

Cross-Border Production of Watermelon in Northwestern Laos

Shion Fujita



Critical
Perspectives
on Regional
Integration

15

Laos
in Transition

Series Foreword

The monographs that comprise the Critical Perspectives on Regional Integration series have emerged from dissertations based on original primary field research, and written as a major part of the requirements for the Master of Social Science (Development Studies) program of the Regional Center for Social Science and Sustainable Development (RCSD), in the Faculty of Social Sciences, Chiang Mai University.

As Senior Editorial Adviser, I was engaged by the Center to conduct an overview of the dissertations—dating back to 2001 and now well over 100 pieces of work—and select which of them would best illustrate the quality of graduate student research. This was by no means an easy task, but it was decided to choose primarily those written in the past few years, given that empirical research in social science tends to date rapidly. Another consideration was that the monographs should give expression to the main theme of the series of Critical Perspectives on Regional Integration.

As the selection and editorial work proceeded it was then decided to organize the publications into sub-series focused on different parts of mainland Southeast Asia. The first several volumes focus on Myanmar, covering such subjects as livelihood strategies, changing ethnic identities, borders and boundary-crossing, and the commoditization of culture within the context of ethnic tourism. Following volumes are devoted to Thailand, Lao PDR, Vietnam, and Cambodia.

The series also illustrates the concern to bring together social science and natural science knowledge in order to further the understanding of sustainable development issues. Over some 20 years Chiang Mai University has developed considerable research expertise in such fields as resource management, environmental impact assessment, upland agricultural systems and indigenous knowledge, health, and ethnic and gender relations. Teaching and research in development issues also deploys social science concepts within the development field to address decision-making, policy and practice, and the responses and adaptations of local populations.

This current monograph series also focuses on the processes of social, cultural, economic, political and environmental change among populations and territories undergoing rapid transformations within the Greater Mekong Subregion (GMS) and the ASEAN Economic Community (AEC).

Victor T. King

Senior Editorial Adviser, Critical Perspectives on Regional Integration Series

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Cross-Border Production of Watermelon in Northwestern Laos

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China's rapid growth and rise as global superpower has had significant influence on the Mekong region, including Laos. In particular, the provinces of northwest Laos have a close relationship with China's Yunnan Province through trade and investment. This study focuses on the watermelon business, which has become one of the main cash crops of Muang Sing, a small town on the Lao-China border. This study examines the relationship between China and Laos from the Lao perspective—examining how people live and the role of the border in an era which is increasingly globalized and borderless.

Muang Sing was once part of a trade route in the upper Mekong and an important trading center in its own right. After a long period of inactivity, it today has transformed into not only a trading center once more, but also a producer of cash crops for the Chinese market, and is the main producer of watermelons in Laos. The cross-border watermelon business consists of a web inter- and cross-border ethnic relations between the Han, Chinese Lue, Lao Lue and Akha. These diverse networks operate on a variety of bases, including friendship, business, ethnicity, and *guanxi*. In addition, power relations between individuals in the watermelon business play out in the negotiating of business and economic position. These power relations effect not only the watermelon business, but also the relationship between the Chinese and local people of Muang Sing. Chinese watermelon traders negotiate tactically and flexibly in order to adapt to a society which is constantly changing, and to avoid missing out on economic opportunities. All this while the influx of Chinese traders into this small border town has drawn migration to Muang Sing from other provinces, with Lao people coming to seek work and economic opportunity offered at Chinese guest houses, restaurants, and karaoke bars.

Muang Sing now represents a place where economic and commodity flows have transformed an area of northwestern Laos into a complex negotiated space.



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Chapter 1

The Change to a Market-Oriented Economy in Lao PDR and China

Background of the Study

This study attempts to explore the border relationship that exists between China and Laos; the way people live at the border and the role the border plays in this era of globalization and 'borderlessness'; having seen the introduction of an open-door policy and a market-oriented economy and in light of the current cross-border economic activities taking place between the two countries. In this study, I will focus on the cultivation and export of watermelons, one of the main cash crops to be produced in Muang Sing - a small border town in northwestern Laos. In addition, I would like to focus on the cross-border economic activities being carried by people in China and Laos, their networks and their ethnic relations, those which are fundamental to operating their cross-border trade.

Emergence of the New Economic Policy in Lao PDR

The Lao People's Democratic Republic (Lao PDR, or Laos) is a small land-locked country which has an eastern border with Vietnam which runs for 1,975 kilometers (km), a western border of 1,700 km with Thailand, a southern border of 492 km with Cambodia, and a northern border of 416 km with China and 150 km with Myanmar (Sirivanh, Santhabandith and Vanthana,

2006). The country, with a population of 5.6 million (as of 2005), has a very low population density, and only 18.6% of the population lives in urban areas. The United Nations regards Laos as a least developed country (LDC), although the aim of the government is to reduce poverty by 50% by 2010 through the use of various policies and strategies, and wishes to move out of its LDC status by 2020. Trade is one of the most important factors in the social and economic development of a country (Sirivanh, Santhabandith and Vanthana 2006), but Laos only opened its borders to foreign investment in 1986. After three decades of civil war, the new country was formed in 1975, following a ‘socialist path to development’ under the Lao Communist Party; however, its dominant agricultural sector remained mostly underdeveloped for a period, and the economy also stagnated, and this forced the Laotian authorities to initiate a transformation process, moving from a centrally planned economy (CPE) to a market oriented system in 1986. This system, referred to as the ‘New Economic Mechanism’ (NEM), or Jintanakan Mai, was expected to generate growth and sustained development, and was introduced by the Fourth Party Congress of the ruling Lao People’s Revolutionary Party (LPRP). The main purpose of this reform program was to restructure the economy, the role of the state and the economic management regime, restructure financial processes, give a new direction to agricultural and industrial development, and meet the challenges arising from the opening-up of the economy – with the stimuli of external trade and an inflow of foreign direct investment. The reform measures introduced comprehensive and pragmatic policy changes seeking to decentralize economic decision-making and to create a market-oriented economy (Than 1997). Because of its so-called ‘post-socialism’ policies, Lao’s economy has recovered since 1988, and as stated by Reyes: “Many reforms were initiated under the NEM with a view to enabling, encouraging and regulating the participation of the private section in economic activities and decision making” (Reyes, 1997, p.55). Reforms included an elimination of trade restrictions:

(With the) elimination of [a] state monopoly in imports and exports, and separation of central banking from commercial banking operations. (Reyes, 1997, p.55).

Since then, the gradual integration of the Lao trade sector into regional and global economies has taken place using the Association of South East Asian Nations’ (ASEAN) Free Trade Area (AFTA), using trade programs implemented

under the Greater Mekong Sub-Region (GMS) framework, and through border trade developments with neighboring countries (Sirivanh, Santhabandith and Vanthana 2006).

The Greater Mekong Sub-Region, Road Construction, and Changing Livelihood in Northwestern Laos

The Greater Mekong Sub-region (GMS) program was started by the Asian Development Bank (ADB) in 1992, a program whose aim is to promote development through the creation of closer economic linkages within the Mekong River basin, which includes Yunnan Province in China, Myanmar, Laos, Thailand, Cambodia and Vietnam. The ultimate objective of the GMS Program is to facilitate trade and sustainable development by enhancing sub-regional cooperation in areas, such as transport, energy, telecommunications, the environment, human resources development, trade and investment, and tourism. Under the ADB initiative, a number of road construction projects have taken place in Laos. In 1996, a road twelve kilometers long called '17A' was built from the provincial capital Muang Sing to the Chinese border (Greater Mekong Subregion 2018). According to Lyttleton et al. (2004), this has since encouraged a huge influx of people and goods, and now many trucks travel from China to the port of Xiengkok, ferrying goods to and from Thailand. Traders, investors and agricultural labors are moving into Muang Sing and Muang Long¹ using the road, to produce goods for sale back in China. Also, the creation of route '17B', which connects the Muang Sing market with the now bi-monthly Xiengkok market, has created a wider trade network and allowed for an expansion of border trade, with people moving into the towns and with rural communities running back and forth across borders.

The reasons for the current boom in the production of cash crops in Laos not only includes the market liberalization process that took place in 1986 - with the introduction of a market-oriented economy, but also the upgrading of the transportation infrastructure, the eradication of opium cultivation and a prohibition on the practice of shifting cultivation (with associated resettlement projects). In 1996, the Lao authorities prohibited the production of opium and reformed the drug laws, and according to Lyttleton et al. (2004), in Muang Sing the local authorities launched a determined campaign to eradicate opium

1 Muang Long is in the north-west of Luang Namtha Province.

cultivation in the district in 2002 and 2003, sequestering poppies and destroying poppy fields. The Akha, an ethnic group who live in the highlands, used to mainly plant opium in Muang Sing, as it was used as a medicine, for barter and for use by them as a drug. Instead of such opium cultivation, the Lao government and GTZ proposed the cultivation of cash crops as an alternative to opium, for export to Thailand and China. These cash crops are now not only fundamental for economic development (Lyttleton et al., 2004), but kick-started the current trend towards growing cash crops in the Muang Sing area.

In 1996, at its Sixth Party Congress, the Lao government stated that “shifting cultivation is a problem the Government wants to address. Peoples whose livelihoods depend on shifting cultivation must be settled in areas where they can be allocated land to earn a living” (Cohen, 2008). They stated that slash-and-burn agriculture was primitive, unproductive and harmful to the environment, and that the five-year development plans would target the elimination of shifting cultivation by 2010 (Haberecht, 2009). According to Lyttleton et al. (2004), although there is no official resettlement policy from a legal perspective, resettlement is seen as a crucial part of the policy on rural development. Therefore, the statement made in 1996 implied the necessity for resettlement, which was later implemented. According to the survey of population changes in Muang Sing between 1995 and 2005, the number of villages has declined from 110 villages in 1995 to 94 villages in 2005, due to both government induced relocation and spontaneous resettlement of upland villagers to lowland villages. These numbers indicate a 20 percent decline of Akha villages from 69 villages in 1995 to 55 villages in 2005. Regarding the changes in ethnic distribution of villages, the survey indicates that the upland Akha villages in 2005 were mostly concentrated in areas along the district roads in lowland (National University of Laos, 2006).

Border Trade and Economic Development in Yunnan

China's open-door policy has been one of the essential elements in the economic reforms since 1979, as it has led to an opening of the Chinese economy to international trade and foreign investment and encouraged growth in the Chinese economy, especially since the 1990s. China now has the largest population in the world (1.3 billion people), while increases in the level of unemployment and the creation of a redundant labor force have led to the

promotion of cash crop production in Muang Sing(2017). Angang (2001) links to this trend a decrease in the level of employment in primary industries due to changes in the industrial structure, and the contraction of the profit margins of government enterprises due to the introduction of market forces. Unemployment, which had reached about twelve million by the end of 1997, has limited employment rates in private enterprises and the increasing unemployment rate among people with little education has led to the academic development of laborers, especially in urban areas. Meanwhile, in rural areas some people have limited land, so some of those living in underdeveloped areas have had a tendency to move to other locations, and this has led to greater employment competition in rural areas. The trans-regional migration of rural laborers topped 40 million in 1995, accounting for 8% of the rural labor force. In particular, many people have moved to Sichuan Province, with the numbers reaching 9.5 million in the same year (Angang, 2001). In my research area, some of the watermelon traders are those who have migrated from Sichuan to Sipsong Panna, and many Chinese who run some shops in Muang Sing as well. It can be found that, on the one hand, some people have moved to Sichuan Province from other provinces, while on the other hand, some have moved from Sichuan Province to other provinces, or even abroad, seeking jobs.

D’Hooghe (1994) has discussed the issue of cross-border trade between Yunnan Province and its neighboring countries, which has become significant since 1990. Once, Yunnan’s trade with neighboring countries flourished as it was located along the Southern Silk Road; however, after that time Yunnan was regarded as an inaccessible, backward and remote frontier area with little potential in terms of economic development. After 1978; when Deng Xiaoping came to power, China’s economic policies opened up to allow modernization of the state apparatus, and in 1984, 27 border districts were given permission to establish trade ties with their neighboring countries. In December of that same year, small volume trade was approved by the state council, with seven state-level (responsible to the central government) and ten provincial-level ports (responsible to the Yunnan provincial government) established in Yunnan, with the most important ports being the state-level trading ports of Ruili and Wanding on the China-Myanmar border, Mengla² on the China-Laos border

2 Mengla is located in Sipsong Panna; it is located between Mohan (a border town with Laos) and Jing Hong – an urban center in Xishuangbanna, (Sipsong Panna) Dai Autonomous Prefecture.

and Hekou on the China-Vietnam border. By 1991, Yunnan's border trade ranked fourth in the country and now the Province's economic relationship with its neighboring countries is no longer inconsequential and is very important in terms of acquiring a leading trade position in China's business with Southeast Asia – acting as a key promoter of Mekong region development. In early 1993, Yunnan developed a slogan: “Open up the southern gate and head for the Asia-Pacific”, and Yunnan's Governor at the time, He Zhiqiang, said:

We should fully exploit the geopolitical advantage of Yunnan to open up markets in the Asia-Pacific region, develop large-scale trade and border trade simultaneously, and, through border trade, establish tens of thousands of enterprises which carry out both import and export trade with foreign countries in the areas along the border, where a number of large-, medium- and small- scale power stations will be set up in five to six years and electricity will be considered a major export commodity (D'Hooghe, 1994).

Recent developments in terms of Yunnan's border trade have derived not only from the open-door policy and improvements in diplomatic relations with neighboring countries in the 1980s, but are also the result of a change in the sense of inferiority which Yunnan once had as a remote area of the country, one outside of national development parameters.

China and Lao PDR Since 1980s

According to Kikuchi (2003), in 1975, the Phathet Lao, who took over power in Laos from the royal government, implemented a new policy based on improving the economic system and expanding agricultural production – as part of the construction of a socialistic state. Because Laos was at the time a largely agricultural country, the Phathet Lao had an ideal opportunity to move towards socialism, without having to go through the early capitalist phase. As a result, agricultural collectivization and cooperativization were promoted, and factories and companies were socialized; however, the rapid implementation of socialization within a vulnerable political and economic country like Laos brought a supply shortage from Western countries in terms of assistance and also introduced rapid inflation. In addition, agricultural

collectivization did not achieve the results expected, so the new administration accepted assistance from socialist countries such as the Soviet Union and Eastern European countries, instead of assistance from the West. In addition, although the country fully cooperated with Vietnam, with whom it had fought with in the civil war, the situation did not improve. In 1979, the government decided to review its rapid socialization policies in order to stabilize the society and economy. However, Laos did support Vietnam when it invaded Cambodia, which China also supported, though the relationship between China and Vietnam was later broken, and Vietnam became an isolated state – along with Laos, and as a result, Laos was closed-off to western countries (Kikuchi, 2003).

After the introduction of socialism in 1975, in north-western Laos trade between Thai and Laos was limited due to a closing of the Chiang Khong and Houayxay border crossings, and these closures lasted until 1988 - Thai consumer goods could only be imported via smuggling routes, and due to the border closures, the timber industry which had prospered in Houayxay was decimated and cross-border wholesale trade eliminated. Meanwhile, the border relationship between China and Laos deteriorated after 1975, with the border closed between 1977 and 1983 (Walker, 2003).

Though Laos sided with Vietnam in its conflict with the Beijing-backed Pol Pot regime in Cambodia, and the Chinese forbade people from exchanging goods or carrying out trade, some private involvement in trade was permitted and limited cross-border trade was carried out by companies which held government licenses. In addition, a border market between Laos and Myanmar was operated between 1978 and 1986, but in the main trade turned towards Vietnam, with Soviet aid imported through Vietnamese ports and with the Thai and Chinese borders closed (Walker, 1999).

The three communist countries in Southeast Asia: China, Vietnam and Laos, gradually opened up after the mid-1980s through the implementation of market reforms and due to the collapse of the Soviet Union, and these changes signaled an end to the states' monopoly control over their economies (Evans et al., 2000). With the failure of the Soviet system of socialism in China, and as a result of the 'great leap forward' and Cultural Revolution movements under Chairman Mao, China's economic policies began to change, with the introduction of a market economy by Deng Xiaoping in the 1980s. Vietnam and Laos have always had a fraternal relationship with China, like a younger brother/older

brother situation (Hinton, 2000), and so changing Chinese economic policies influenced Lao and Vietnamese economic and diplomatic policies.

After the end of the Cold War, Chinese leaders recognized the need to develop and modernize, and their foreign policies started to take a more conciliatory line. As a result, in the 1990s China adopted a “policy of good neighborliness”; a more “accommodating and restrained” relationship within the region. China’s increasing interest in and influence over its neighbors to the south: Vietnam, Laos, Cambodia and Myanmar, can be understood, not only in terms of this new geopolitical context, but also in terms of more local factors. After the financial and economic crisis of 1997, Laos turned away from Thailand and towards Vietnam and China, and the Vientiane authorities at once went to seek partners in order to diversify the country’s economic relations. This reorientation of their international economic strategy was to favor China, and in 2001, the Chinese Prime Minister Zhu Rongzhi invited his Lao counterpart, Bounyang Vorachit, to visit, and this strengthened the economic relationship between the two countries (Vatthana and Ruth, 2006).

Recently, China’s rapid economic growth and its rise as a global power have enhanced its influence in the Mekong region, particularly with regard to investment and cross-border trade. According to the fourth Laos-China Corporate Committee conference held in Beijing on 5th and 6th May 2009, investment in Laos from China amounted to about 260 million US dollars at that time, making China the number one investor in Laos, and by 2008, Laos-China trade stood at 420 million US dollars, up 57.5% from the previous year. Lao exports to China include timber and wood products, agricultural items and minerals, and Chinese exports to Laos mainly include industrial and specialist equipment, raw and construction materials. In its report, the Conference of Laos-China Investors in 2009 held in Vientiane stated that Chinese investors are facilitating 117 projects in Laos, adding up to investments of eleven billion US dollars. The main investments are taking place in the mining, finance, banking, telecommunications, hotel, restaurant, logging, rubber plantation and agricultural sectors. Many Chinese investors are planning to invest in the northeast region of Laos, particularly as some provinces in northern Laos share a border with Yunnan Province; this region has been influenced by China for a long time. The fourth regular conference of the northern provinces of Laos and Yunnan Province and a conference of the Liaison Committee for North Laos and Yunnan Province was held on 22nd and 23rd June 2009 in Jinghong, Sipsong Panna, with attendees

including the Laos Deputy Prime Minister Mr. Somsawaat, who is on the Laos–China Cooperation Committee, governors of each of the northern provinces and the Yunnan Governor Mr. Xingkuwan Yong, the meeting being held to discuss bilateral cooperative relations in terms of commerce and investment. The bilateral trade (between Yunnan and Laos) carried out in 2008 amounted to 110 million US dollars, up 30.7% from 2007, and 26.3% of which was made up of China to Laos trade; plus they had contracted economic and technical cooperation relations amounting to 482 million US dollars in the same year, and were striving to reach trade worth 250 million US dollars by 2010. In addition, the cross-border trade between China and Laos has played an important role in the cross-border development of mainland Southeast Asia as a whole.

Chinese Expansion into Laos

According to Halpern (1961), the influx of Chinese businesses into Laos is not a new phenomenon. In his paper, he examines the history of the Chinese in Vientiane, Pakse, Luang Phrabang, Luang Namtha, Phongsali and Sawannaket in Laos. When he conducted research in 1959, there were about 200 Chinese in Muang Sing, making up about 13% of the total population. Of these, 90% came from Yunnan; the rest came from Guangdong and Guizhou. According to Lyttleton et al. (2004), in a report produced in the late nineteenth century, the main residents in Muang Sing were the Tai Lue from Chiang Tung Province in Myanmar and Sipsong Panna. He also mentions that the Chinese influx intensified after introduction of the land collectivization campaigns in China in 1958.

Furthermore, Halpern (1961) describes some of the characteristics of the Chinese who came to Laos at that time, stating that almost all were the Han³, though there were also a few ethnic minorities such as the Yao and Meo, who were engaged in business with the Han. The Han was quite diverse at this time, coming from Yunnan, Guangdong, Hainan and Henan. It is said that they migrated from Henan due to military pressure in 400 to 600 AD - moving south. These Han lived across Southeast Asia at this time, especially in Malaysia, Indonesia and Thailand.

3 I use 'Han' to distinguish between Han ethnic and Chinese Lue ethnic groups in this paper. In cases where it is impossible to do this, I use 'Chinese' as a collective term, including the Han and Chinese Lue.

The Chinese of that period were good at business and monopolized trade in Laos. Based on interviews, Halpern (1961) states that the Chinese community was first recorded in Laos in about 1910 or 1919 – those who had failed in Thailand or Vietnam or were not happy in Southeast Asia. At that time, an influx of Chinese into Laos from Hong Kong could also be identified.

In the mid-1980s, China's economic policies changed with the introduction of the market economy by Deng Xiaoping and as a result of the failure of the Soviet- style socialist programs such as the Great Leap Forward and the Cultural Revolution (Hinton, 2000).

As result of this, three communist countries in Southeast Asia, China, Vietnam and Laos, gradually opened their doors, and this signaled the end of state monopoly control over the economy in these states (Evans et al., 2000). Changes in Chinese economic policy also influenced Laos' and Vietnam's economic and diplomatic policies, and China began to extend towards its neighboring countries in terms of trade and investment.

As I mentioned above, relationships between China and Laos, and in particular between Yunnan Province and the northern Lao provinces have strengthened year by year recently, especially in terms of economic activities such as investment, trade and farming, due in part to the state policies of the two nations, such as China's land management policies and overpopulation situation, plus the Lao state's economic development policies. Since 1996, a large number of trade agreements have been agreed between the two countries that have helped open-up economic relations, and as these have been developed, many Chinese people have flowed into northern Laos to open businesses.

Country Sector	China	Vietnam	Thailand
Agriculture	270	0	0
Industry	102	11	11
Construction	9	65	0
Services	224	24	0
Total	605	100	11

Table 1.1: Foreign businesses registered in Luang Namtha province 2008-2009

Source: (Department of Industry and Commerce in Luang Namtha, 2009)

(Unit: Persons)