

Why Vietnam Should be Worried About Laos' Economic Crisis

The country's travails could deepen China's influence and destabilize the longstanding alliance between Hanoi and Vientiane.

By Khang Vu

Laos is facing one of its worst economic crises in many years. Last month, inflation hit a 22-year high of 23.6 percent, according to official reports. Consequently, the price of fuel, gas, and gold has increased by 107.1 percent, 69.4 percent, and 68.7 percent, respectively, compared to June 2021's price. Long lines at gas stations are no longer rare occurrences, which has, in turn, hurt the country's recovery from the COVID-19 pandemic. The value of the local currency, the kip, has fallen from 9,300 to the U.S. dollar in September 2021 to around 15,000 today. With only \$1.2 billion in foreign reserves, Laos is on the brink of sovereign bankruptcy, as the state cannot meet its debt obligations, which require it to pay \$1.3 billion per year until 2025. Of Laos' \$14.5 billion in foreign debt, about half is owed to China to fund projects including the newly inaugurated \$5.9 billion China-Laos railway connecting Vientiane to the Chinese border.

Against the backdrop of the crisis, Vietnam and Laos this month celebrated the 60th anniversary of the establishment of bilateral relations (1962-2022) and the 45th anniversary of the signing of the Treaty of Friendship and Cooperation (1977-2022). The leaders of both countries affirmed their "special relationship," that Vietnam and Laos are not just neighbors but are "brothers and comrades" engaged in the joint task of national and socialist construction. Nguyen Phu Trong, the general secretary of the Vietnamese Communist Party described Vietnam-Laos ties as "invaluable" and "one of a kind" in world history. Lao Vice President Bounthong Chitmany asserted that Vientiane is determined to cultivate the "comprehensive unity of the great Vietnam-Laos relationship."

There is no doubt that Laos is Vietnam's most trusted friend. Indeed, Laos is the sole military treaty ally that Vietnam has had since the end of the Cold War, despite Hanoi's official policy of nonalignment. The Vietnam-Laos Treaty of Friendship and Cooperation serves as the backbone of the alliance, under which Laos can call for military support from Vietnam when there is a threat to its security.

Since the signing of the treaty in 1977, Hanoi has considered the alliance vital to defending Vietnam from afar and denying other rivals' influence in Laos. Such thinking is rooted in Vietnam's geographical vulnerability. Laos borders Vietnam's narrowest point of just 40 kilometers, which foreign enemies could exploit to cut the slender nation in half. Vietnam also understands that if China was able to control Laos, Vietnam would be surrounded by Beijing on three fronts: South China Sea in the east, China-Vietnam border in the north, and Laos and Cambodia in the west. Vietnam's survival is thus tied to Laos' survival. As Vietnam state media put it succinctly, "Lao security is Vietnam's security."

For that reason, Vietnam has gone to great lengths to ensure that Laos remains under its tutelage in the face of Chinese contestation. During the Vietnam War, despite fighting against a common U.S. enemy, Vietnamese and Chinese advisors vied for influence over Laos. After

1975, Vietnam relied on Soviet military and economic assistance to consolidate its dominance over Indochina at China's expense. Shortly after China invaded Vietnam in February 1979, Vietnam sent troops to the Laos-China border after the Lao government reported that China had invaded a small section of its northern border. Hanoi would station more than 40,000 troops in Laos in the subsequent years in order to protect its ally from China and domestic unrest, at a time it was fighting a counterinsurgency war against the Khmer Rouge in Cambodia and preparing for another Chinese invasion along the China-Vietnam border. Throughout the 1980s, Vietnam was unquestionably Laos' principal security and economic patron.

The end of the Cold War and the normalization of Laos-China relations in 1991 posed a new challenge to Vietnam's dominant position in Laos, as Vientiane was more open to Chinese investments. In a low-security threat environment, the competition between Vietnam and China over Laos turned to the economic realm, forcing Laos to play a careful balancing act between its military ally Vietnam and its now most important economic partner China. Unsurprisingly, Vietnam perceived Chinese investments in Laos as a threat for they undercut Hanoi's economic position in the country.

Since China has sought to expand its influence in Southeast Asia via the Belt and Road Initiative, Vietnam has seen its position in Laos deteriorate further. Many Lao politicians, despite getting their training in Vietnam, regard China as a favorite model of economic development. Vietnam has continued to help Laos to the best of its ability, such as gifting Laos a new national assembly house, building a new public park in Vientiane, and funding a number of cross-border infrastructure projects, such as the Hanoi-Vientiane Expressway and the Vientiane-Vung Ang Railway, a direct response to the Laos-China railway. Hanoi even sought help from Japan to build infrastructure connecting Vietnam and Laos to make up for its weaker economic power vis-à-vis China. Still, the long-term trend is clear. Vietnam is losing its grip on Laos.

To further counter China's attempts to drive a wedge between Vietnam and Laos via economic rewards, Hanoi has stressed the defense cooperation between the two countries. It wishes to demonstrate that Vietnam is still the most important guarantor of Lao security, despite it no longer being the country's most important economic partner. In a recent high-level meeting between the Vietnamese and Lao ministries of defense to commemorate bilateral ties, both sides affirmed that "under any circumstances, the two countries' militaries will stand shoulder to shoulder, overcome all challenges and hardships, and protect the revolutionary accomplishments of the predecessors."

Lao Maj.-Gen. Khamlieng Outhakaysone proclaimed that Laos will always value the "great friendship, special unity, and comprehensive cooperation" with Vietnam and believed that such strength would "push back all conspiracies dividing the two countries." Vietnam's Prime Minister Pham Minh Chinh again emphasized bilateral defense cooperation as an important pillar of Vietnam-Laos relations and a priority of Hanoi. Chinh added that recent economic hardships due to inflation and exorbitant fuel prices as well as an uncertain international environment should warrant closer cooperation so that both Vietnam and Laos can proactively cope with possible negativities. Vietnam's state media noted that continued cooperation under the leadership of the two communist parties is vital to the longevity and prosperity of the Vietnamese and Lao peoples.

However, Laos' current economic emergency may complicate Hanoi's efforts to limit the influence of Beijing. Vietnam could only keep Laos under its wing so long as Laos maintained

socio-political stability and China does not enjoy the final say in the survival of Laos' economy, both of which are under threat due to the economic crisis. Hanoi has attempted to help alleviate some of Laos' economic burden by increasing its investments by 33 percent between 2020 and 2021. In the first three months of 2022, bilateral trade grew 19 percent compared to the same period in 2021. Hanoi also noted that Vietnamese businesses in Laos have paid taxes worth more than \$1 billion to Vientiane over the past five years. Still, it is worth remembering that no matter how much Vietnam invests in Laos, it cannot outbid China. Vietnam's money is also not the silver bullet to Laos' economic woes if the country cannot deal with its endemic corruption and mismanagement.

The outcome of the economic crisis may thus decide whether Laos can maintain its balancing act between Vietnam and China. In a low-security threat environment, the Lao leadership may decide that economic survival is more important than security and that the country needs economic relief from China to maintain domestic stability in the short term. In the long term, China can serve as Laos' main security and economic guarantor if such an arrangement increases Chinese influence in Indochina at Vietnam's expense and frees Laos of its balancing act, thereby putting an effective end to the Vietnam-Laos military alliance. Importantly, as a single-party communist state, China can also safeguard the survival of the Lao communist regime like Vietnam has been doing, which would only smooth such a transition.

As has long been the case before the COVID-19 pandemic, China's rise has undermined Vietnam's influence in Laos. A further weakening of the Lao party-state would only allow China to exploit its favorable power position vis-à-vis Vietnam and finally win the country to its side, after successfully doing so with Cambodia. The last time China and Vietnam fought a major ground war in 1979; it was over Cambodia. The next conflict between China and Vietnam may not be over the South China Sea but over Laos.

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