competing for influence in emerging markets.PR China is making clear that all countries along the way are welcomed to join, without BRI attaching additional conditions (Yeroen, 2016). PR China has also progressed very fast in climbing up the production value chain by developing capital-intensive and technology-intensive industries and started to move its labor-intensive industries to other countries. It could reinforce established partnerships and build new ones with energy exporters in Central Asia. The purpose will develop new markets for PR China’s increasingly diversified production, allowing Chinese companies to keep expanding even while domestic demand slows and is reoriented towards middle-class consumerism. This could be achieved by reducing transportation costs and potentially lowering tariffs, paving the way for Chinese goods to make a more competitive entry into these foreign markets.

PR China will gradually move away from its non-alliance principle and start to provide security protection and economic benefits to selected states. The focus of PR China’s relations with neighboring states will therefore change from ensuring economic relations with and economic gains for neighboring states to ensuring political and security relations and to setting up political goals rather than economic goals with the overall aim of increasing PR

China's strategic credibility and shaping a favorable international and regional environment for PR China national rejuvenation (Camilla, 2015).

PR China & Economic Developmentof Lao PDR

In 2013, President Xi Jinping stressed that the "*awareness of community of common destiny, should take root in the neighboring countries*". Xi used the formulation to strengthen PR China's new emphasis on its neighborhood, before extending it to the whole world(Jyrki Kallio, 2016). And he emphasized that China's neighbors had "*extremely significant strategic value*". He also said that he wanted to improve relations between PR China and its neighbor countries by strengthening economic ties,deepening security cooperation and maintaining stability in PR China's neighborhood is the key objective of peripheral diplomacy. Thus, there is the need to encourage and participate in the process of regional economic integration, speed up the process of building up infrastructure and connectivity. Likewise, it is imperative to build the Silk Road Economic Belt and the 21st Century Maritime Silk Road, thus creating a new regional economic order (Peter Cai, 2017). Hence, economic cooperation in the border areas may help to strengthen mutual understanding, build trust, enhance mutual prosperity and reduce friction. Further, subnational cooperation can broaden the networks of cooperation involving both the public and private sectors(Peter Cai, 2017).

Lao PDR's economic development calls for reinforcement of infrastructure construction and can overcome its geographical disadvantages through infrastructure connectivity, which will transform it from a "land-locked country" to a "land-linked country". The BRI puts forward by PR China in 2013,which shares a high degree of similarity with the development strategy of Lao PDR. PR China connects closely with Lao PDR and all countries in Southeast Asia, forming three major international railways in the east, middle, and west regions. Improvement in electricity, agriculture, industry and society are the bedrock for Lao PDR socioeconomic development. Chinese investments in these areas have seen continuous growth. In terms of electricity cooperation, as the "battery of Southeast Asia", Lao PDR enjoy abundant resources of hydropower. However, a string of transmission and transformation facilities as well as corresponding talents and skills are required to export electricity, which can hardly be realized in the short term by Lao PDR alone. These practical demands drive the investment, aid and technological cooperation in hydropower construction between PR China and Lao PDR.

In an effort to promote industrial development, Lao PDR established Boten-Mohan Economic Cooperation Zone with PR China and planned to set up 10 special economic zones and 29 specific economic zones in 41 targeted regions nationwide. In agricultural cooperation, PR China has assisted Lao PDR in ameliorating water infrastructure, improving the technology and levels of production, expanding intensive processing of agricultural products, cooperating in pest control technology, and developing substitution economic plants in the north, all of which have generated considerable economic outcomes. In terms of resource cooperation and in the realm of technical cooperation, apart from collaboration in new energy such as hydropower, PR China has also strengthened cooperation with Lao PDR in broadcast television and satellite communications. In social and health development, PR China has been increasing its aid to Lao PDR on education, health care, disaster relief etc.

However, within many concerning BRI countries, there are domestic debates about whether the risks of losing sovereign control and becoming overly dependent on PR China are worth the undoubted windfall of large-scale Chinese investment in the development of national infrastructure. Such tension often manifests itself within the frame of elite-society conflicts of interests. For example, in April 2016, Kazakhstan saw several days of protest against a political decision to extend a law allowing foreigners to lease agricultural land, with the expectation that it was designed to allow Chinese companies to do exactly that. The perception among the wider Kazakhstani population is that PR China's investments have given Beijing undue influence over the Nazarbayev government. While the political elite are happy to accept such loans and investments, many ordinary citizens have concerns that this leads to a loss of national sovereignty and jobs, as well as about how Chinese companies treat Kazakh workers. Similar tensions are evident in other countries that lie along the BRI (Christian Nünlist, 2015)

PR China's OFDI in Lao PDR

Lao PDR's trade has been heavily weighted in PR China's favor since the early 1990s(SIIS, 2016). For example, in 2006, PR China exported US $185.6 million to Laos while importing only US $45.1 million, leaving Laos with a trade deficit of US $140.5 million. In 2007, the International Monetary Fund estimated that two-way trade between China and Laos totaled US $262 million. Over the last decade, PR China's influence in the country has grown and it is now the country's largest foreign investor. Trade between Lao PDR and PR China has increased significantly in recent years. In 2015,PR China's exports from Lao PDR exceeded US$1.3 billion, over US$150 million of this trade concerned agriculture products. PR China's official investment statistics recorded over US$517 million of Chinese investment in Lao PDR in the previously mentioned year.

Bilateral trade between Lao PDR and PR China has skyrocketed in the past five years, making PR China is the biggest trade partner in Lao PDR(Koshy Mathai et al, 2017). The statistics of Chinese Customs show that trade between PR China and Lao PDR reached 2.34 billion U.S. dollars. From January to September, 2017 the figure reached 2.1 billion U.S. dollars, showing an increase of 25.1 percent over the same period of 2016. PR China's major imports from Lao PDR are copper, timbre, agricultural produce *etc*, while its exports include automobiles, motor cycles, textiles, steel products, electric wire and cable, communication equipments, electric appliances and electronic products *etc*(Zhang Tuo et al, 2018)

The Stock and Flow of China's Direct Investment in Lao PDR 2012-2016

Unit: billion US dollars

Year	Stock	Flow
2012	1.92784	0.80882
2013	2.77092	0.78148
2014	4.49099	1.0269
2015	4.84171	0.517
2016	5.42295	0.5804

Figure 1.2 showing the Stock and Flow of China's Direct Investment in Lao PDR 2012-2016
Source: Ministry of Commerce of the People's Republic of China

The penetration of Chinese products is not surprising. PR China is not only a neighboring country, but also the world's leading exporter of low-cost manufacturing goods and should therefore be expected to hold a large share of the Lao PDR's market

FDI Inflows to Lao PDR, 1990-2015 (Millions of US$)

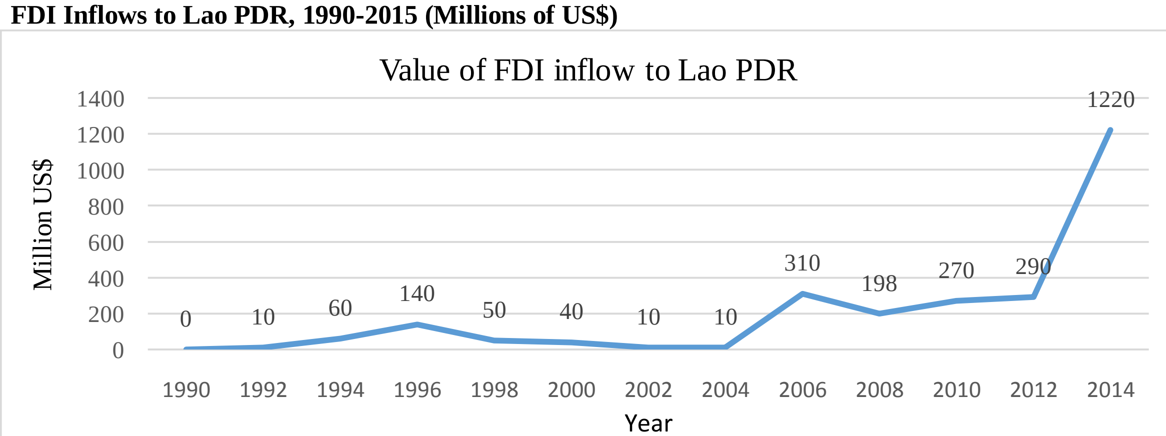

Figure 1.3 shows the FDI inflows to Lao PDR, 1990-2015 (Millions of US$)
Source: ESCAP, 2017

China's economic ties with Lao PDRhave increased dramatically in recent years, in 2015China ranked as Laos' top foreign direct investment for the first timein terms of investment volume with 840 projects, amount over US$5.484 Billion in 2015 and accounts for 30% of total value of foreign direct, surpassing Thailand (4.497 billion USD) and Vietnam (3.574 billion USD) (Chris Leung, 2018; MPI, 2016).China is now Laos' biggest foreign donor, its main investor, and second-largest trade partner.

Top Foreign Investors in Lao PDR (projects and value),1989-2015

Ranking	**Number of Approved Projects**			**Value of Approved Projects**		
	Country	**# of projects**	**% of Total**	**Country**	**US$**	**% of total**
1	China	834	24	China	5,484,429,971	30
2	Thailand	748	22	Thailand	4,491,684,613	25

3	Vietnam	417	12	Vietnam	3,574,681,539	20
4	South Korea	291	8	Malaysia	812,558,773	4
5	France	223	6	South Korea	751,072,139	4
6	United States	114	4	France	490,626,243	3
7	Malaysia	103	3	Japan	438,267,441	2
8	Japan	102	3	Netherland	434,466,484	2
9	Australia	87	3	Norway	346,435,550	2
10	Other	536	15	Other	1,400,415,055	8
	Total	**3,455**	**100**		**18,224,637,808**	

Figure 1.4 shows the top foreign Investors in Lao PDR between the period 1989-2005.
Source: Ministry of Planning and Investment, Lao PDR, 2016

From 2008 to 2014, China's share in Lao PDR imports increased from 8 to 26 percent. Similarly, Lao PDR's exports to China increased eightfold, with China's share growing from 10 percent to 35 percent. Lao PDR's largest stock of official bilateral debt is with China, and China's financing role has increased rapidly in the past five years. China's official loans to Lao PDR have risen from about 25 percent of all bilateral debt in 2008 to about 50 percent in 2013. The GoL has also announced a plan to build a controversial railroad linking PR China's Yunnan Province to the Lao PDR capital of Vientiane, and then to Thailand, at a cost of US$6 billion. It is important to note that this is equivalent to 50 percent of the Lao PDR's GDP. PR China will finance the majority of the investment (about 70 percent) and extend loans to the GoL to finance its equity share. This is equivalent to 26 percent of Lao PDR's total external debt. These official loans have financed a large part of the government's capital expenditures, concentrated mostly in hydropower plants and other large infrastructure projects (Koshy Mathai et al, 2017).

CFDI in Lao PDR is mostly concentrated in mining, electricity, agricultural and manufacturing sectors, rubber, storage and logistics and construction in investment. By sectors, mining took up the largest share of more than 50%, followed by electricity, agriculture and manufacturing, while the stock investment accounted for less than 10%, numbering only 390 million USD. According to Vientiane Mai, the output of Lao energy and mining industry amounted to 94.34239 trillion kip (USD 11.79 billion) during 2011- 2015. This represented a 9.22% increase over 2006-2010 and 12% of the GDP. The exports of mineral products totaled 8.46 billion USD (SIIS, 2016). China imports the largest ore items from Laos (nearly 40% of total imports from Laos, mainly copper ores - growth: +6.9%), followed by timber products (22.6% share, growth: -50.9%), copper and copper products (11.9% share, growth: -18.4%), natural rubber (9.5% share, growth: nearly +40%), maize (3.9% share, growth: +3.8%), mineral/chemical fertilizer (3.6%share, growth: -60.6%) and rice (2.7% share, growth: +22.8%). The decrease in wood exports is a result of tighten government's regulation. Chinese exports to Laos mainly consist of intermediate and capital goods *e.g.* telephone parts (9.2% share, growth: +43.8%), pick-up trucks (8% share, growth: -1.3%), structural steels (7.9% share, growth: -1%), stranded wire/cables (5% share, growth: +85.4%), machinery for sorting/screening minerals (4.1% share, growth: -1.1%), electronic switch boards/panels (2.9% share, growth: +5.9%), special purpose vehicles (2.7% share, growth: +80.7%), hydraulic turbines (2.6% share, growth: +18.3%), *etc*. (EU,2017)

CFDI: Impacting Local Livelihoods in Lao PDR

The GoL and people have an overall favorable evaluation of Chinese investment, considering that Chinese enterprises greatly contribute to local economic development, job creation and improvement in livelihood and give a positive impetus to the economic development of Lao PDR(Magnus et al, 2009).PR China's rapid economic growth has led to a strong demand for agricultural and forestry products grown in Lao PDR. Demand from PR China has contributed to a shift from subsistence agriculture to commercial farming in the north and helped to reduce poverty in the least developed parts of Lao PDR. The cost for trading with PR China has been low, and even poor households have been able to benefit from trade opportunities (Magnus, 2009).This has led to Chinese investment in agricultural plantations on land leased to Chinese companies in northern of Lao PDR. These plantations produce rubber, corn, cassava, sugar, bananas, sesame, soy beans, agar wood, and teak etc. In addition, Chinese buyers contract Lao small holders to sell their produce.Chinese market is the most important market that local business people and official trade export agricultural produce and become the main income of Lao peasants from sale their cash crops directly and in directly.

Top 5 Agricultural Product Lao PDR Exports to PR China, 2012-2015 (USD)

Product	2012	2,013	2014	2015
Rubber	53,622,000	80,376,000	78,439,000	71,001,000
Maize	13,124,000	26,490,000	35,848,000	39,301,000
Rice	6,432,000	5,743,000	6,830,000	22,993,000
Beans & oil seeds	9,748,000	14,099,000	17,724,000	17,070,000
Tea	337,000	355,000	981,000	1,172,000

Table 1.5 shows the top five agricultural produce exported to PR China from Lao PDR.
Source: International Trade Centre calculations based on UN COMTRADE data (2016)

The border trade with neighboring countries most optimally demonstrate the actualization of PR China's cooperative relationships through providing public goods. Chinese culture is also exported during economic and trade exchange opportunities. Thus, Chinese culture or civilization forms a new type of identification and acceptance, a soft power beyond politics and economics that is sometimes termed "velvet hegemony"(Wan and Jenn 2014).The Yunnan Province, Yunnan capital (Kunming) is gradually becoming a corridor of opportunity, that is, the site where not only modernity is imagined but also the locus where various strategies to reach Chinese modernity are put into practice.
In the northern parts of the country, growth has largely been driven by integration with PR China. While the ultimate driving force for this development may be strong, Chinese demand for raw materials, the growth of both formal and informal trade has been facilitated by trade liberalization and infrastructure development. In particular, the Northern Economic Corridor has been important for reducing the transaction costs in trade between Lao PDR and PR China. Another interesting issue related to trade between Lao PDR and PR China involves cross-border trade, especially in the border areas like LuangNamtha. Cross-border trade has both positive and negative effects on the social and economic activities of the people in these areas.In LuangNamtha, the agricultural development and increasing commercialization of agriculture is heavily influenced by the close proximity to PR China (Thongmanivong et al., 2009). On a smaller scale individual businessmen and traders with close ethnic and familial connections across the border have been promoting a range of cash-crops for export in loose contractual arrangements or simply established markets for particular products and thus influenced the widespread commercialization of the agricultural production. The increasing interest from investors have substantially altered the villagers agriculture and livelihood strategies from a primarily subsistence oriented to more market oriented production. Since the beginning of 2011, this ongoing process of agricultural transformation has developed further as the villagers have leased land to Chinese investors. The positive aspects include change in livelihood system, opportunities for employment, improvement in incomes and trade as well as other social benefits like education and healthcare are progressing (CecilieFriis, 2015).Diana essert that, local farmers see rubber and sugar cane as the possible vehicle to overcome poverty or to allow them to at least dream of, if not materially have, the big houses, motorbikes, fridges, and television sets. Rubber appears to be the tool to reach social and economic emancipation enabling the farmers to integrate into what they see as the successful Chinese model of modernity. Rubber is also a path to escape poverty and seems to be the antidote against unhappiness. Rubber is the tool to reach social and economic emancipation enabling them to integrate into what they see as the successful Chinese model of modernity (Antonella Diana, 2006).

Chinese companies have played a key role in the development of the plantation industry and other agribusiness sectors (rubber, corn, sugarcane, cassava, banana, watermelon, *etc.*). The country's "rubber boom", in particular, has been the result of favorable policy incentives and generous subsidies supported by the Chinese government through its 250 million Yuan Opium Replacement Special Fund as part of its "Going Out" strategy (Shi

2008). Although typically headquartered in Xishuangbanna or Kunming in Yunnan Province, investment from these companies can come from as far away as coastal PR China. These companies have strong governmental ties and usually subcontract with existing local Chinese communities (mostly Sichuan and Hunan migrants engaged in petty trade and who moved into the lucrative rubber sector in recent years) and employ Lao Akha or Lue (ethnic minorities) personnel as translators and supervisors (Danielle Tan, 2014). Chinese investment has emergently transformed the agriculture system from subsistence to commercial farming. There is evidence of a significant impact of Chinese investment on reducing the poverty level and income generation of local Lao people.However, not all households and villages can receive these benefits. Uneven development among households and villages is fundamentally embedded in the starting period and the production choice with Chinese merchants. One-third of Chinese investors are interested in rubber plantation. Other emerging products include maize, tobacco, vegetable (e.g. beans, pumpkins and garlic), fruits (e.g. banana, water melon and passion fruit), and herbal and crude drugs (Phanhpakit and Terukazu ,2013)

Chinese investors initially contact the provincial and district officers to find available and suitable lands. Once the contract is signed with the village head, Chinese investors would support the villagers who joined by sending their technicians to provide free or leased fertilizers, chemical inputs and other needed equipment. The costs are to be deducted after the harvest it can contribute greatly to income generation (consumption smoothing) and poverty reduction in the short period. Besides, other benefits include technological transfer on diversified crops and risk-averse against disequilibrium. It promotes agricultural modernization (e.g. tractor, fertilizer) and raises quality awareness for higher price. On the other hand, the Chinese investment comes with a certain price.

The abundant supply of cheap Chinese goods has undoubtedly raised the welfare of Lao consumers throughout the country. In particular, it is interesting to observe how cheap Chinese generators, satellite disks and television sets can now be found in many remote villages that lack permanent road connections to the outside world. Therefore, it is clear that Chinese investments have had a significant impact on agricultural transformation of Lao farmers. Chinese investments have not only created jobs and increased revenue for the relevant regions, but also brought about benefits to the long term development of Lao PDR and provided steady dynamics for Lao PDR-PR China trade and economic cooperation (Zhang Tuo et al , 2018). Chinese investments also seem to contribute greatly to income generation (consumption smoothing) and poverty reduction. Besides, other benefits include technological transfer on diversified crops and risk-averse against disequilibrium, which promotes agricultural modernization (e.g. tractor, fertilizer) and raises quality awareness for higher price.An increase in earnings also promotes the movement and cross-network among ethnic groups and investment in education of their children.CFDI also contributes greatly to income generation (consumption smoothing) and poverty reduction and a source of imports agricultural produces (Nargiza et al, 2015), and it is safe to say that China has become a great contributor to the comprehensive and rapid development of Lao PDR (SIIS, 2016).

Nevertheless, based on the literature reviewed, problems stand out in CFDI in Lao PDR. These include, but are not limited to: the localization of employees in Chinese enterprises, legal issues caused by the utilization of land and environmental problems caused by investment. On the other hand, Chinese investors are largely concerned with Lao PDR's business environment. Similiarly, Lao people are driven by on-the-job treatment and young people would like to learn Chinese and work for Chinese companies. For Chinese companies in Lao PDR on the other hand, language is an apparent barrier to local employment. In addition, Chinese enterprises largely hire Chinese workers when establishing companies or contracting projects in Lao PDR. On the other hand, there are not sufficiently qualified local workers due to constraints in technology, education and language.

At a livelihoods level, the CFDI can have an effect on enlarging income inequality of households within the village and the gap among villages based on the level of investment deepening with China. At the same time as the increasing commercial crop production is raising the pressure on land, such national food security and food sovereignty is a key policy concern for the GOL's development strategy. As LuangNamtha is appointed a strategic rice producing province for northern Lao PDR, the rapid commercialization of agriculture is therefore becoming a threat to this strategy in some areas of the country. Strangely, it is in the process of land use that Chinese enterprises, local authorities and residents establish the most frequent and close contacts over ,yet still it seems to generate the most controversies.

There are also indications that the Chinese investment comes with a certain price, as it can have an effect on enlarging income inequality of households within the village and the gap among villages based on the level of investment deepening with China. MoreoverChinese investors now have a strong power in price control because of monopoly. For instance, water melon and pumpkin at times disappear in the harvest season. Likewise, inappropriate use of chemical fertilizer can cause environmental pollution and conflicts among households (*e.g.* dead of livestock) can stem from how CFDI is implemented on the ground. In addition, the surge in investment and trade affect dynamic changes in rural livelihoods (Phanhpakit, 2013).

Lao civil society organizations have also raised the concern that Chinese companies have acquired land leases throughvarious types of irregularities, which may be harmful to the interests of local people. A seious political concern too for CFDI in livelihoods generations of Lao people is environmental protection, as shared by local ngos. Hence, the destruction of the natural environment arising from Chinese investment is often discussed in Lao PDR (Phanhpakit,2013). It is also necessary to recognize that the proximity to PR China puts domestic manufacturing industry in a difficult position. With a small domestic market and a very limited supply of skilled workers, Lao PDR's manufacturing industries will find it very hard to match their Chinese competitors unless they can rely on some sort of institutional advantage (*e.g.* strong import protection or preferential access to third-country markets). In its trade with PR China, Lao PDR is therefore an importer of manufactured goods and an exporter of commodities. Manufactured goods (mainly machinery and equipment) account for over 90 percent of registered imports from China, while a similar share of exports to China is raw materials – mainly agricultural products, timber, rubber, and recently also minerals (Magnus el al, 2009).Phanhpakit suggests that policy on capacity building of local institution, land allocation and infrastructure development and environmental protectionare significantly important for poverty reduction and income inequality for promoting sustainable economic development in rural areas (Phanhpakit, 2013).

II. CONCLUSION

The economic growth theories and FDI stimulate economic growth and development in recipient economies have been used and studiedover the last few decades.Almost all scholars essert that, FDI enhance growth by allowing host countries access to advanced technologies that are lacking in recipient countries and it involves training of domestic labor which will generate positive externalities that could raise economic growth, fulfills the rising investment requirements to boost economic growth and helps for macroeconomic stability, contributes to growth through several channels, adds to capital stock of an economy including the creation of factories, new machinery and improved transportation.

The GoL issued the new economic mechanism, economic development policies and institution to promote FDI in order to reduce dependence on aid, promote economic development, support its economic reforms and achieve significant development. Sincethen,there are many international investors, especially Chinese investments in Lao PDR. There are a long history of mutual relationship and economic cooperation between Lao PDRandPR China, due to similar political regime and neighbor countries. The economic development policies and strategies of both Governments are very significant mechanism for attracting Chinese investments in Lao PDR. Currently, PR China is ranked top FDI in Lao PDR in term of volume and capital inflow and thus accounts for 30% of total value and they continue to play a very crucial role in Lao PDR's economic system and development.Chinese investments have transformed the agricultural system from subsistence to commercial farming. There are evidence of Chinese investments and trade affectingdynamic changes in rural livelihoods, the poverty reduction and income generation of local Lao people.Other types of CFDI in Lao PDR is mostly concentrated in mining, electricity, agricultural and manufacturing sectors

However, Chinese investments and tradeaffect poverty at the household and community level,as there are many issues of natural environment destruction and pollution. Addittionally, the proliferation of manufactured Chinese goods have had negative impacts on Lao industries and may point to an imbalance in trade between both countries. Lao PDR exports almost agricultural commodities products to PR China, while PR China is more multifaceted in its FDI. This has enabled Chinese investors to have a strong power in price control because of the monopoly-like situation that has been developed. Therefore, both Lao PDR and PR China need to enhance cooperation and work together to promote laws, regulations and policies for more efficient investment and trade management. The continuous inflow of Chinese capital and the increasing standardization of legal and management system will be favorable for a more open market economy and promote balanced and stable economic growth and contribute to economic developmentof Lao PDR.

Even though Chinese investment in Lao PDR and relation betweenthe two nations have been studied much in the last a few decades, most studies focus on specific investment and cash crop. There are not in-depth and comprehensive studies on PR China and Lao PDR economic cooperation and investment which effect the livelihoods of Lao people. As such, this review is recommending that future studies should place emphasis on the domination of Chinese investment that impact at the local ecosystem levels. That is the household level, the State and the Province. Exploring these must also include a fair assessment of livelihood of Lao people as it comes into contact with CFDI in the long term.

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