

Research on China's Support for Laos' Finance under the BRI

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Abstract

At present, the role of finance in the BRI has attracted the attention of many scholars. The financial system framework is not perfect enough and the financial development is still in the preliminary stage in Laos. Therefore China should continue to support the improvement of the Laos' financial system in order to strengthen the building of Laos' domestic financial order and let the help of BRI to bring Laos' own economic development. And it can also promote the smooth implementation of the BRI. Starting from the current financial development situation in Laos, the author focuses on the positioning of China's support to Laos' finance under the guidance of the BRI, and then gives the specific ways of China's support to Laos' finance. It is hoped that Laos can seize the opportunity to improve the financial system and realize economic development and even take-off.

Keywords

Financial support; BRI; the path.

1. Status and Challenges of Financial Cooperation Between Laos and China

China's rapid economic development has played an important role in the development of emerging economies in Asia as a whole. The data from World bank shows that the economic development of the whole Asian countries is strongly correlated with the economic development of China after the reform and opening up, and the correlation increases year by year. China's stable economic growth and broad domestic market also provide Laos with strong economic traction for its economic development. Laos lags behind China in economic development. Driven by the BRI, the economic interaction and cooperation between China and Laos will be closer and more frequent.

1.1. Current Situation of Economic and Trade Exchanges

Since the formal establishment of diplomatic ties between China and Laos in 1961, bilateral relations have been developing steadily with increasing political mutual trust. In terms of economic and trade cooperation, bilateral economic and trade relations have also been deepened and areas of cooperation have been expanded. In 2003, bilateral trade exceeded 100 million us dollars for the first time. To 2017, bilateral trade volume between them reached us \$3.02 billion, up 28.6 percent year-on-year, ranking the second among asean countries. China is Laos' second largest trading partner after Thailand now. The two countries enjoy strong trade complementarity and great potential for cooperation.

At the same time, it should be noted that the bilateral trade structure between the two countries is relatively simple and the level of products is not high, which needs to be improved. From the perspective of trade structure, Laos' exports to China are mainly agricultural products, mineral products and wood products, while China's exports to Laos are mainly machinery and light industrial products of general technical level. This trade structure is adverse to Laos. On the one hand, the added value of Laos' exports is not high; on the other hand, Laos imports a large

amount of Chinese machinery and equipment with medium and low technology levels, which will make Laos fall behind in technology for a long time. Therefore, Laos is limited in the variety of products imported from China. The problem of single trade structure will restrict the long-term sustainable and sound development of trade between China and Laos.

1.2. Investment Situation

Before 2013, influenced by international and regional politics, ideology and other factors, China's investment in Laos always ranked third behind Vietnam and Thailand, and the amount of investment was not large. After the subprime crisis, under the pressure of the slow recovery of the world economy, China bugged the trend and increased its direct investment in Laos. By 2016, China's investment exceeded 1 billion us dollars, surpassing Vietnam and Thailand to become the largest investor in Laos. At the same time, the growth rate of Chinese enterprises' investment in Laos is also climbing. From January to August 2018, China's non-financial direct investment in Laos reached \$990 million, up 30.3% year on year, ranking second in Asia in terms of total investment. China's total investment in Laos also exceeded \$10 billion.

While China's investment in Laos shows a steady growth, the investment field is also expanding. In the early stage, it mainly focused on the construction of power and water conservancy infrastructure, mineral resources development, agriculture and service industry, and foreign trade. Later, it started to get involved in Laos tourism, processing industry and wood development, presenting a diversified investment pattern.

In the future, Laos will become an important capital outflow place for China, and China's economic importance in Laos has been fully demonstrated. China's direct investment in Laos has a positive impact on local economic growth, labor force employment, foreign exchange reserve growth, corporate governance and other aspects.

It can be seen that in terms of economy, trade and investment, the cooperation between China and Laos is continuously deepening. Trade and investment and finance promote each other and finance serves the development of the real economy. The growth of trade and investment between the two countries will surely create more financial needs and guide the deepening of bilateral financial cooperation. This also requires the further development of Laos' financial system.

1.3. The Financial Challenge of the BRI for Laos

In 2013, general secretary Xi Jinping put forward the cooperation initiative of building the "new silk road economic belt" and the "21st century maritime silk road". In 2015, China promulgated the "Vision and actions to jointly build the silk road economic belt and the 21st century maritime silk road", put forward the strategic idea of developing economic partnership with countries along the belt and road and building an economic community of connectivity, political mutual trust, economic integration and cultural inclusiveness through existing bilateral and multilateral mechanisms and effective regional cooperation platforms is proposed. The association of south-east Asian nations (asean) have been set aside for strategic focus area. Among the 10 asean countries, Laos enjoys quite obvious geographical advantages as the main position for China to implement the strategy of economic cooperation with the sub-region of the Mekong river and asean connectivity.

In the tertiary industry, business and trade, such as wholesale and retail, account for a large proportion in Laos. One of the purposes of the integration into the BRI is to strengthen international commodity trade and speed up the capital turnover of domestic and foreign enterprises. At the same time, Laos is located in the middle of indo-china peninsula, with relatively flat terrain in the south, so it has the potential to become a land transportation transit station for neighboring countries. Services and transport, building around the movement of goods from one country to another, could provide much of the impetus for Laos's own growth. But as one of the least developed countries in the world, Laos still lacks transportation and

infrastructure. Therefore, in the process of the BRI, transportation and infrastructure construction will become the primary target, which is bound to be accompanied by the great demand for financial resources. Based on the above analysis, it can be seen that the development of Laos' financial market is still very immature and cannot afford such a huge fund. At the same time, Laos, whose economy is moving into 2019, is expected to face several challenges, including uncertainties over the global and regional economic recovery, rising oil prices and fluctuations in the exchange rate in the foreign exchange market. Laos needs to implement macro-prudential policies to maintain the stability of its currency and exchange rate, so as to maintain sustainable and rapid economic growth, all of which need to be based and supported by a sound financial system.

So under the BRI, China's support for Laos' finance should be through various measures to promote the development of Laos financial institutions and financial markets, and make full use of various financial market resource allocation function, guide the financial capital flows across regions. China should support Laos large-scale infrastructure construction related to the BRI mainly. By providing comprehensive financial services for the economic development of Laos and helping Laos improve its financial system and system, the economic growth and economic structure adjustment of Laos are finally realized, thus promoting the smooth implementation of "One Belt And One Road" strategy.

2. China's Financial Support Field to Laos

The fundamental goal of China's promotion of the BRI is to realize the output of its excess capacity in heavy and chemical industries such as metallurgy and building materials, which is consistent with the inadequate infrastructure construction in Laos as analyzed above. At the same time, Laos needs to further strengthen its foreign economic cooperation due to its relatively short history of economic opening-up. The BRI, based on China's own economic needs and strongly promoted by government policies, can bring financial support to Laos in banking, securities, government cooperation and other fields.

2.1. Cooperation in the Banking Sector

Banking sector cooperation is an important content of financial cooperation, the Chinese bank can provide more financial support to Laos, help Laos set up unified liquidation system between commercial Banks, improve the border trade settlement system, improve the level of settlement and efficiency, promote the management mode of traditional financial institution change and innovation of the online banking platform, popularize the application of electronic payment system, so as to improve the level of Laos bank management, supervision and the ability to resist risk. At the same time with the bank of China and Laos, Fudian bank as a model, China may cooperate with Laos to set up banks or open branches and correspondent banks in Laos. This will not only enable the bank to continuously diversify its business, but also provide better financial supporting services for bilateral trade. At the same time, the higher interest margin of Laotian bank also increases the profit possibility of the joint venture bank. In addition, China can actively help Laos in the establishment of credit market, supervision of credit agencies, credit rating system and prevention of credit risks.

2.2. To Promote the Development of the Securities Market in Laos

The securities market in Laos was established with the help of South Korea and Thailand. It is still in the early stage of development in terms of equipment, management and risk control. Meanwhile, the participants in the securities market are mainly large state-owned enterprises. The securities market level is relatively single, and lack small and medium-sized board, gem and other plates. As a neighboring socialist country, China has certain experience in the construction of securities market through economic reform and opening up, and can carry out

a series of discussions, exchanges and training activities with Laos stock exchange, so as to help Laos expand its securities trading platform and improve its securities trading system. At the same time, China should help Laos build a bond market, enhance the breadth and depth of direct financing in Laos, and improve the mismatch of the long-term investment structure in Laos, so as to provide funds for enterprises, especially high-tech enterprises with great development potential and greater risks.

2.3. To Help Laos Improve Its Insurance Market Actively

The biggest problem in the insurance market in Laos is the lack of resources for the development and regulation of the insurance industry. At present, the insurance demand mainly comes from industry and commerce, and the individual demand is not strong. People in the industry are not familiar with insurance-related skills, and IT technology is also very backward. China may share its experience and lessons in the development and promotion of insurance products with Laos, help Laos continuously launch various insurance products suitable for the local market, and carry out education and training on insurance-related subjects with Laos, so as to promote the real development of the insurance industry in Laos. In terms of regulation, China can use a variety of platforms, including AFIR, to provide technical assistance and training to Laos to make it accept the Chinese insurance regulatory model. By establishing and improving the legal system of insurance, the Laos government will improve its supervision of the insurance industry and create a favorable environment for the development of the insurance industry.

2.4. Establishing and Promoting Free Trade Zones

Financial progress can be promoted through the development of trade. Giving up the barriers to foreign investment access and establishing and popularizing the free trade zone will bring certain economic losses to local enterprises in the short term. But in the long run, it is a wise choice to bring positive policy effects such as "transfer payment", "expanding domestic demand", "price suppression" and "localization" to Laos. This is in line with the "One Belt And One Road" strategy, which calls for countries to reduce trade barriers and strengthen bilateral or multilateral economic cooperation. China can take the initiative to advance the fta negotiations between China, Laos and Thailand through the negotiation strategy of "focusing on the internationalization of RMB and promoting the in-depth opening of the china-laos market". The establishment of the free trade area can further exert the geographical advantages of china-laos economic and trade cooperation and achieve the win-win effect by expanding and deepening economic cooperation. Meanwhile, it is also conducive to promoting the economic structural reform in Laos and pushing forward domestic reform with more external forces.

3. China's path to support for Laos'finance

If the development of financial scale and financial structure can keep pace with the economic growth, it will promote the economic development of Laos. According to the actual development of Laos, China's support to Laos's finance under the BRI can be considered in the following ways.

First, to establish a cooperation and assistance mechanism. As the trade between the two countries deepens, the demand for financial services will also increase. Sound bank credit, exchange, settlement and other services are the financial basis for Laos to quickly integrate into the "One Belt And One Road" construction, which requires cooperation between the two sides. China and Laos can hold regular BBS financial cooperation meetings to exchange and consult on specific issues and technical coordination in the development process of Laos' financial institutions. Laos can learn from China's experience in financial reform, and China can better

understand the current situation of Laos. Finally the two countries can achieve common development and progress.

Second, to deepen capital market cooperation. Only the growth of investment can promote the development of the real economy, create more financial needs and guide the further development of Laos' finance. China can take active measures to improve the "going global" strategy, do a good job in the listing of sino-lao joint ventures in Laos, and improve the comprehensive mode in which enterprises rely on the investment of the parent company and bank financing. In 2018, the Laos cement public company, a joint venture of China copper industry co., ltd. was listed on the Lao stock exchange, becoming the first sino-lao joint venture to be listed in Laos. This is a new change of "going out" strategy. At the same time, v-next and other platforms can be used to actively promote the in-depth integration of high-quality industries and capital between China and Laos around the construction of "One Belt And One Road".

Third, to provide various financial and technical assistance. Due to the limitation of financial development level in Laos, the financial competitiveness is limited. China can provide technical assistance to Laos, which has relatively backward financial infrastructure, weak financial institutions and imperfect financial system, by setting up fintech assistance projects, establishing fintech assistance funds and organizing fintech experts, so as to further improve their level of financial development and financial competition ability. In addition, China can help Laos train financial talents as needed.

It is far from enough to rely solely on the mechanical integration of the above measures. It also requires the implementation and coordination of the financial departments, central Banks and regulatory departments of the two countries. This requires the establishment of a platform mechanism at the government level to create positive conditions for financial cooperation between the two countries. To establish bilateral policy dialogue and economic surveillance mechanism, the two sides can disclose the relevant economic and financial information timely on the basis of mutual trust and win-win, analyse the two countries economic development and policy independently, and submit regular reports on macroeconomic and financial markets to the relevant departments of the two countries, assisting each other to identify and respond to potential crises through peer assessment and peer monitoring mechanisms.. At the same time, the two countries should conduct regular exchanges and meetings on financial policies and regulations, so as to make it a platform for in-depth exchanges and human resources cooperation between the two countries, and promote the development of regional financial markets and early warning mechanism to enhance crisis prevention capacity.

4. Conclusion

The opportunity for Laos to participate in the BRI is mainly reflected in its subjective conditions for participation in the BRI. And objectively, it has a high value for China to achieve the goal of output capacity and economic transformation through the BRI. With the help of BRI which is put forward by China, Laos actively attracts foreign investment, realizes the upgrading and optimization of industrial structure, and thus promotes the development of national economy and even takes off, which is the ultimate goal and motivation for Laos to participate in "One Belt And One Road". Differences in interest demands between countries along the belt and road, policy differences caused by differences in social and economic systems, and historical reasons also jointly urge Laos to accelerate its integration into the BRI.

Finance comes first in economic development. As a growing emerging country and one of the most attractive investment countries in Asia, Laos is still in the initial stage of financial market development and has many problems. However, its financial environment is developing at a fast pace with strong demand and great potential. Laos should make full use of China's financial

support under the BRI to improve the domestic financial market and financial system and national economic cooperation actively. It also should seized the rare opportunity to establish the bank electronic payment system, develop the capital market and improve the financial supervision, so as to achieve a more sustainable and inclusive rapid economic development, and finally achieve mutual promotion and win-win situation with countries along the "One Belt And One Road".

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