



## Chinese Agricultural Investment in Laos

Findings, Issues, and Challenges from Different Perspectives



Photo: Agriculture products waiting for clearance at Boten, China-Lao border, Lao side (@Yang Bin)

### Key Messages:

- **Diversity in Chinese Agricultural Investments:** Investments vary significantly in scale, crops, and investor profiles, with most being small- to medium-sized private enterprises pursuing independent commercial opportunities. This diversity results in complex behaviors, models, and relationships with local communities.
- **Challenges in Policy Implementation:** While Laos has introduced numerous laws and regulations for foreign investment, enforcement remains inconsistent. Similarly, China's policies promoting "green investments" abroad are often poorly suited for overseas contexts and challenging to implement effectively.
- **Need for Better Information Sharing:** Successful investment practices that benefit all stakeholders are not widely shared due to low trust among investors, limited dialogue platforms, and inadequate understanding of local and Chinese contexts by institutions in Laos.
- **Importance of Nuanced Understanding:** Simplistic narratives about Chinese investors are counterproductive. A deeper, more accurate understanding of investor dynamics and their interactions with local communities is essential for fostering collaboration and improving investment outcomes.
- **Integrating and exchange of Local Knowledge:** Establishing effective dialogue platforms by leveraging Local Knowledge can help create more responsible and beneficial investment practices.
- **Strengthening International Cooperation:** Building partnerships between Lao and Chinese institutions, alongside international development partners, is critical to aligning investment practices with local needs and ensuring sustainable agricultural development.



Photo: Forest tea in Nakout village, Huaphan (@Yang Bin)

## INTRODUCTION

In recent years, Laos has significantly transformed its agricultural sector, shifting from traditional subsistence farming to large-scale, market-oriented commercial agriculture. Foreign investments, particularly from China, have been pivotal in this transition. However, like other nations experiencing economic transformation, Laos faces socio-economic and environmental challenges that make sustainability a pressing concern. In response, the Lao government, in collaboration with various organizations, has established Sector Working Groups (SWGs) to address development priorities. Within the Agriculture and Rural Development sector, the Sub-Sector Working Group on Farmers and Agri-Business (SSWGFAB) convenes twice annually to explore alternatives and opportunities for promoting agribusiness development in a way that will empower smallholder farmers through policy initiatives and capacity-building priorities.

Since its inception in 2015, the SDC-funded Lao Upland Rural Advisory Services (LURAS) project has served as the Secretariat of the SSWGFAB. In 2023, LURAS commissioned an international consultant, Dr. Yang Bin, to study Chinese agricultural investors in Laos. The study sought to deepen understanding of the relationships between these investors and local communities, providing empirical evidence to foster mutually beneficial investment practices. Titled "Changing Perspectives: Understanding Chinese Agricultural Investors in Northern Laos," Dr. Yang's study was presented at the SSWGFAB on November 30, 2023.

Two other scholars who were researching Chinese agricultural investments in Laos contributed their insights during the same meeting. Assistant Professor Juliet Lu from the University of British Columbia, a leading expert on this topic, presented "Chinese Agribusiness Investment in Laos," which examined such investments' historical and current status. PhD candidate Ben Fan from Kyoto University shared findings from his research, "Chinese Banana Investment in Northern Laos: Dynamics, Arrangements, and Local Interactions," focusing on the value chains and community dynamics associated with banana plantations.

These presentations and subsequent discussions revealed previously overlooked or underexplored findings, prompting the SSWGFAB chairs to propose the development of this policy note. It aims to summarize key insights from the studies and provide actionable policy recommendations to guide the sustainable development of Chinese agricultural investments in Laos.

# KEY FINDINGS

Despite their varied focuses, the three presentations collectively highlight the complexity of Chinese agricultural investments in Laos. This complexity encompasses diverse scales and types of investments, differing investor behaviors and models, and the intricate relationships between investors and local communities. These analyses challenge simplistic narratives about Chinese agricultural investments, revealing their diversity and offering deeper insights into associated issues and challenges.

## Diversity in Investment Scale and Investor Composition

The complexity surrounding the varying scales of investment is evident in the range of enterprises, from large companies to smaller, privately owned ventures, with small- to medium-sized private businesses forming the majority (see Figure 1). Ben Fan's report examines this diversity through the lens of banana investments, highlighting how different scales of investment shape value chains and involve various stakeholders (see Figure 2).

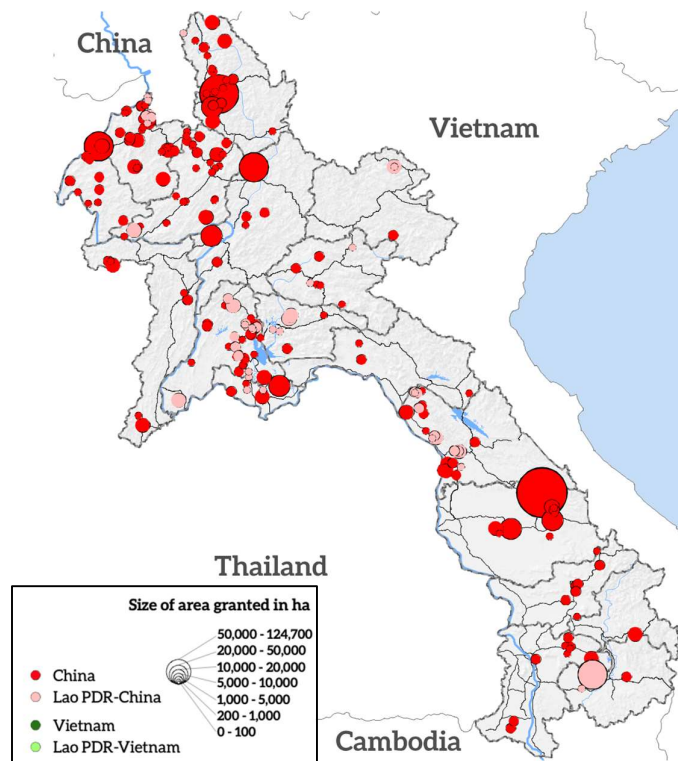


Figure 1: Geographic distribution and scale of Chinese agriculture investments in Laos. Source: Dr. Juliet Lu's report

The LURAS report further explores the diversity of Chinese agricultural investments, analyzing factors such as the types of crops involved, investment cycles, land types and land use changes, and levels of community engagement (see Figure 3). The report also emphasizes the heterogeneity among Chinese investors, who cannot be viewed as a monolithic group. A notable finding is the lack of mutual trust among these investors, which leads to significant internal differences in investment approaches and behaviors.

	Business Type	Access to land	Government connection	Local village connection	Banana workers	Banana plantation facilities	Village meeting	Job opportunity	Infrastructure
<b>Small 40 ha</b>	Individual	Land agency companies or land middlemen			Migrant contractors and local daily-paid laborers	Simple and short-term (5 years)		Few	Low-cost unpaved road
<b>Medium 147 ha</b>	Partnership	Locally owned social networks		Village head			Only for land lease		Low-cost unpaved road
<b>Large 800 ha</b>	Large leading banana company	Land middlemen → Government	Established government relationships	Village head	Local and migrant contractors and daily-paid laborers	Well-established and long-term (10 years)	For land lease and other problems	Many	6 bridges and 80km of paved roads

Figure 2: Comparative analysis of small-, medium-, and large-scale banana investments. Source: Ben Fan's report.

	Short-term	Mid-term	Long-term
<b>Representative Plantation</b>	Vegetable and Watermelon <sup>1</sup>	Banana <sup>1</sup>	Tea and Rubber (Lu, 2017) <sup>1</sup>
<b>Production cycle</b>	Around 4 months	8 – 12 months maturation, two 3-year harvestings <sup>2</sup>	Tea plantation needs 3-10 years, rubber needs 7 – 9 years maturation period, then rubber 25 – 35 years productive latex tapping, tea as long as possible
<b>Land sizes</b>	Normally small (< 20 ha)	Prominently small-middle (> 20 ha but < 1,000 ha), a few large ones (> 1,000 ha)	Tea mostly middle (around 100 ha), rubber normally large (> 1,000 ha)
<b>Land property types</b>	Prominently private	Private and communities	Prominently community or state forests
<b>Business types</b>	Family and individual partnerships	Mostly family and individual partnerships, a few big corporates	Family and individual partnership for tea, while rubber normally suited for large corporates
<b>Location</b>	Low irrigated flatlands	Irrigated low and midlands, both flat and sloping but trend forward to sloping	Uplands
<b>Technical standards</b>	Highly standardized	Highly standardized	Diversified approaches for tea while highly standardized for rubber
<b>Land use replaces</b>	Rice paddies (during the dry season when rice not growing)	Rice paddies, seasonal vegetable producing plots and shifting cultivation fallows	Normally shifting cultivation fallows and forests
<b>Land use change</b>	Slightly	Significantly but can be rehabilitated	Significantly and irreversible
<b>Financial and policy support</b>	None from both China and Lao sides, family and private network supports	Some supported under the Opium Replacement Programme (ORP) while many only family and private network supports	No official support for tea, while rubber mostly under the ORP, tax incentives and preferential policies from both countries
<b>Local engagements</b>	Prominently short-term relations with Lao Loum, highly relied on local brokers.	Mid-term relations with both Lao Loum and Lao Theung. Establishing close relations with local authorities.	Prominently long-term relations with Lao Soung and Lao Theung. Establishing close relations with both local authorities and communities.

Figure 3: Categories and characteristics of Chinese agricultural investments. Source: Dr. Yang Bin's report.

Additionally, the motivations behind these investments vary. While a small fraction of investors benefited from China's "Opium Replacement Program," most are market-driven entrepreneurs pursuing independent commercial opportunities without support from relevant Chinese policies. Thus, Chinese agricultural investments in Laos are not typically driven by "state will." In fact, Dr Lu's report suggests that while the Chinese government has numerous policies on regulating outbound investments, they do not fully grasp the specifics of Chinese agricultural investments abroad. Her report also points out that different levels of the Chinese government have varying policy goals and directions for overseas agricultural investments. For example, Beijing has been promoting green investments in recent years, while provincial governments might focus more on using investments to solve practical issues.

Overall, Chinese agricultural investors in Laos are highly diverse. This diversity is not only reflected in the well-known differences in investment scale and crops, but also because of these differences, the investment models and behaviors of various investors vary significantly. These differences significantly influence their relationships with local communities, a dynamic that has been largely overlooked.

### Variety of Investment Processes and Behaviors

The LURAS report identifies substantial differences in investment processes and behaviors across scales and crops, attributing these variations to factors such as crop characteristics and power dynamics (see Figures 4 and 5).

While investors typically control most resources, local conditions often constrain their activities. This results in decisions based more on what they *can do* rather than what they *wish to do*. Some investors successfully adapt to local conditions, creating mutually beneficial processes for themselves and local communities. However, others struggle to adapt, leading to less favorable outcomes. From a macro perspective, Dr. Juliet Lu's report suggests that this behavioral complexity is not unique to Chinese investors but is common across all foreign investors. She advocates for a nuanced understanding of investor behaviors to avoid oversimplified narratives.

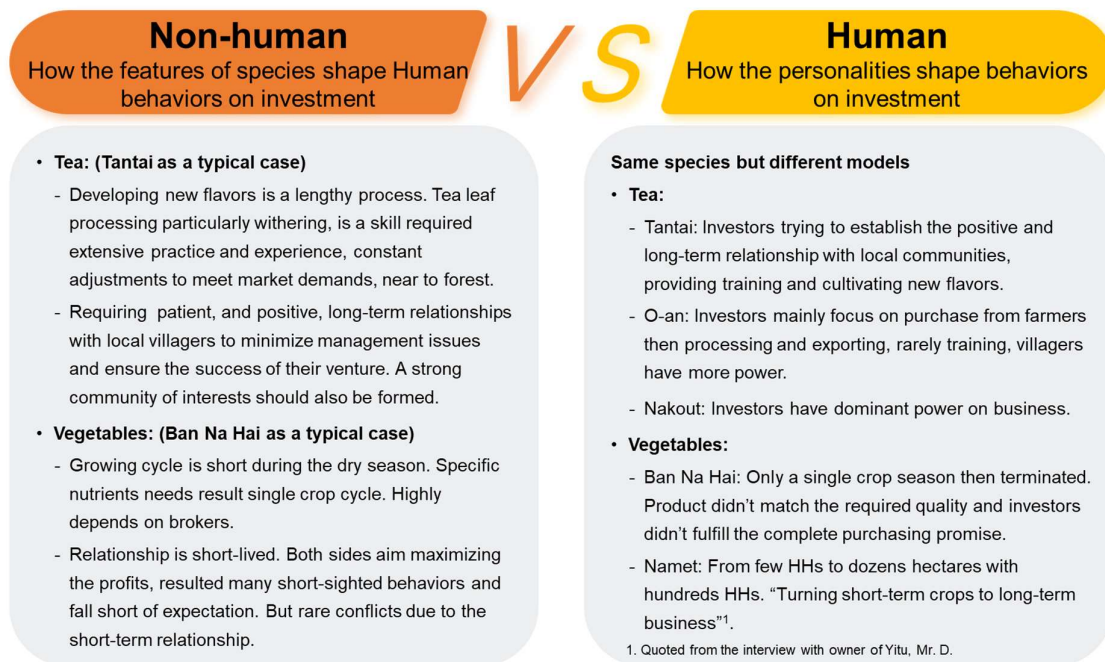


Figure 4: Interplay between crop characteristics and human decision-making. Source: Dr. Yang Bin's report.

# Why same species but different model?

Understanding through power relations in investment cycle

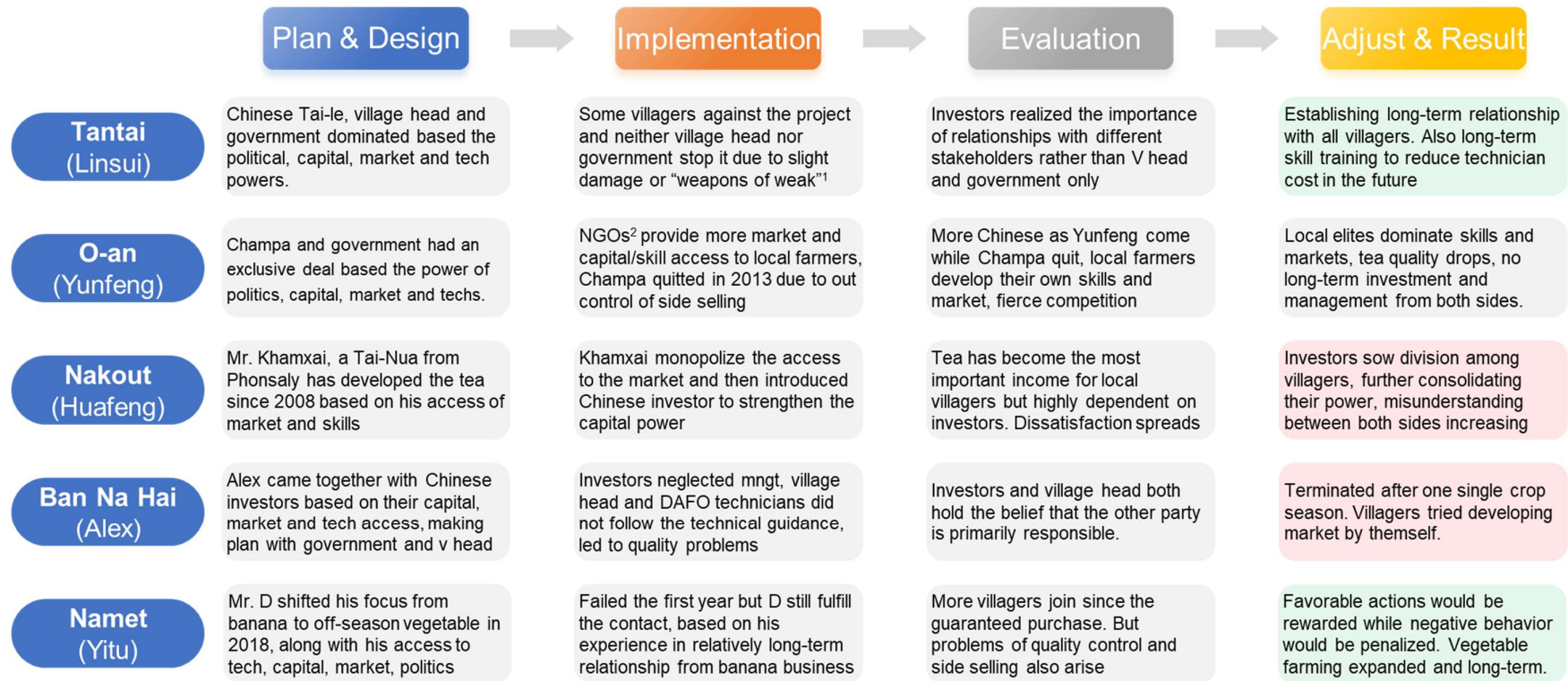


Figure 5: Analysis of power dynamics in agricultural investments. Source: Dr. Yang Bin's report.

## **Investor-Local Community Relationships**

The diversity in investment processes and behaviors leads to equally varied relationships with local communities, resulting in differing impacts. Ben Fan's report, using value chain analysis, reveals that large-scale banana investments can offer significant benefits to local communities, challenging the traditional "small is beautiful" perspective (see *Figure 2*).

Dr. Yang Bin's report further elaborates on the impacts of investments across scales and crops. Some investors have developed mutually beneficial models through experience and practice, fostering joint growth with local communities. Others, however, are trapped in mutual grievances with local stakeholders, resulting in less harmonious outcomes.

### **Key Insights**

These findings highlight the diverse and complex nature of Chinese agricultural investments in Laos, challenging generalized assumptions and emphasizing the importance of tailored policies and approaches that consider local contexts and stakeholder dynamics.

Notably, the cases that demonstrate positive outcomes achieved through continuous adjustment and interaction between investors and communities, are rarely documented or shared due to a lack of information-sharing mechanisms or incentives. This policy note emphasizes that systematic documentation and promotion of these practices are critical areas for future focus.

## **ISSUES AND CHALLENGES**

Extensive research has examined the environmental and socio-economic issues arising from Chinese agricultural investments in Laos. While the three reports presented at the SSWG FAB acknowledged earlier findings, their primary focus was not on reiterating these observations. Instead, the reports by LURAS and Dr. Lu highlight China's role as the largest export destination and investor in Lao agriculture – a status that will likely continue. Recognizing this reality, merely critiquing the challenges associated with these investments is insufficient. Instead, regulating these investments to create mutual benefits is crucial. Two primary issues and challenges have been identified in regulating investment practices.

### **Policy Implementation Gaps**

The Lao government has introduced a considerable number of laws, regulations, and policies to govern foreign investments. However, due to various reasons, the current policies are not fully implemented. For instance, despite efforts to attract foreign investment, the oversight and regulation after investments are made are often inadequate. When disputes arise between investors and local communities, local government intervention is limited, frequently leaving conflict resolution to the involved parties, resulting in uneven outcomes. Furthermore, a lack of capacity and localized knowledge prevents many policies from being effectively adapted to on-the-ground conditions, undermining their impact.

Similarly, while the Chinese government has promoted "green investment" concepts and policies abroad, these are not well-suited to overseas investments and are difficult to enforce due to limited understanding of overseas investment conditions. Effective regulation of investment behavior requires close collaboration between the Lao and Chinese governments, leveraging Laos' local knowledge and China's management experience. However, current cooperation is fragmented and insufficient.

### **Information Sharing and Learning Mechanisms**

As highlighted in the findings, some Chinese investors in Laos have developed mutually beneficial investment practices. Yet, these successes are rarely shared, mainly due to low trust among investors

who hesitate to disclose hard-earned lessons. In addition, there is a lack of robust mechanisms for gathering and sharing information.

Local governments, international organizations, and NGOs have worked to study foreign investments and create dialogue platforms, but their impact has been limited. This is partly due to an insufficient understanding of the diversity among Chinese investors and the inadequate involvement of Chinese experts. Consequently, these organizations often rely on generalized approaches that fail to recognize and address the specific dynamics of the Chinese market and Chinese agricultural investments in Laos.



Photo: Tea processing in tradition (Hmong) way, Ban Om, Xieng Khouang province (@Yang Bin)

## POLICY RECOMMENDATIONS

### Deepen Understanding of Investors

The LURAS report and Ben Fang’s report emphasize the need for a deeper understanding of all stakeholders in agricultural investments, particularly Chinese investors. Current perceptions are often shaped by stereotypes, leading to oversimplified narratives. Researchers, international institutions, and NGOs must conduct nuanced studies to better understand the complexities of these investors and foster effective collaboration and informed decision making.

## **Conduct Comprehensive Analyses and Foster Knowledge Sharing**

The LURAS report underscores the need for thorough analyses of agricultural investment processes, focusing on power dynamics and underlying factors. To enhance regulatory frameworks and policy formulation, relevant institutions should conduct thorough analyses of the power dynamics and underlying reasons within the investment process. For instance, the Lao government, with its extensive on-ground experience, could collect, document, and synthesize more investment cases to provide richer data. Researchers, International institutions and NGOs should leverage their expertise and combine it with local contexts to perform more comprehensive analyses. This involves engaging more closely with grassroots levels to understand local practices. Such analysis not only reveals the capacity-building needs at the provincial and sub-provincial levels and the type of information campaigns local communities require, but also provides insight into how the key stakeholders navigate and implement responsible investments through their interactions. Stakeholders can uncover Local Knowledge (LK) related to Responsible Agricultural Investment (RAI). This knowledge, derived from hands-on practices, can inform targeted policy formulation, establish effective dialogue platforms, and enhance information-sharing mechanisms, ultimately leading to better regulation of investment practices.

## **Strengthen International Cooperation**

The LURAS and Dr. Lu's reports point out that stakeholders influencing policies in Lao agricultural and rural development lack adequate understanding of China. Conversely, Chinese policymakers and some Chinese investors are also not well-informed about the situation in Laos. Bridging this gap requires experienced institutions to act as intermediaries, facilitating dialogue and collaboration. Bilateral and multilateral partnerships can leverage complementary strengths to foster mutual understanding and cooperation.

Previous examples, such as collaboration between the Swiss Development Cooperation (SDC) and China AID about managing projects in Laos, demonstrate this. While China AID has extensive experience in overseas infrastructure development, it lacks expertise in operations and management abroad—an area where SDC excels. Their collaboration combined these strengths, becoming a model for international cooperation. However, such collaborations remain too few, and more often than not, parties work independently. This not only hinders the full potential of their strengths but also results in limited mutual understanding. Expanding such efforts across fields is essential for Laos' sustainable agricultural development and for advancing RAI.

Given the current state of agricultural investment in Laos, excluding either Laos or China from the equation is not ideal for the country's sustainable agricultural development or for Responsible Agricultural Investment (RAI). Encouraging collaborations between Lao and Chinese institutions can better align investment practices with local needs, ensuring long-term benefits for all stakeholders. Therefore, expanding such partnerships, like the Laos-SDC-China AID collaboration, is crucial across all sectors.

## **ACKNOWLEDGEMENT**

This policy note was developed by Dr. Yang Bin (International Consultant, LURAS), Dr. Juliet Lu (Assistant Professor, School of Public Policy & Global Affairs, University of British Columbia), and FAN Ben (PhD Candidate, Graduate School of Asian and African Area Studies, Kyoto University).

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