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Research Centre for Sustainable Hong Kong¹**

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**Exploring Laos and Thailand I:
Hong Kong's Strategic Opportunities in China-Laos Railway Development**

Linda Chelan Li, Phyllis Lai Lan Mo, Wilson Chan, Kin On Li, Man Luo³

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1. Introduction

The China-Laos Railway, connecting Kunming in China's Yunnan Province with Laos's capital Vientiane, is a 1,035-kilometer standard-gauge railway and a flagship Belt and Road Initiative (BRI) project in Southeast Asia. Conceptualized in 2001, the project had progressed slowly due to financial, technological, and political challenges. After six years of construction since 2015, the railway commenced operations in 2021, coinciding with the 60th anniversary of China-Laos diplomatic relations. The China-Laos Railway transformed Laos from a landlocked to a land-linked nation, strengthening China-Laos economic, social, and cultural exchanges while promoting regional economic cooperation between China and ASEAN. It demonstrates a model

¹ Established in June 2017 by a cross-disciplinary research team, the Research Centre for Sustainable Hong Kong (CSHK) is an Applied Strategic Development Centre of City University of Hong Kong (CityU). CSHK conducts impactful applied research with the mission to facilitate and enhance collaborations among the academic, industrial and professional service sectors, the community and the government for sustainable development in Hong Kong and the Region.

² This policy paper is the first part of the Exploring Laos and Thailand Series. To comment on this policy paper, please email at sushkhub@cityu.edu.hk.

³ Linda Chelan Li is Professor of Political Science at the Department of Public and International Affairs and Director of CSHK at CityU. Phyllis Lai Lan Mo is Professor at the Department of Accountancy at Hang Seng University of Hong Kong and International and Professional Advisor for CSHK. Wilson Chan is Adjunct Professor at the College of Business at CityU. Kin On Li is member of CSHK Sustainable Hong Kong Research Hub. Man Luo is PhD from the Department of Public and International Affairs, CityU.

of in-depth economic cooperation through co-developing railway infrastructure under the BRI framework.

In a field visit to Laos in July 2025, members from Research Centre for Sustainable Hong Kong conducted in-depth discussions with railway operators, local business leaders, and scholars to understand the operational details of the Railway. While its operation has faced various challenges, especially during the earlier months, the railway shows strong growth in passenger and freight volumes, indicating large potential to further development of business volume. Hong Kong's mature professional services sector could find synergies in various aspects, including financial arrangements, human resources and logistics management, environmental governance, and community engagement, thereby improving railway operations while creating new business opportunities for mutual benefit.

2. Achievements of the China-Laos Railway

As Southeast Asia's only landlocked country, Laos has experienced relatively slow economic development, with a population of approximately 7.6 million and *per capita* GDP of \$2,100, ranking 157th among 196 global economies.⁴ The economy is heavily dependent on agriculture, mining, and hydropower exports, while industry and trade has been constrained by weak transports infrastructure. International transport has for long relied on highways, and there is only a 3.5-kilometer cross-border meter-gauge railway extended from Thailand. Improving the railway network has thus been an emphasis in the current national strategy to transform Laos from a land-locked to a land-linked marketplace. The China-Laos Railway, operational since 2021, represents the first completed modern cross-border railway in this initiative.

The 1,035-kilometer China-Laos Railway connects Kunming to Vientiane, including the 414-kilometer part that runs through Laos from north to the south. Built to Chinese standards at a cost of \$5.9 billion, the Railway runs through 167 tunnels and on 301 bridges, all newly constructed. A joint venture company with 70% Chinese

⁴ For Laos's GDP data, please refer to the World Bank's database : <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=LA>.

and 30% Laotian ownership manages the financing, design, construction, and operation of the railway's Laotian section. Freight transport between Kunming and Vientiane was reduced from two days before the Railway started operation to an average of 3.5 hours, cutting the costs by 40%. Operating up to 98 trains daily by 2024, the railway handled 3.2 million tons of freight and over 10 million passengers in the first half of 2025. This large lift in transporting capacity has almost doubled China-Laos trade in three years, from \$4.35 billion in 2021 to \$8.23 billion in 2024. Beneficiaries include agricultural and mineral exports from Laos to China, and exports from China to Laos of construction materials, machinery, and electronics.⁵

The railway is a strong stimulant to the development of industrial parks along its route. The Vientiane Saysettha Comprehensive Development Zone, located 1.5 kilometre away from the Vientiane freight station of the railway, has attracted investment from multiple countries, and several industrial clusters in food processing and chip manufacturing have been established. Tourism has surged with millions of international and domestic visitors travelling through the railway, vitalizing Laos's service sector. To meet the growing demand for skilled workers, the Chinese government has offered scholarships for Laotian students to study in China and supported local talent development programs through Confucius Institutes. Chinese enterprises like Bank of China and the railway company have provided technical and professional training programs for their local employees.

The China-Laos Railway has transformed Laos from a landlocked to a land-linked country, delivering significant benefits to both countries. This successful model of cross-border railway cooperation provides valuable experience and momentum for similar projects across Southeast Asia. The demonstrated success has reinvigorated previously stalled initiatives, including the China-Vietnam and China-Thailand railways, and also inspired new partnerships, as evidenced by the recent memorandum of understanding between China and Cambodia for railway cooperation.⁶

⁵ The railway's achievements and China-Laos trade data presented here are derived from field interviews conducted by the research team and multiple public sources, including reports from The Laotian Times: <https://laotiantimes.com/2025/04/24/lao-china-bilateral-trade-increases-to-usd-8-23-billion-in-2024-making-significant-growth/> and OECD's economic database: <https://oec.world/en/profile/bilateral-country/chn/partner/lao>.

⁶ In February of this year, the Thai government approved the resumption of the second phase of construction on the Thai-Chinese high-speed railway, with the entire line expected to be operational by

3. Challenges to Railway Operation and Hong Kong's Strategic Opportunities

Four years since its inauguration, the China-Laos Railway has achieved substantial growth in both passenger and freight volumes. However, the railway faces operational challenges that could benefit from external professional support. With its sophisticated financial and business expertise, mature legal framework, and extensive experience in social governance and infrastructure management, Hong Kong is well-positioned to provide value-added professional services to improve railway operations.

3.1 Debt Management and Investment Financing

Various financing mechanisms including overseas loans and guarantees, equity pledges, asset mortgages, and assignment of concession rights are employed to finance the Railway. The resultant complex debt structure has fuelled discussions of a 'debt trap' and allegations that the Railway is serving Chinese regional influence rather than mutual economic interests. IMF calculations show that Laos's total external debt has reached approximately \$14 billion, equivalent to 100% of GDP, with Chinese loans accounting for 50-60%.⁷ Whilst passenger and freight volumes grew by 50% over the first three years of the Railway's operation, business volumes remain below 'break-even' level, affecting the government's debt servicing capability.⁸

Like many BRI infrastructure projects, the China-Laos Railway faces four key financing challenges: substantial funding gaps, elevated investment risks, limited participation from private and multilateral institutions, and concerns over China's dominant role in funding and construction.⁹ Hong Kong's financial sector could help address these challenges by facilitating debt or equity refinancing through its

2030: <https://www.cna.com.tw/news/aopl/202502040367.aspx>. China and Cambodia also issued a joint statement in April, under which China will assist Cambodia in railway construction to achieve the early interconnection of the China-Laos-Thailand-Cambodia railway network: <https://www.kunlunce.com/e/wap/show2022cont.php?classid=3&id=186979>.

⁷ For further details of Laos's debt issues, see a report in The Laotian Times: <https://laos.opendevdevelopmentmekong.net/news/laos-hopes-to-pay-off-usd-14-billion-debt-by-2025/#:~:text=Minister%20of%20Finance%2C%20Bounchom%20Ubonpaseuth%20spoke%20at,income%20from%20the%20mining%20and%20energy%20sector> and the IMF database: <https://www.imf.org/external/datamapper/profile/LAO/WEO>.

⁸ The authors' interview, 2025.

⁹ For further discussions of the key challenges to BRI infrastructure project, please refer to CSHK Policy Paper No. 12 (Chinese only): [王澤森、陳樂庭、李建安\(2019\)「構建一帶一路新投融資模型」](#).

international financial platforms. By leveraging the current low-interest rate environment and diversifying funding sources, this approach could reduce financing costs. A broader international participation in risk-and-benefit sharing and the subsequent enhanced transparency of financing governance should also mitigate the ‘debt trap’ concerns.

3.2 Exporting Hong Kong’s Railway Operation Model

The railway’s operating losses stem primarily from the reliance on a single revenue stream – ticket sales and logistics income. Given that Laos’s current stage of economic development cannot generate optimal passenger and cargo flows, the railway could benefit from adopting Hong Kong MTR Corporation’s proven ‘Rail + Property’ model. This model has demonstrated success in diversifying revenue sources and enhancing financial sustainability through station-adjacent property development and commercial operations. The supplementary income generated through this model would provide sustainable funding for operations, maintenance, and upgrades while supporting broader community development. Hong Kong professionals could contribute to the design and planning of BOT (Build-Operate-Transfer) projects for logistics parks and commercial complexes near key stations including Vientiane and Mohan. The resultant services of logistics, entertainment, leisure, and residential properties will generate a steady and substantial stream of non-fare revenue, which will bring not only positive impacts on debt pressure of the Railway but also additional catalysts for broader economic development.

3.3 Raising Management Capacity

Laotians account for half the total 1600-workforce, and 40% of the management positions. Laos’s Ministry of Labour and Social Welfare has been pushing for a further increase in the local representation in management roles, but skill gaps remain an obstacle.¹⁰

¹⁰ Authors’ interviews, Laos, 2025.

Hong Kong could help bridge this capability gap through its mature vocational training system. Through partnership between Hong Kong and Lao educational institutions, targeted programs can be developed to enhance Laotian workers' capacities in railway operations, logistics management and tourism services. Furthermore, collaboration between Hong Kong and Laotian business in tourism, logistics, and retail projects along the railway corridor could create opportunities for skills application, enhancing the railway's economic potential while preserving local cultural heritage.

4. Conclusion

ASEAN stands as Hong Kong's second largest trading partner, with total merchandise trade approaching HK\$1.3 trillion, representing 13.6% of total trade and showing a compound growth of 5.7% over the past four years. As China deepens cooperation with Belt and Road countries, ASEAN's growing demand for professional services and high-end talents presents opportunities for Hong Kong as an international financial centre and talents hub.

As a flagship BRI project, the China-Laos Railway has catalysed regional development by promoting cross-border trade, tourism and industrial growth. The formerly landlocked Laos is quickly emerging into a land-linked marketplace, as the China-Laos Railways fundamentally reshapes Lao economic and social landscape while strengthening China-ASEAN connectivity.

The railway, however, faces serious challenges in debt management, social and environmental sustainability, and geopolitical risks. Hong Kong can address these challenges by leveraging its strengths as an international financial centre with a mature legal system and global networks. Specifically, Hong Kong can contribute through innovating financing models, enhancing project transparency and investor confidence, facilitating diverse capital participation, improving environmental and social governance, supporting sustainable operations and strengthening local human resource capacity through education and training collaboration. As the railway evolves into a core component of the Pan-Asian Railway Network, it promises expanding economic and social benefits for Southeast Asia. Hong Kong's professional

expertise and international collaboration capabilities can help ensure these benefits are realized through win-win partnerships.