HKUST IEMS
INSTITUTE FOR EMERGING MARKET STUDIES
SPRING 2021 NO.50
IEMS.UST.HK

THOUGHT LEADERSHIP BRIEF

Disabled Localisation: Financial Entanglements and Labour Politics along the Belt and Road in Laos

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Photo by Stephen Leonardi on Unsplash

KEY POINTS

- Chinese investments in construction sector in the mainland Southeast Asia demonstrate lower degree of employment localization than in Africa. BRI projects in the region rely on an overwhelmingly Chinese workforce for implementation.
- This pattern is shaped by BRI's unsustainable financial mechanism. The Chinese state's lending practices, often divorced from host countries' de facto fiscal capacities, result in difficulties to channel planned credit flows into BRI projects.
- Top-down financial instabilities shape (sub-) contractors' labour recruitment processes.Chinese workers, who are more amenable to exploitation in the form of deferred or even denied wages, are often brought in to substitute for less pliable local counterparts.

ISSUE

Chinese investments overseas are often criticized for not creating jobs for the local. The accusation is directed towards the construction sector in particular. In popular portrayals, mega-infrastructure projects, especially those funded by Beijing and implemented by state-owned enterprises, are depicted as China-made from the head to toe. These stereotypes have been challenged by rigorous investigations conducted in the African context. Survey data show that far from the alleged lack of employment localisation, in reality 80-95 percent of workers are sourced from host countries for construction work financed by Chinese capital. This statistical trend is echoed in some more grounded observations that note visible involvement of the local workforce alongside imported workers from China.

However, global China is a spatially uneven phenomenon. In another region that has recently experienced a surge of Chinese capital into the construction sector, namely the mainland Southeast Asia, the extent of employment localisation turns out to be rather different. Pioneering firm-level survey in Cambodia reports that roughly two-thirds of the workforce are still imported from China. In Laos, projects that are recognised as part of the Belt and Road Initiative (BRI), like hydropower stations and railway, also show a low degree of local presence in terms of worker recruitment. Why is this so? This brief brings to light another force that has been disabling the localisation of global China's infrastructural endeavours besides the commonly cited factors of local shortage of skills and tight completion timelines. Drawing on evidence from the China-Laos railway, I show that the financial instabilities of BRI projects need to be taken into consideration in understanding their labour composition.

ASSESSMENT

The China-Laos railway is a section of BRI's centrepiece in China-Indochina Peninsular Economic Corridor, the Kunming-Singapore Railway Network. This 414-kilometer standard gauge track, running from Laos' northern border town of Boten to its capital city Vientiane, began construction in 2016 and is scheduled to complete in 2021. The project has been fraughted with controversies in part due to its heavy reliance on Chinese workforce for implementation. Although the scale of labour importation is, in reality, more constrained than depicted in sensationalistic media coverage, it clearly penetrates into realms that could have been tasked to the local workforce.

My interviews with sub-contractors and field visits to selected labour camps revealed that even rudimentary, low-skill jobs on the railway were performed mostly by Chinese, and to a lesser extent, Vietnamese labourers. Lao workers were briefly involved in the early stage of construction but were soon phased out even though they had a significant cost advantage over the imported labourers.

The financial instability of the China-Laos railway is the main reason that underpins its low rate of employment localisation. Budgeted at 6 billion USD, the project is developed through a 30:70 Laos-China joint venture. Based on the bilateral agreement in 2015 establishing the railway's financial mechanism, the Lao government, as a shareholder, was set to cover a total of 715 million USD for construction. Two-thirds of this amount, i.e., 465 million USD, are covered by a loan from the Export and Import Bank of China, while the rest is allocated directly from the Lao state budget. What is less known to the public is the fact that the latter stream of funding also works as equity capital that is mandatory in order to bring Chinese credit into the project. This mechanism bets much of the railway's financial stability on the provision of equity from the financially strapped Lao state.

This financial arrangement took on two lives with distinctive temporalities after being sealed on paper. On the one hand, the project was leveraged to jumpstart the tending/bidding processes quickly. By late 2016, the first batch of the railway contracts had been awarded to selected suppliers and (sub-)contractors. Construction works began visibly unfolding on the ground. On the other hand,

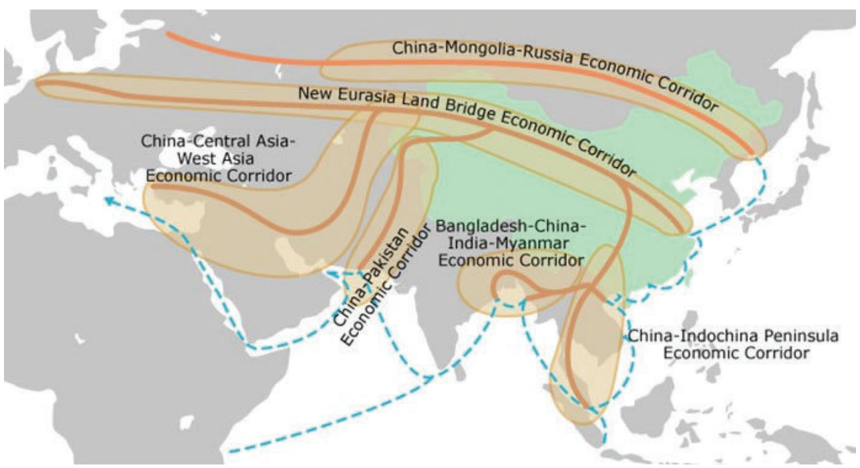

Figure 1. Six Economic Corridors of the Belt and Road Initiative. Source: Elizabeth Claire Losos, et al. "Reducing Environmental Risks from Belt and Road Initiative Investments in Transportation Infrastructure." The World Bank, 2019.

designated financial resources for the railway failed to arrive on time, in large part due to long delays in the Lao government's injection of equity, a predictable situation given the country's poor fiscal capacity. It was further exacerbated as different lines of Lao state organs responsible for budget allocation had not been collaborating effectively in this project due to internal power struggles. As the financial mechanism for the China-Laos railway continued to unravel, the project has been built with a continuous dearth of financing. The situation was particularly acute in the early phase of the construction but persists till today as it is now approaching completion during COVID-19. Despite the messy financial situation, firms working on this BRI project are pressured by Beijing to complete contracted work according to the original timeline.

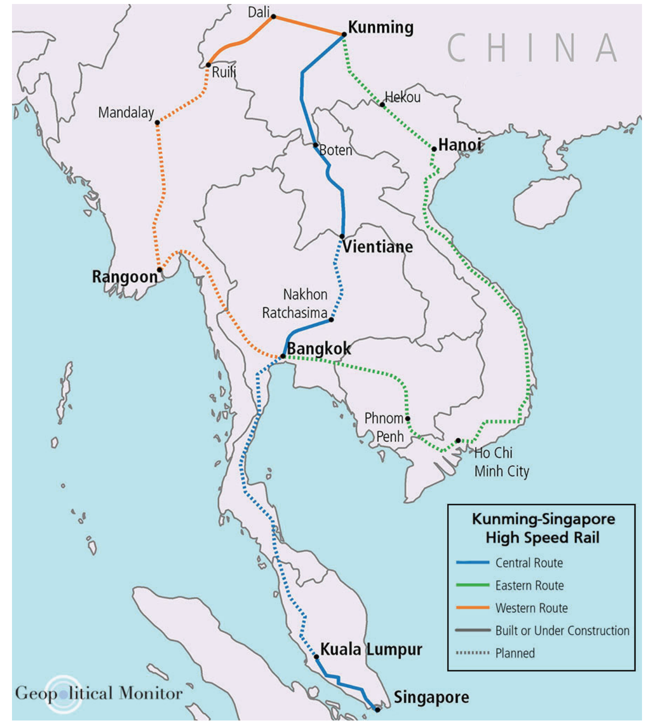

Figure 2. Kunming-Singapore Railway Network. Source: Alex Hang. "China's One Belt One Road Projects in ASEAN." https://asia.ub-speeda.com/en/chinas-one-belt-one-road-projects-asean/, October 24, 2018.

Who then foots the bill for the financial vacuum created by the long-delayed Lao funding and subsequently, the EXIM Bank loan? Much of the burden fell on the shoulders of ground-level subcontractors. As part of the railway contracts they secured, they typically had to turn in assets that are worth 3-5 percent of the contractual value as security deposit at the outset. They were then obliged to finance the construction work with their own capital first and to receive monthly reimbursements from the railway joint venture. When these companies realised the scale of the higher-level financial difficulties as many rounds of reimbursements were missed, they found themselves trapped in impossible situation. Having risked so much of their own capital in the railway, they had little choice but to continue fulfilling the contracts while praying for the eventual arrival of state funding. The alternative was to walk away from the project. But taking this path, also meant that they would give up the chance of recouping the investments that had been made. Given the power imbalances in the Chinese political economy, the Beijing-backed railway joint venture can deny any responsibility by accusing these small investors of breaching their contractual obligations.

As the railway's financial instabilities trickled down, sub-contractors began cutting expenditure as much as possible, resulting in pervasive labour exploitation in the forms of deferred or denied wage payments. Eventually, the local workers that were initially recruited for construction protested and exited the project en masse. These were mostly labourers placed on a monthly salary system and were dependent on the fickle stream of income to sustain their livelihoods. Thus, they were quick to demand for their delayed wages through means such as collectively besieging labour camps where managers' offices were located and refusing to come back to work given the high risk of not getting paid again. The gap the Lao workers left behind was filled by the imported Chinese labourers who were mostly scheduled to receive their wages in a lump sum every six months to a year. Such an arrangement reduced temporal the financial pressure facing sub-contractors, enabling them to move forward with construction relatively smoothly while waiting for the project's bilateral funding allocations to be sorted out.

The case-specific evidence from the China-Laos railway reveals that BRI's financial dynamics constitute an important factor disabling the localisations of employment of key infrastructure projects. As the Chinese state's lending practices spread across the global South, we should expect to see an increasing number of loan deals that are divorced from the fiscal realities of borrowing countries such as Laos. These practices will bring additional uncertainties to projects supposedly financed by Chinese credit flows, thereby enhancing reliance on Chinese workers, who are made more 'docile' than local counterparts through exploitative domestic experiences and the cross-border migration processes that further strip away their bargaining power.

RECOMMENDATIONS

From the evidence presented, I draw two sets of recommendations for governments and corporations from China and southern countries receiving BRI investments. First, state actors from both sides should take a comprehensive risk assessment approach when drawing up financing plans for BRI projects, with a view of ensuring that local capacity is available. Funding mechanisms that are not carefully grounded in the hosting state's fiscal capacities not only exacerbate the risk of sovereign debt distress in the future, but also implicate infrastructure projects with immediate financial instabilities in the construction stage and reduce opportunities for employment localisation.

Similarly, for corporate entities in the construction sector in both China and BRI host countries, the Initiative clearly presents both opportunities and risks. As the case of China-Laos railway shows, infrastructure projects that come with bilateral state support and funding do not guarantee financial viability or stability in practice. Firms need to evaluate the uncertainties built into the BRI's financial structure when making decisions to take on projects branded under the Initiative.

Lastly, for academics researching the extent of localisation arising from Chinese investment abroad, especially in the area of employment, this report highlights the need to adopt a relational and systematic analytical approach. Sometimes, the ground-level dynamics of labour sourcing are contingent on the political economy of sovereign debt making. Additionally, it should not be assumed that the interests and incentives of Chinese actors involved in BRI projects always neatly align with each other. The China-Laos railway is built not by collaborations between China EXIM Bank, state-owned enterprises and small private investors subcontracting on the project. Instead, the tracks have been laid through the unequal and exploitative relations between state capital and private capital in moments when the policy bank refuses to release credit for banking prudence. These invisible incoherencies, contradictions, and struggles are the key to decipher the contour and content of global China.

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