


For Profit or Patriotism? Balancing the Interests of the Chinese State, Host Country and Firm in the Lao Rubber Sector

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Abstract

Chinese state firms are expected not only to profit but also to serve state interests. But the Chinese state is fragmented: border provinces are taking on an expanded role in China's global expansion and a broad range of firm activities could be defined as patriotic contributions. Through the case of Yunnan State Farms (YSF), a province-level state-owned enterprise, this article explores how state firms interpret and navigate multiple state interests while also pursuing profit. The firm's ability to profit depends on balancing the demands and support of different Chinese state actors while depicting itself as a development partner to the Lao state and a contributor to Sino-Lao diplomatic relations and border region stability. This case thus shows that, instead of YSF's behaviour being directed by the state, the firm exercises considerable latitude in defining its contributions to state interests through the expansion of rubber production as a driver of development.

Keywords: Chinese investment; Laos; Yunnan province; province-level governments; SOEs; rubber; state–capital relations

We may be Yunnan State Farms, but we represent all of China. We are our national government's representative. We can't just consider our business. It doesn't matter if in the process we encounter difficulties; we are a state-owned enterprise. Even if we go five more years without earning money, we still have to persist! We can't turn back! But also ... we believe that if we persist to the end, we'll eventually earn money.

Yunnan State Farms manager, Luang Namtha, Laos, March 2017

Chinese state-owned enterprises (SOEs) are widely treated as a unique category of capital, but how and why they function differently from other firms is complicated to assess. Of particular importance is how the Chinese state supports and controls SOEs, how those firms balance business objectives like profit maximization with state interests and, in cases of SOEs operating outside of China, whether this makes them more economically competitive or their investments more beneficial for their host countries. The expansion of Chinese capital beyond

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the country's borders (initiated in the 2000s following the “going out” [*zouchuqu* 走出去] policy and catalysed in the last decade by the Belt and Road Initiative [BRI]) has further complicated the state–capital relationship. Chinese companies are venturing further from their domestic bases of support, beyond the direct oversight of the Chinese state and into new country contexts where they must balance the demands of the host country states where they invest with those of the Chinese state and, when operating through subsidiaries, their parent companies back home. Thus, as Chinese state capital goes global, its ties to state interests and the difference those ties make to firm behaviour on the ground require deeper examination.

This paper explores the changing relationship between the Chinese state and SOEs through the case of Yunnan State Farms (YSF), a province-level SOE investing in rubber in northern Laos. There is a persistent narrative among YSF managers, such as the one quoted in the epitaph above, that the company is motivated by more than just profit, and that it will bring development benefits for Laos. These managers, along with both Chinese and Lao state proponents, portray rubber as a driver of development, and thus YSF's investments in the crop as a win-win endeavour:¹ an instance of development cooperation that is aligned with both Lao and Chinese state objectives for the region. But how do the company's claims to exceptionalism as an SOE translate to differences in performance and impact on the ground? And how do stakeholders in Laos perceive and respond to YSF's stated commitment to development cooperation?

I address these questions through a long-term study of YSF's operations in Laos. I examine the discursive and material ways in which the firm's status as an SOE differentiates it from other firms, particularly through its engagement in activities portrayed as development cooperation. I document the rhetoric YSF representatives use to present the firm's interests and role in Laos and the approaches YSF takes to obtaining land, setting prices, accessing the Chinese rubber market and engaging in activities beyond profit generation. Following the firm's development through multiple phases, I show how these differences manifest and shape firm behaviour under changing market and policy conditions. These differences across phases, and the attendant shifts in the ways YSF draws on its status as an SOE, are most evident in the interactions between YSF and the Lao state. Like any firm investing in a new context, YSF's approach to doing business in Laos changed over time as it encountered obstacles, gained experience and developed relationships with Lao state interlocutors. Lao state actors' perception and treatment of the firm changed in parallel.

In a growing body of literature on the global expansion of Chinese state capital, this paper contributes to two vital but less studied aspects. First, in studies of Chinese state capital overseas, YSF, as a province-level SOE, and a state farm at that, is a unique case. Whereas central-level SOEs constitute the focus of most literature on Chinese state capital both domestically and abroad, they represent

1 Alves 2013; Bernal-Meza 2016.

a powerful but nevertheless small fraction of China's SOEs (111 of an estimated 113,000), the rest of which are owned and supervised by subnational governments (provincial and lower-level administrations).² Considering the high importance province-level governments play in China's transnational engagements,³ understanding the state–capital relationship at the province level and the contrasts between central and province-level interests is crucial. This case shows how state farms in particular served a complex set of territorial state interests in the borderlands, which are now being strategically reinterpreted by border province actors as the country turns outward.⁴

Second, by presenting the perspectives of Lao state actors and their interactions with YSF, this paper addresses the need for more host country perspectives in studies of global China.⁵ Like many countries in which Chinese firms invest, Laos is dwarfed by its larger neighbours in terms of geopolitical and economic might, but the Lao state still mediates access to land and resources within its borders and thus shapes foreign firms' activities.⁶ As this case will show, the degree to which YSF's claims to supporting development in Laos translate on the ground is therefore in large part a function of how the firm's rhetoric and approaches to doing business align with Lao state interests. Rubber has been promoted as a form of Sino-Lao development cooperation not only by Chinese actors but also by the Lao state.

The findings I present here derive from fieldwork conducted between 2012 and 2018 in Beijing, Yunnan province, northern Laos and the Lao capital, Vientiane (see [Figure 1](#)). Most interviews took place during a 15-month period of fieldwork conducted from October 2016 to January 2018. Preliminary data were collected in 2012–2013, when I worked as a research assistant for the Centre for Development and Environment in cooperation with the Lao Ministry of Natural Resources and Environment. YSF was one of 17 Chinese rubber companies whose investments in Laos I studied, and one of five in-depth company cases I examined. Though an in-depth comparison of companies is beyond the scope of this paper, points in the analysis that reflect insights from the comparison of YSF to private firms are noted. During fieldwork, I collected state policy documents, sector brochures and legal documents on land deals. I also conducted over 75 interviews with Lao and Chinese state officials, Chinese and Lao company investors, managers and workers, Lao and Chinese rubber farmers, and key experts (other researchers, academics, development aid workers and so on) involved in the agricultural or land sectors in Yunnan province and Laos.

The following section lays out the conceptual framing of Chinese state capital and recent research on the role of the subnational state in China's global integration upon which the analysis will draw. The subsequent section reviews the

2 Jones and Zou 2017, 747.

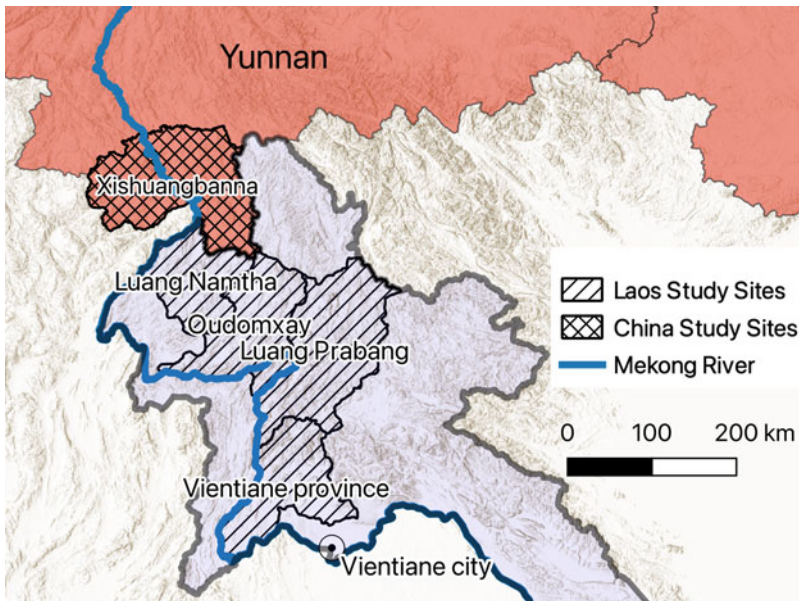
3 Summers 2021; He 2019; Rippa 2018; Wong, Audrye 2018.

4 Woodworth and Joniak-Lüthi 2020.

5 Lu 2021.

6 Creak and Barney 2018; Lu and Schönweger 2019; Lu 2021; Dwyer and Vongvisouk 2019.

Figure 1: Map of Study Sites



history of rubber production in Yunnan and the varied economic and political interests which YSF, as the central organizing unit of the Yunnan rubber sector, is expected to serve. The investment activities of YSF in Laos are divided into three phases, during which the firm's approach to doing business and its ties to the Chinese and Lao states shifted. The paper concludes by asserting that YSF, as a form of province-level Chinese state capital, exercises considerable flexibility and pursues more than just profit between its commitments to Beijing, Yunnan and Lao state interests.

The Chinese State–Capital Relationship

Though the country has transitioned from a centralized, state-planned economy to a market-oriented economy since 1979, the Chinese state still intervenes heavily in the affairs of Chinese firms.⁷ A gradual advance of the state enterprises and retreat of the private sector (*guojin mintui* 国进民退) since the 2000s has seen the role of SOEs in the Chinese economy steadily grow, and sectors considered nationally strategic remain protected and supported by the state.⁸ But the relationship between the state and state capital – the mechanisms through which state directives and priorities translate into firm behaviour – is often indirect, varies across sectors and contexts, and shifts through opaque negotiations and

7 McNally 2012, 744; Nee, Opper and Wong 2007.

8 Eaton 2016.

political struggles.⁹ As Chinese investment overseas expands, the state–capital relationship and distinctions between state and non-state capital remain important, but are also changing based on the characteristics of the host country state and fluctuating investment conditions.

The analysis in this paper builds upon Ching Kwan Lee’s assertion that, under certain circumstances, an encompassing logic of accumulation distinguishes Chinese state capital from other forms of capital.¹⁰ In her formulation, most firms (Chinese private companies and other nationalities of transnational corporations alike) are driven by a “single-minded pursuit of profit maximization.”¹¹ Chinese state capital, in contrast, follows a logic of encompassing accumulation in that it “seeks not only profits but also political patronage and influence” as well as access to strategic resources and a range of other context-dependent state interests.¹² As such, when the pursuit of profit comes into conflict with state interests such as gaining political influence abroad or accessing nationally strategic resources, state firms may make “market-defying corporate decisions.”¹³ Due to this encompassing logic, Chinese state capital also tends to be “more sensitive and accommodating” to host country interests and therefore to become more embedded in the economic, cultural and political processes of the host country.¹⁴

The case of YSF offers a useful contrast to Lee’s cases of mining and construction in Zambia. The question of how state interests are linked to firm behaviour is complicated by the many ways in which those interests can be interpreted by firms. Lee describes multiple Chinese state interests in Zambia, from establishing diplomatic ties and geopolitical influence in Africa to securing a direct supply of copper ore. These interests drive the Chinese mining firm featured in her work to stabilize its response to market volatility and negotiate more flexibly with the Zambian government and local labour – responses which simultaneously satisfy multiple state interests. As I will show, YSF has made similar market-defying moves in Laos and has held them up as evidence of its commitment to Sino-Lao development cooperation. But the state links supporting and influencing YSF’s decision-making in Laos are more divided than in Lee’s case: they come from the central, provincial and local levels, represent different interests in the expansion of rubber, and elicit divergent responses by the firm. These force YSF to navigate what others have described as a fragmented structure of Chinese state governance of overseas investments.¹⁵

Although political power may be steadily centralizing under President Xi Jinping, Jaros and Tan argue that, because the province level is where central

9 See Jones and Zou (2017, 746) for a list of state control mechanisms; see also Rithmire (2019).

10 Lee 2017.

11 *Ibid.*, 28.

12 *Ibid.*, x.

13 *Ibid.*, 29.

14 *Ibid.*, 55.

15 Zheng and Zhang 2012.

policy initiatives are translated into action and resources are channelled from central to local governments, provincial states operate with increasing independence to pursue their own interests.¹⁶ For example, this provincial state “development space,” as they describe it, has become particularly important in the context of the BRI. The BRI has been characterized as a campaign¹⁷ launched officially by Xi Jinping but with province-level authorities shaping its implementation on the ground.¹⁸ Border province governments, in particular, have used both the going out policy (1999) and the BRI (2013) as opportunities to harness central-level resources and political support, along with rapidly increasing cross-border trade and engagement, to prioritize provincial economic development goals (sometimes over national goals) and strengthen their role as gatekeepers between China and neighbouring regions.¹⁹ Often competing with other border provinces to attract capital and trade, provincial actors are forging new alliances with province-level SOEs, enrolling province state capital in the rescaling of the Chinese state.²⁰ The fragmentation across state actors and their varied interests is compounded by a diversity in firm behaviour across sectors, and as firms move beyond China’s borders, they must adapt to new country contexts and forge relationships with host country governments.

This fragmentation affects the influence the state exercises over state firms operating abroad. Jones and Zou note evidence both for increased firm autonomy despite state efforts to monitor and control firm activities overseas, as well as for residual state control.²¹ They attribute this mixed evidence to the contradictory processes through which the Chinese party-state is transforming, and argue that the relationship between the state and Chinese capital is changing as a result. On the one hand, the state retains a notably authoritarian approach to overseeing Chinese firm activities, directly intervening through “controls over exchange rates, taxes, licenses and credit, and powers of appointment and discipline,” which are often eschewed in Western-style regulatory approaches.²² On the other hand, the Chinese state has also been continuously undergoing “uneven and contested fragmentation, decentralization and internationalization of state apparatuses” that undermine state coherence.²³ As the YSF case will affirm, where multiple state actors communicate conflicting interests and objectives, firms may be pulled in multiple directions and make “market-defying decisions,” but they can also exploit this fragmentation to pursue more conventional firm interests more freely.

16 Jaros and Tan 2020.

17 Ye 2019; Rithmire 2019.

18 He 2019; Jaros and Tan 2020; Summers 2021.

19 Tubilewicz and Jayasuriya 2015; Lu 2021.

20 Tubilewicz and Jayasuriya 2015.

21 Jones and Zou 2017.

22 *Ibid.*, 745; see also Pearson 2005.

23 Jones and Zou 2017, 745.

Where state communication of national interests is vague, firms also have considerable latitude in their decision making, allowing them to interpret national interests broadly. Chinese transnational investments have been widely promoted through a rhetoric of “win-win” or development cooperation, but this rhetoric leaves the distinction between profit and patriotic duty blurred.²⁴ Traditional donors (that is, the OECD countries) treat for-profit commercial activities as fundamentally at odds with the aims of modern development aid.²⁵ In contrast, the Chinese state touts its approach as one of South–South cooperation in which developing countries engage in mutually beneficial aid and economic exchange.²⁶ Some differences in how Chinese actors approach development aid are simply attributable to the fact that China is relatively new to the sector and has not adopted the standards and norms of traditional donors.²⁷ Nevertheless, official state rhetoric suggests that commercial interests of firms and the diplomatic and development aid objectives of the state are not contradictory.²⁸ But they also include a broad range of interventions under the umbrella of development cooperation, from state-funded foreign aid and infrastructure projects to for-profit private investments,²⁹ such that the label of South–South development can be “easily overstated.”³⁰ The BRI exemplifies these dynamics as a vague policy campaign: a growing array of state initiatives have been announced under the project (e.g. the “Polar Silk Road,” the “Digital Silk Road”), and a diversity of investments have been promoted under the title, regardless of whether they have been officially recognized by the Chinese state.³¹

In order to characterize the relationship between YSF and the Chinese state and understand its implications for firm behaviour, it is therefore important to recognize the potential for multiple state–firm links. This paper thus contributes to Lee’s characterization of Chinese state capital’s encompassing logic of accumulation by highlighting the fragmentation of state objectives as experienced by a province-level SOE. Moreover, it teases apart these different and sometimes conflicting state interests and shows how the firm navigates those while also attending to its own business interests and to the demands of the host country. Given that stated policy objectives such as development cooperation and improved diplomatic relations with the host country can be so broadly interpreted, this study analyses how firms like YSF portray their contributions to state interests. More broadly, this work answers a call for in-depth, firm-focused studies that are needed to assess the ways in which policy rhetoric around the

24 Corkin 2011; 2012.

25 Buckley 2013; Power and Mohan 2010.

26 Girouard 2009; Ray et al. 2015.

27 De Bruyn 2013; Goldstein and Pusterla 2010.

28 Amanor and Chichava 2016; Li et al. 2014; Nyiri and Tan 2017.

29 Bräutigam 2009; Tan-Mullins, Mohan and Power 2010.

30 Gonzalez-Vincente and Montoutte 2021, 219.

31 Liu, Zhang and Xiong 2020; Wong, Wilson Kia Onn 2020.

development benefits of Chinese investment translates into corporate activities on the ground and is perceived by host countries.³²

Global China and the Subnational State

From the start, YSF's expansion of its rubber operations from southern Yunnan into northern Laos represented far more than a profit-driven endeavour. It was expected to serve a variety of goals ranging from territorial security in the Sino-Lao borderlands to poverty alleviation and development to strengthening the Yunnan rubber sector. These expectations were based on the firm's role in transforming landscapes, populations and the rural economy in Yunnan during the half-century preceding its expansion into Laos.

Yunnan had been treated as an unstable periphery since long before China's founding, and its international borders with Myanmar, Laos and Vietnam were strictly closed after 1949. The establishment of vast rubber plantations through the state farm system, an institution that evolved out of borderland military units, was part of a central state strategy not only to develop China's domestic supply of rubber but also to extend state control in Yunnan's most distant, minority-dominated borderlands.³³ Western nations placed an embargo on Chinese imports of rubber and other key raw materials, prompting Chinese leaders to establish two domestic "rubber bases" – one in Yunnan, and one on Hainan Island – to ensure the country's self-reliance in the product.³⁴ Today, rubber is still considered strategic: domestic supplies are carefully managed by the State Reserve Bureau, protected by high import tariffs and supported by state subsidies for research and development.³⁵

Rubber plantations also played an important role in the central government's assertion of territorial control in Yunnan. Since their establishment in the early 1950s, YSF rubber plantations drew massive numbers of Han Chinese migrants from central China, directed by Mao to develop and support the border (*zhichi bianjiang* 支持边疆).³⁶ During this time, Yunnan's provincial government activities were closely monitored by the central state, and limiting movement across the border was considered a matter of national security. Since then, rubber production has expanded far beyond the YSF plantations and has been credited with transforming livelihoods and the economic development of Xishuangbanna, especially since the mid-1990s as the global price of rubber began to climb steadily.

When the Chinese state began to liberalize the economy in the 1980s, control over cross-border trade became an important battleground between central and provincial state authorities. At that time, Yunnan's economy was stagnant

32 Fei 2020; Oliveira et al. 2020; Klinger and Muldavin 2019.

33 Sturgeon and Menzies 2006.

34 Cain 1995.

35 Lu 2020.

36 Sturgeon 2013; Chapman 1991.

relative to that of eastern and central provinces, and its role within the national economy was emblematic of a peripheral region. Yunnan was supplying raw materials, sold through state purchasing channels at highly controlled prices, to booming industrial and manufacturing centres in the eastern provinces.³⁷ But in 1984, the State Council granted provincial authorities a leading role in establishing and managing borderland trade zones, devolving considerable responsibility around cross-border trade to provinces.³⁸ Yunnan provincial authorities established border trade zones, exemptions to import taxes on a range of products and trade agreements and development aid initiatives directly with their counterparts in Myanmar and Laos. As a result, the trade dependency ratio of the province dropped, incomes in borderland areas climbed rapidly and cross-border trade generated economic development and considerable state revenues for Yunnan. In 1996, however, the central government abolished a majority of these import tax exemptions, limited the total trade volumes on which such exemptions could apply and unified the country's trade tax regime, thus channelling border tax revenues straight to the central government instead of through provincial state coffers. Yunnan's trade volumes plummeted. Therefore, while limitations on cross-border activities have gradually been reduced, control over these activities has shifted back and forth between the provincial and central authorities.

As cross-border trade and its benefits to Yunnan's economic development grew, so too did the accompanying risks. Myanmar's opium economy expanded significantly in the 1980s, and Yunnan's role as a hub for the opium trade was revived. Chinese consumption began to shift from rural use in border regions to urban addiction in the 1990s,³⁹ and injection drug use, primarily of heroin (derived from opium), was responsible for the first recorded incidence of HIV/AIDS in China, which surfaced in Yunnan in 1985.⁴⁰ Two institutions were established to lead China's fight against the influx of opium: a Yunnan-level anti-drug police force was established in 1982, charged with halting the drug trade at the border, arresting traffickers and confiscating drugs, and the National Narcotics Control Commission was established in 1990, which worked with relevant anti-drug agencies in neighbouring countries and international aid organizations.⁴¹ Despite these multi-level efforts, the opium trade from the Golden Triangle into China continued to grow. By 2004 President Hu Jintao had declared a "people's war on drugs," and Yunnan's leaders were faced with balancing national security concerns around opium with the economic benefits of cross-border trade.⁴²

37 Donaldson 2011, 147; Yang 1997, cited in Summers 2013, 56.

38 Summers 2013, 148–152.

39 Xiao et al. 2006, 667.

40 Qian et al. 2006.

41 Su 2015, 78.

42 Xinhua News Agency, 26 May 2005, cited in *ibid.*, 76.

Meanwhile, the country's broader political and economic structures were changing rapidly. The national economy had begun to take off, but after decades of state and foreign direct investment being heavily skewed toward the eastern coastal provinces, dramatic inequality divided the regions. This inequality raised fears in Beijing of political unrest, particularly given the concentration of ethnic minorities in the less developed western regions.⁴³ To address this, the central government launched the Open Up the West (*xibu dakaiifa* 西部大开发) Campaign in 1999, encouraging greater investment and state programmes targeting growth across western provinces, including Yunnan. That same year, Hu Jintao announced the going out policy which brought down barriers to trade and investing overseas and encouraged enterprises to expand abroad.

These two initiatives emerged as dual spatial fixes for the problem of overcapitalization in the Chinese economy, providing new outlets for the considerable capital accumulated on China's east coast.⁴⁴ As such, they served as mechanisms for "leveraging geographical unevenness for precise forms of economic and geopolitical gain."⁴⁵ Directing state resources and investment capital towards these provinces was expected to underwrite a larger political project of establishing a sense of national unity and integrating minority-dominated regions into the nation-state through infrastructure development and market links.⁴⁶ Klinger and Muldavin refer to China's global integration as a process of "extending the natural resource hinterlands of China," through which Chinese capital, infrastructure and governance norms flow beyond its borders just as they have flowed from east to west, from core to peripheries, within China.⁴⁷ The extension of rubber production from Yunnan into northern Laos exemplifies this dynamic.

The going out policy also established specific roles for provincial authorities in facilitating overseas investments – roles which have been reaffirmed under the BRI. A number of border provinces were designated as "bridgeheads" (*qiaotou* 桥头) or hubs for international trade, finance and information flows.⁴⁸ Bridgehead provinces are responsible for coordinating investment in and foreign relations with neighbouring regions. Yunnan was designated China's bridgehead to Myanmar and Laos and charged with the responsibility for connecting China to the Mekong region.⁴⁹ This placed the Yunnan provincial government in charge of overseeing administrative services (such as registering foreign branches of a company or approving import/export licenses) for most Chinese investment flows into Laos.

Within this context of shifting economic and political roles for Yunnan province, the Opium Replacement Program (ORP) wed Beijing's border security

43 Glassman 2010, 117.

44 Ibid.; Klinger and Muldavin 2019; Summers 2016; Yeh and Wharton 2016.

45 Klinger and Muldavin 2019, 8.

46 Goodman 2004.

47 Klinger and Muldavin 2019, 1.

48 Su 2013.

49 Interview with province-level official, Kunming, August 2014; see also Summers 2016, 1634.

concerns with Yunnan's interest in border trade-driven economic development. In the 1990s, a handful of Yunnan agribusiness investors collaborated with local governments (most notably Menghai county in Xishuangbanna prefecture) to establish plantation investments in Myanmar and Laos which they promoted as contributions to opium substitution.⁵⁰ In 2004, the State Council established a related working group and allocated central-level financial support to the Yunnan bureau of commerce to expand these investments under the ORP.⁵¹ This signalled a strong commitment by the central government to what ORP policy documents describe as an interwoven project of development aid, drug eradication and border security.⁵² The ORP resembles international alternative development programmes that promote licit cash crop production to draw farmers out of illicit opium cultivation. China's approach, however, specifically incentivizes agribusiness investments in northern Laos and Myanmar, the centre of South-East Asia's opium production and trade activities. A central-level "special fund" also financed subsidies for participating firms and a quota system was established for importing cash crops produced by participating firms back into China on a tax-free basis.⁵³ The design and implementation of the ORP, however, was devolved to the Yunnan bureau of commerce, and the mobilization of firms, recruitment of policy banks to provide loan support and establishment of bureaucratic procedures for import and export were all organized at the provincial level.⁵⁴

As a result, official ORP policy documents espouse a number of central-level objectives related to opium eradication and borderland economic development, but in practice the programme serves a number of province-level interests.⁵⁵ It has funnelled considerable central state funds through provincial institutions to Yunnan agribusiness investors. By spurring agribusiness investments over the border, it has also solidified Yunnan's role as a bridgehead to South-East Asia. The easing of import/export regulations for participating firms, particularly through the quota system, has also helped accelerate cross-border investment and trade despite growing concerns over Yunnan's ability to control the illicit drug trade.

Rubber production spread rapidly across northern Laos in the 2000s through its promotion by many actors – Lao and Chinese state officials, Chinese firms, and Lao and Chinese farmers themselves – based on its reputation as a driver of development and state territorialization in China's south-west borderlands. It appeals broadly to the Lao state for its potential to generate rural incomes, tie the country's hinterlands to transnational markets and generate state revenues and economic growth through exports. The portrayal of rubber as an antidote to

50 Shi 2008.

51 Cohen 2009; Shi 2008.

52 Yunnan Provincial Government 2007.

53 Su 2015.

54 Yunnan Provincial Government 2007; interview with firm manager, Luang Namtha, August 2017.

55 Lu 2017.

opium through the ORP resonated with long-standing state views of the remote uplands as politically unstable and in need of development interventions.⁵⁶ Similar to Yunnan's borderlands, the uplands of northern Laos are considered less politically integrated into Laos and the state has tried – often through land and agricultural initiatives – to assert sovereign control there. Provincial and district state officials in northern provinces promoted rubber production, particularly in spaces populated by communities with histories of resistance, opium cultivation or simply a general disconnect from the Lao state.⁵⁷

The subnational state in Laos operates with a similar degree of independence from the centre as in China, which can be seen through the lens of authority over land. The regulatory process for granting land to investors in Laos establishes a clear hierarchy from the central state down to the provincial and district authorities.⁵⁸ Central-level oversight of all land deals was recognized in the Lao Land Law of 1999 and a National Land Management Authority, established in 2005, was made responsible for monitoring, approval and evaluation of such land deals. Such a hierarchical, centralized process of land granting, however, has rarely been followed in practice. It contradicts the previous practice of allowing local-level authorities to auction off timber and other resource extraction rights to companies in exchange for infrastructural development.⁵⁹ More importantly, it lacks mechanisms to incentivize or enforce cross-institutional cooperation. Political divisions within the Lao state also create obstacles to communication and collaboration throughout the system of land regulation.⁶⁰ The influx of foreign land investments, in the form of Chinese rubber investments and across other crops and sectors, has been interpreted as a tool for asserting Lao state territorial power over the country's remote hinterlands, but also as a battleground on which these fragmented Lao state interests play out.

YSF in Laos

YSF's investments in Laos were enthusiastically promoted not only by the firm but by central state leaders, provincial and local authorities in Yunnan, as well as Lao state proponents at both the central and subnational levels. The firm's activities were expected to generate economic benefits to a range of actors, satisfy a range of political objectives of the Chinese state and complement development planning goals set out by the Lao state. The following sections describe three different ways in which YSF's rubber investments were expected to contribute development benefits in Laos and how they were shaped by its varied state ties. As a province-level SOE, YSF faced multiple obstacles and responded to those by shifting the ways it drew on state ties and its role as a development

56 Lu 2017; Cohen 2009; 2013.

57 Dwyer 2013.

58 Lu and Schönweger 2019.

59 Dwyer 2007; 2011; Kenney-Lazar 2013.

60 Lu and Schönweger 2019.

partner to the Lao state. By pitching its agricultural interventions as development cooperation, by currying Lao state favour differently at different levels in order to better navigate tense land politics in the country and by aiming to meet both Yunnan's and Beijing's objectives around rubber, the firm has not only positioned itself as contributing out of patriotic commitment to different state interests but has also sought to extract market advantages for itself. YSF's approaches to obtaining land, doing business and establishing political connections in Laos have changed over time according to their material support from the central Chinese state and their consequent capacity to weather challenges and take advantage of new opportunities.

Central state support and the search for land

Despite direct central-to-central state facilitation and support for its expansion into Laos as a form of Sino-Lao development cooperation, YSF struggled to gain access to land for establishing rubber plantations. During my first visit to YSF in 2012, a manager named Mr Jia⁶¹ voiced a litany of complaints and challenges regarding conducting business in Laos. Most pressing, he insisted, was that provincial governments in Laos were difficult to work with, ineffective at facilitating the company's expansion of plantation lands and did not appreciate the development benefits of YSF's investments for Laos. Of the 160,000 hectares of plantations that YSF had originally planned to establish, after eight years, it had only been able to obtain a 345-hectare concession in Luang Namtha, a few smaller concessions in Sayaburi and Bokeo and a modest contract farming agreement in Luang Prabang.

At the outset of my fieldwork, China–Laos diplomatic relations were improving rapidly after two decades of tension in the 1970s and 1980s. Both countries were eager to re-establish diplomatic connections and initiate cross-border cooperative development projects. November 2000 marked the first visit by a Chinese president to Laos, during which a plan was laid out for the expansion of rubber cultivation in Laos. In 2004, the same year that the ORP was established, China's Vice Premier Wu Yi visited and established a more concrete agreement for the Lao government to provide YSF with the 160,000 hectares of land for rubber plantations.⁶² Initially, therefore, YSF appeared to have gained a windfall of new territory.⁶³ These high-level diplomatic agreements positioned YSF to lead a boom in rubber in Laos.

Given that it had lacked land for its own domestic growth for decades and struggled to compete in a changing domestic rubber sector, YSF welcomed the opportunity for expansion into Laos and hoped it would return to prominence as a primary supplier to the Chinese rubber market. YSF company

61 To protect my interlocutors, pseudonyms are used throughout.

62 Shi 2008.

63 Ibid.

representatives began their search for land in Laos promptly thereafter. At that point, the domestic state farm system was saddled with debt, had limited channels for domestic growth and was in desperate need of new territory. YSF approached leaders in the four Lao provinces (Bokeo, Luang Namtha, Sayabury and Luang Prabang) named in the central-level agreement and began establishing the headquarters of its Lao subsidiary in the capital of Luang Namtha, just across the China–Laos border.

But the central-level authorities offered little tangible help in facilitating land allocation, and Mr Jia and other managers reported extensive foot-dragging by the province and district officials, in contrast to those encountered at the central levels. By 2012, the firm gave up and turned to contract farming as a way of at least getting more rubber planted, but this required them to convince individual villages or households to plant rubber instead of cultivating large parcels of land themselves. Moreover, YSF managers considered contract farming far riskier, as most management of the rubber trees would be left to the farmers, instead of being overseen by the company.⁶⁴ Mr Jia saved his strongest complaints for the multiple province-level government offices that YSF had to work with. The four provinces in which the firm was attempting to work had differences in norms of conducting business and interpretations of central state policies. He interpreted these differences as resulting from the influence of individual province leaders. For example, he heard from friends in Laos that Oudomxay province had younger, more forward-thinking leaders who were thus easier to negotiate with than those he had encountered in Luang Namtha.

Meanwhile, province-level Lao state officials I interviewed in 2012 did not differentiate between YSF and other investors in the wave of Chinese companies that they were expected to grant land to. If anything, the large amount of land officially granted to YSF by the central state seemed so unrealistic to provincial officials that they seemed unsure of how to even approach the company. “Even in this district we do not have that much land,” one staff member of the provincial office of natural resources and environment explained to me. Other Lao state officials suggested that the firm seemed to lack interest in building provincial-level political relationships, which made provincial officials even less inclined to facilitate the firm’s access to land.⁶⁵

When I inquired about the process of establishing political relationships, one YSF manager explained that many of the rapport-building practices employed by private Chinese companies, such as attending family weddings or office celebrations and providing expensive gifts, were strictly forbidden for SOEs.⁶⁶ It is thus unsurprising that, when I asked Mr Jia whether his firm enjoyed any special treatment by the Lao government during our interview in 2012, he responded that they were treated as any other company, and that Lao state officials in

64 Interview with YSF manager, Luang Namtha, December 2012.

65 Interview with province-level official, Luang Namtha, December 2012.

66 Interview with YSF manager, Kunming, December 2017.

the province just judged firms based on whether they operated according to their contract, nothing more.

As an SOE whose reputation was tied to producing a strategic resource and establishing borderland security, YSF was accustomed to enjoying strong connections to the provincial government in Yunnan. But YSF's initial reliance on the central-level diplomatic agreement generated more obstacles than opportunities. Because YSF managers understood authority to flow from the top down, that is, from the central Lao state to the provinces, they expected their central-level agreement to lead to the rapid allocation of vast areas of land for investment. But, in the decentralized context of Lao political networks and control over land,⁶⁷ that agreement held little weight at the provincial and district levels. Thus, as the rubber boom slowed in 2010, YSF was left with its expensive investment in a processing factory and very little of its own plantation land to supply it.

Rubber processing, price floors and provincial loyalties

I visited YSF three years later, in 2015, to find firm managers in a very different mood. In 2011, just as the global price of rubber was bottoming out, the rubber trees planted during the boom of the 2000s began to reach production age. In that moment, the advantages YSF enjoyed as an SOE were apparent. While other companies generally had to wait until their plantations were productive to generate the capital required to build factories, and then had their plans for construction further delayed by the drop in prices, YSF had been able to construct a rubber factory given its superior access to capital.

Therefore, from 2005 when YSF's factory was established, until 2014 when prices stabilized and other factories began or resumed operations, YSF's was the only rubber factory operating in northern Laos. Many independent smallholders who had planted rubber on their own land began tapping despite the low prices, resigned to the slim profits earned, given that they lacked other livelihood options. Others, contract farmers with other Chinese investors, were allowed to tap company trees and keep all of the latex without providing the company with a cut. These farmers all needed a factory to buy their latex.

At the Luang Namtha headquarters of YSF in 2015, I met Mr Li, a different YSF manager. When I brought up the company's previous struggles to obtain land, he shook his head and replied, "No, labour is our biggest problem now, not land!" Since the global price drop, a number of private Chinese companies had had financial troubles and approached YSF about buying their plantations, but YSF had refused. Even on its small, 345-hectare concession nearby, it was difficult to recruit labour for tapping, and the situation was the same for other Chinese companies. "More land would only mean more problems," he stated.

67 Lund 2011; Lu and Schönweger 2019.

Instead, the firm was focused on processing, which provided far more reliable income than growing rubber at such low prices. Indeed, the lower price meant that while the income from rubber cultivation had dropped dramatically, processing still provided the firm steady, if modest, profits.

ORP implementation orders stated that multiple forms of financial support would be provided to all participating Chinese firms, including access to low-interest loans. After the ORP's establishment, the Yunnan bureau of commerce called on Yunnan provincial "policy" banks – that is, banks responsible for supporting Chinese state economic policies broadly – to extend loans to ORP-participant companies.⁶⁸ Sinasure, the national export and credit insurance company, was also encouraged to provide investment insurance policies to companies to facilitate their ability to qualify for loans. Managers in these institutions, accordingly, sought out ORP companies interested in procuring loans or insurance, but my interlocutors in the banking sector and at Sinasure admitted that there were few concrete mechanisms to facilitate that support.⁶⁹

As a result, although the ORP was designed to support all participating companies, private and public, YSF received much more support than private firms. Both policy banks and Sinasure considered state-owned firms far more reliable clients, and agribusiness investments were considered particularly risky despite the state subsidies and quotas for companies participating in the ORP. One interlocutor at a provincial policy bank, an analyst responsible for assessing loan applications, described a stringent set of conditions that she used when considering ORP companies applying for loans for their investments in Laos. She had overseen the assessment of one of the most successful private companies investing in rubber in Laos, a company with an extensive portfolio of investments in the telecommunications industry in Yunnan and whose plantations in Laos were thriving. Despite this, she had denied their application in the late 2000s based on the risk inherent in agricultural investments. She admitted that few ORP-applicant companies qualified for loans with her bank because it was not common bank policy to accept proof of land holdings in another country as collateral for loan applications.

The bank's approach was thus to identify the companies that would be least risky to lend to, lending to those companies in order to gain political recognition as dutifully supporting the policy and minimizing exposure to loss by avoiding granting loans to riskier companies. YSF, however, was different. "As an SOE, they have the backing of the government," the manager explained, and she could therefore expect the state to step in to help them with loan repayment before allowing them to default. As a result, as is true across the Chinese banking sector for SOEs,⁷⁰ most Yunnan policy banks were eager to lend to YSF even as they were wary of other agricultural companies.

68 Interviews with policy bank and Sinasure representatives, Kunming, November 2016; October 2017.

69 Ibid.

70 Gang and Hope 2013.

YSF's advantages in access to capital have translated into development advantages for the Lao rubber sector writ large. In 2014, the market price for rubber was roughly 3,500 lak/kilo,⁷¹ down from a high of 12,000 lak/kilo in 2010. Rubber had surpassed tourism and logging as the primary economic activity in the province, and with the support of German development aid, the provincial government had established a state rubber committee in 2013.⁷² The committee approached YSF as well as two other companies which had more recently opened their own factories in Luang Namtha. Mr Li recalled that committee representatives requested that all three factories implement a price floor of 5,500 lak/kilo, appealing to the ORP's stated goals of contributing to the country's economic development and drawing farmers out of opium production. Though the company and state representatives I interviewed were unsure of the exact terms of the negotiation over price floors, Vongvisouk and Dwyer interviewed officials who stated that the provincial government had agreed to waive profit taxes for the companies that year in return for setting the price floors.⁷³ The other two companies acquiesced to the establishment of a price floor but, according to Mr Li, began processing only rubber from their own plantations, sending independent smallholders to YSF's factory instead. "They didn't [purchase smallholder rubber at the price floor] because they would lose money," Mr Li surmised, "but we [YSF] represent the Chinese government, so we had to do it."

After this price-floor-setting arrangement, I observed a shift in the way Lao state officials in the province referred to YSF in interviews. In 2012, none of my Lao state interlocutors noted the firm's status as an SOE. By 2017, they commented during interviews on the company's connection to the Chinese state and noted that this meant it had greater resources and a commitment to poverty alleviation, which in turn meant that it could be negotiated with in the name of development cooperation in ways other firms could not. Despite its early struggles to establish plantation land, YSF's ability to invest in more capital-intensive assets like the factory and guarantee a minimum price for rubber from independent smallholders enabled it to transform its relationship with the Lao state and earn a reputation in Laos as pursuing more than profit, eventually becoming seen as a genuine development partner for the Lao state.

New approaches to development cooperation

By 2017, YSF was steadily increasing its processing activities and engaging in new approaches to development cooperation. In comparison, the two private companies that had opened factories in Luang Namtha faced increasing capital constraints due to the low rubber prices and a limited ability to purchase latex from smallholders as a result of their limited access to capital. More importantly,

71 Lak stands for Lao kip, the national currency of Laos; 8,700 lak is equivalent to US\$1.

72 Luang Namtha Province Agriculture and Forestry Office 2013.

73 Dwyer and Vongvisouk 2016.

most private companies had experienced limitations in accessing Chinese import quotas through the ORP. Import quotas were described by all of the companies I interviewed as the most lucrative benefit provided by the ORP. China consumes over 40 per cent of the natural rubber traded on the world market and most of the rubber produced in Laos.⁷⁴ Foreign rubber imports to China are taxed by the Chinese central government at a steep 37 per cent based on their status as a strategic resource in China and the state's commitment to protecting its domestic production base. ORP import quotas permitted participating companies to import a set amount of latex to China without having to pay the import tax, giving participating Chinese companies privileged access to the Chinese rubber market. This enabled Chinese investors to dominate rubber processing and export activities in Laos.

In 2017, YSF was allocated quotas for exporting 5,000 tonnes of processed latex back to China – just under half of the total volume they had planned to process that year. They considered this a burden, as it required them to either store the other half of their product in hopes of obtaining more quotas the next year or pay the import tax on the remaining stock. Still, the YSF managers I interviewed admitted that their quota allocation was far greater than what other firms had been granted.⁷⁵ The allocation of quotas is based loosely on the total amount of produce a company has exported back to China in the past, which for YSF was a considerable amount. Long before YSF plantations were productive, it was already collecting latex from independent smallholders, and by the mid-2010s I encountered producers as far south as Savannakhet transporting their latex days north to YSF factories in Sayaburi and Luang Namtha. This was despite their proximity to the robust Vietnamese rubber market just east of them by a few hours. YSF was also sending collectors all over the country offering competitive prices for rubber, despite the further distances it had to transport the collected latex. Other managers, especially in the few companies with factories, complained bitterly to me that YSF was given far more quotas, not only based on its record of exports but also as a result of preferential treatment by the state officials granting quotas.

The growth of YSF's plantation and processing activities was accompanied by the establishment of a new office in Laos. Whereas the Luang Namtha office had housed the firm's senior managers for the first decade of its operations in the country, in 2015, they established an office specifically devoted to central state negotiation and development cooperation activities in Vientiane, the capital of Laos. In December 2018, I interviewed Ms Yao, one of four Chinese staff members in the comparatively small Vientiane office, who served as both the office manager and the main translator for the company. During our interview, Ms

74 "Lao PDR plastic or rubber exports, imports, tariffs by country and region 2019," World Bank, 2019, https://wits.worldbank.org/CountryProfile/en/Country/LAO/Year/2019/TradeFlow/EXPIMP/Partner/all/Product/39-40_PlastiRub.

75 Interview with YSF manager, Luang Namtha, August 2017.

Yao excitedly explained the company's plans to establish a rubber research centre just outside of Vientiane. YSF had procured Chinese state funding under the BRI and would contribute some of its own capital to establish a laboratory for testing latex quality, a dormitory for Chinese workers who would provide training to their Lao counterparts in rubber cultivation and management, an office and a grand conference hall.⁷⁶ Like many other meeting halls and centres built as diplomatic gestures in Laos, the rubber research centre is just over 17 kilometres away from Vientiane city – exactly the distance major international development agencies like the World Bank and the United Nations use to determine whether per diems will be paid to government officials participating in meetings. Ms Yao recounted with pride that when Xi Jinping had visited Laos in 2017, he listed YSF's rubber research centre specifically in the Sino-Lao development cooperation package to which he had committed. The centre thus contributes to multiple actors' objectives: it will benefit YSF and actors across the Lao rubber sector by improving latex quality monitoring, while concretely displaying Chinese development aid to Laos.

Since the establishment of the centre, Ms Yao's office as well as Yunnan-level state officials responsible for ORP implementation have begun advocating for the central level to grant far more quotas to ORP companies. Ms Yao and a manager I interviewed in Kunming both explained that Yunnan leaders were in favour of supporting ORP-participant companies as much as possible for the sake of opium eradication. Rubber sector experts in Yunnan also suggested that greater flows of rubber through Yunnan would have extensive commercial benefits in the province and would enhance the provincial government's role as a hub for trade with South-East Asia. YSF was therefore working alongside Lao state officials and Yunnan provincial government leaders to lobby the central government for increased quota allocations under the ORP. Ms Yao and the manager in Kunming both expected this combined encouragement from multiple parties to result in dramatically increased quota allocations within the next few years. Lao central state officials and the head of the Lao Rubber Association (the former deputy head of the Ministry of Agriculture and Forestry) also proclaimed the benefits of YSF's advocacy for these quotas and impressed upon me the company's pivotal role as a bridge between the Lao rubber sector and the Chinese state.⁷⁷

It is difficult to differentiate between YSF's commitment to enhancing Chinese development cooperation in Laos and its pursuit of its own business interests, because many benefits it enjoys are afforded to it directly under the banner of development cooperation in the first place. YSF managers seem aware of this and, whether strategically, genuinely, or both, Mr Li stressed to me in 2015 that, "we are a business, so of course we want to profit, [but] more importantly," he emphasized, "we are trying to reduce opium and spur

76 Interview with YSF manager, Kunming, December 2017.

77 Interview with Lao Rubber Association head, Vientiane, November 2017.

development in Laos, for the benefit of China, the world, and Laos itself.” The success of YSF in Laos to date, particularly in garnering Lao state support for its business endeavours, has been inseparable from its claims to being a development partner.

Conclusion

Chinese investments overseas are often described by both firms and state proponents as win-win interventions that serve a range of political and economic interests of multiple actors. But the pursuit of profit, Chinese and host country state political benefits and host country development outcomes pull firms in different directions when it comes to decision making on the ground. If Chinese state firms operate according to an encompassing logic of accumulation in which firms are expected to pursue profit *plus* the interests of the Chinese state, what happens when the multiple objectives its investments are meant to encompass contradict? The multiplicity of state interests is especially salient for province-level state capital, for whom the fragmentation of state institutions involved in governing China’s global integration presents a diversity of state interests that firms are expected to pursue. When Chinese firms move overseas, leaving the state’s jurisdiction and direct control, the state cannot oversee them in the same ways that it does domestically. Instead of the state interests translating directly through firm activities, firms must undergo a process of learning, adapting to and embedding themselves into local contexts.

Through the case of YSF, I have shown that Chinese state firms are pulled between the need to develop profitable investments and attend to multiple state interests to which they are bound, in both China and their host countries. In understanding Chinese state capital as obligated to a more encompassing set of imperatives than profit maximization, the case of YSF shows that firms must carefully navigate a network of different state actors as a result. For YSF, the flexibility of the concept of development cooperation and thus the firm’s ability to link its operations with the interests of subnational state actors in both Yunnan and provinces in northern Laos was pivotal to its eventual success. This has enabled it to differentiate itself from other Chinese rubber firms as not only a profit-driven business but a development partner loyally serving both Chinese and Lao state interests.

Biographical note

Juliet LU is an Atkinson Center for Sustainability postdoctoral research fellow, based in Cornell University’s Department of Global Development, with a focus on political ecology. She worked in the past in research for development at the World Agroforestry Centre in Yunnan, China (2009–2011), and with the Centre for Development and Environment in Vientiane, Laos (2012–2013). Her research examines the political economy of Chinese agribusiness investments

in Laos – primarily in rubber plantations – and China’s rise as a global environmental leader and development partner. Her broader research interests involve the impacts of China’s growing demand for raw materials on land and natural resource management in South-East Asia and the political economy of Chinese development cooperation initiatives.

Conflicts of interest

None.

摘要: 众所周知, 中国的国有企业除追求经济利润外, 还肩负为国家利益服务的任务。但国家本身是支离的, 非连贯的结构。这一点在中国的环球扩张中有充分体现: 边境省份在外务上有游离在中央政府之外的自主性, 多样的企业活动都可以被灵活定义为服务于国家。本文旨在通过省级国有企业云南农垦集团 (YSF) 的案例, 解读国有企业如何在追求利润的同时迎合和协调多重的国家利益。研究表明, 该公司是通过平衡不同的中国国家行为者的诉求和资源, 同时自我包装为老挝国家的发展伙伴及中老外交关系和边境地区稳定的贡献者, 从而在运营中实现盈利的。案例分析表明, YSF 的行为并非由国家单方面主导, 其在把扩大境外橡胶生产升华为促进发展, 实现国家利益的实现的过程中展现了相当大的自由度。

关键字: 中国对外投资; 老挝; 云南; 省级政府; 国有企业; 橡胶; 国家-资本关系

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