

CHINESE INVESTMENT IN MYANMAR: THE ROLE OF BILATERAL POLITICS

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Sandhi Governance Institute is a Myanmar Policy Research Institute with the focus on enhancing capacity of political parties and civil society organizations, increasing transparency and accountability in public sector and strengthening participation of all key stakeholders in public affairs and major investments to promote democratic governance in Myanmar.

Introduction:

Bilateral trade between Myanmar and China has been increasing since 1988, when the then-Burmese military took over from General Ne Win's Burma Socialist Programme Party (BSPP) government in the face of nationwide popular unrest. Throughout the 1990s and into the early 2000s, the major source of "Chinese investment" in Myanmar was unofficial—that is, comprised of informal, often illegal, business activities involving Chinese nationals.¹ At that time foreign direct investment (FDI) in Myanmar—particularly in the oil and gas, mining, and fishing sectors—was dominated by Western investors such as Total and Ivanhoe, along with various Thai companies. Between 2004 and 2010, however, Chinese FDI soared from approximately USD \$20 million to approximately USD \$2 billion per year.² The increase in Chinese investment in the energy, mining, and extractive sectors included some controversial projects that reignited civilian protests across the country—most notably, perhaps, the Myitsone Dam, construction of which has been suspended.³ This surge of Chinese investment in Myanmar coincided with China's 2000 "Go Global" campaign, which urged Chinese firms to invest in global markets, and the 2001 admission of China into the World Trade Organization (WTO).

But China's interests in Myanmar extend far beyond trade: Not only is Myanmar a resource-rich country, it shares a long border with the Yunnan province, one of the least-developed areas in China. (The Yunnan provincial government has identified increased infrastructure ties with Myanmar as a way to boost the Yunnan economy.⁴) Myanmar, moreover, is uniquely dependent on China. After the 1988 military coup and the 2007 crackdown on the Saffron Revolution, international sanctions on the then-ruling military governments caused Myanmar to become more isolated, compelling the country's leaders to rely more heavily on China for military, diplomatic, and economic support. This Chinese support inherently favored Chinese investment.⁵

The pace of Chinese resource-centric investment began to slow in 2011 after Myanmar General Thein Sein came to power. In an effort to gain international legitimacy—while relieving the country from Western sanctions and reducing Myanmar's over-dependence on China—Thein Sein initiated political reforms that paved the way for the return of the international aid community, including creditors of the Paris Club who might assist with debt relief. Thein Sein's government also began to institute reforms toward "good governance and clean government," introducing measures that would make infrastructure projects more responsive to the will of the people. Soon construction of the controversial hydropower

¹ "Analysis: 'Chinese business out!' Myanmar anger threatens investment plans," Reuters, last modified March 11, 2021, <https://www.reuters.com/article/us-myanmar-politics-china-analysis/analysis-chinese-business-out-myanmar-anger-threatens-investment-plans-idUSKBN2B31C2>

² Travis Mitchell, "Chinese Foreign Direct Investments in Myanmar: Remarkable Trends and Multi-layered Motivations," Lund University, Spring 2012, 6, <https://lup.lub.lu.se/luur/download?func=downloadFile&recordOId=2756649&fileOId=2756655>

³ Christopher Dunn, Lin Ji, and Kui Peng, "Chinese Investments in Myanmar," Global Environmental Institute, (2016): 5, http://www.geichina.org/_upload/file/book/Myanmar_Scoping_Study.pdf

⁴ "Selling the Silk Road Spirit: China's Belt and Road Initiative in Myanmar," Transnational Institute, Myanmar Policy Briefing, no. 22 (November 2019): 9, https://www.tni.org/files/publication-downloads/bri_myanmar_web_18-11-19.pdf

⁵ Khine Win, "Chinese Investments in Myanmar, in Mitigating Governance Risks from Investment in Southeast Asia," Center for International Private Enterprise, (January 2020): 9, https://www.cipe.org/wp-content/uploads/2020/04/MXW_CIFE_ChinaReport_20200420_Myanmar.pdf.¹² "PT&T to appeal disqualification in 3rd telco bidding," CNN Philippines, November 8, 2018 <https://cnnphilippines.com/business/2018/11/07/ptt-motion-for-reconsideration-disqualification-3rd-telco-bidding.html>



project, the Myitsone Dam, was suspended.⁶ Nevertheless, these reforms did little to altogether cool Chinese involvement in contentious infrastructure projects—nor wholly limit the embrace of such projects by the Myanmar government.

Chinese FDI was steered into connectivity-enhancing infrastructure projects such as: the Kyaukphyu Deep Sea Port, part of the Kyaukphyu Special Economic Zone (KP SEZ); the Muse-Mandalay Railway (the first segment of the Mandalay-Kyaukphyu Railway); the China-Myanmar Oil and Gas Pipelines; and other power generation and transmission projects. Most Chinese FDI projects announced after 2011—including those in industrial zones and urban development projects, such as New Yangon City—were identified as part of China’s far-reaching Belt and Road Initiative (BRI), which in 2013 grew to include the China-Myanmar Economic Corridor (CMEC).⁷ In 2016, after the landslide victory across Myanmar of candidates from the National League for Democracy (NLD) political party, economic cooperation zones along the China-Myanmar border only proliferated.

History of the Belt and Road Initiative in Myanmar

In 2011, after President Thein Sein took office, the relationship between Myanmar and China began to deteriorate. Major Chinese investment in the Myitsone Dam hydropower project was suspended in September of that year, and public protests intensified against controversial projects, notably the Letpadaung Copper Mine and the China-Myanmar Oil and Gas Pipelines. In 2014 Thein Sein’s government allowed to expire the memorandum of understanding (MOU) for construction of the Muse-Mandalay Railway section, even though the China Railway Eryuan Engineering Group Co. Ltd. (CREEC) had already submitted a feasibility study.⁸ The following year, a Myanmar warplane dropped a bomb in Yunnan, killing four Chinese civilians—an incident that Yun Sun of Stimson Center, a nonpartisan policy research center based in Washington, D.C., described as “[perhaps] the worst day of the Sino-Burmese relationship since 1967, when the Chinese Embassy in Rangoon was attacked.”⁹

In 2016, however, on the heels of the political ascent of NLD leadership, the relationship between Myanmar and China began to improve. As far back as 2012 the Chinese Communist Party had been building a party-to-party relationship with the NLD, which that year won 43 of the 45 seats up for grabs in Myanmar by-elections. In 2015 China President Xi Jinping met in Beijing with NLD Chair Aung San Suu Kyi.¹⁰ The relationship was further cemented in 2017 when China stood at the side of Suu Kyi’s

⁶ Ko Htwe, “Thein Sein Calls for Clean Government,” *The Irrawaddy*, April 1, 2011, https://www2.irrawaddy.com/article.php?art_id=21062

⁷ Charles Clover, Sherry Fei Ju, and Lucy Hornby, “China’s Xi hails Belt and Road as ‘project of the century,’” *Financial Times*, May 14, 2017, <https://www.ft.com/content/88d584a2-385e-11e7-821a-6027b8a20f23>.

⁸ Nan Lwin, “Analysis: Muse-Mandalay Railway Agreement with China Raises Debt, Conflict Fears,” *The Irrawaddy*, last modified, October 31, 2018, <https://www.irrawaddy.com/news/burma/analysis-muse-mandalay-railway-agreement-china-raises-debt-conflict-fears.html>.

⁹ Yun Sun, “After Border Bombing, What’s Next for Burma and China,” *The Stimson Center*, last modified March 18, 2015, <https://www.stimson.org/2015/after-border-bombing-what-next-burma-and-china/>; “Selling the Silk Road Spirit: China’s Belt and Road Initiative in Myanmar,” *Transnational Institute, Myanmar Policy Briefing*, no. 22 (November 2019): 9, https://www.tni.org/files/publication-downloads/bri_myanmar_web_18-11-19.pdf

¹⁰ Cristina L. Garafola, “Aung San Suu Kyi’s Trip to China: Sino-Myanmar Relations as the Countdown to the November Elections Begins,” *RAND Blog*, August 10, 2015, <https://www.rand.org/blog/2015/08/aung-san-suu-kyis-trip-to-china-sino-myanmar-relations.html>

government at the United Nations, where Myanmar came under fire for its treatment of Rohingya civilians in the country's northern Rakhine State. Later that year Suu Kyi expressed her gratitude to China at the BRI Forum in Beijing, insisting that China's BRI would bring peace, reconciliation and prosperity to the world.¹¹

While meeting in 2017 with then-State Counselor Suu Kyi, Chinese Foreign Minister Wang Yi expressed a willingness of the Chinese government to create the CMEC, a 1,700-kilometer-long corridor linking Kunming, the capital of China's Yunnan province, with major Myanmar economic hubs and, ultimately, the Indian Ocean.¹² In September 2018 the MOU for the CMEC was signed by He Liefeng, chairman of China's National Development and Reform Commission (NDRC),¹³ and Soe Win, Myanmar's Minister of Planning and Finance.¹⁴ In April 2019 the CMEC cooperation framework agreement was signed prior to the Second Belt and Road Forum for International Cooperation in Beijing. Within this framework, both governments agreed to implement "early-harvest projects" that would serve as key components of the CMEC.¹⁵ The details of these "early-harvest" projects, however, have yet to be disclosed.

Observers only recently learned that Myanmar approved nine out of a possible 40 projects proposed by China. Among these projects, only the following have been confirmed publicly: the Kyaukphyu Deep Sea Port and related KP SEZ; the Mandalay-Kyaukphyu Railway; and three so-called "economic cooperation zones" along the border with China in Myanmar's Shan and Kachin states.¹⁶ The limited information regarding these projects appears to violate Suu Kyi's earlier pledge that all BRI projects in Myanmar would line up with national priorities and be implemented with transparency.¹⁷

Among the BRI's six international economic corridors, the Bangladesh, China, India and Myanmar Economic Corridor (BCIM) is seen as yielding the lowest returns despite carrying the highest economic, social, and environmental costs.¹⁸ The BCIM passes through ethnic minority areas in Myanmar marred by ongoing conflict and instability. Armed conflict in Myanmar, too, is increasingly jeopardizing other BRI projects—not only in areas controlled by ethnic armed organizations (EAOs), but along the main CMEC corridor through the Sagaing and Magway regions, where local self-defense forces have been clashing with the country's military following its February 2021 coup.

¹¹ Ministry of Foreign Affairs of the People's Republic of China, "Xi Jinping Meets with State Counselor Aung San Suu Kyi of Myanmar," May 16, 2017 https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1463446.shtml

¹² Ministry of Foreign Affairs of the People's Republic of China, "Wang Yi Holds Talks with State Counsellor and Foreign Minister Aung San Suu Kyi of Myanmar," November 20, 2017 https://www.fmprc.gov.cn/mfa_eng/wjb_663304/zjzg_663340/yzs_663350/gjlb_663354/2747_663498/2749_663502/201711/t20171121_519080.html

¹³ The NDRC is the economic policy planning agency covering 15 areas, including infrastructure, construction, manufacturing, agriculture, transport, finance, telecommunication, human resource development.

¹⁴ Nan Lwin, "Gov't Signs MoU with Beijing to Build China-Myanmar Economic Corridor," September 13, 2018 <https://www.irrawaddy.com/news/burma/govt-signs-mou-beijing-build-china-myanmar-economic-corridor.html>

¹⁵ Nan Lwin, "Myanmar Govt Unveils Four Projects as Part of China's BRI Scheme," The Irrawaddy, last modified June 16, 2020, <https://www.irrawaddy.com/news/burma/myanmar-govt-unveils-four-projects-part-chinas-bri-scheme.html>.

¹⁶ "Selling the Silk Road Spirit: China's Belt and Road Initiative in Myanmar," The Transnational Institute, Myanmar Policy Briefing no. 22, (November 2019): 13, https://www.tni.org/files/publication-downloads/bri_myanmar_web_18-11-19.pdf.

¹⁷ Su Phyto Win and Chan Mya Htwe "State Counsellor stresses Belt and Road needs to align nation priorities," Myanmar Times, last modified August 28, 2017, <https://www.mmmtimes.com/news/state-counsellor-stresses-belt-and-road-needs-align-national-priorities.html>.

¹⁸ Hongjoo Hahm and Selim Raihan, "The Belt and Road Initiative: Maximizing benefits, managing risks—A computable general equilibrium approach," *Journal of Infrastructure, Policy and Development* 2 no. 1 (2018): 97–115.



Deepening Connections: A Look at the BRI in Myanmar Through Four Case Studies

While the projects in two of our four case studies predate the official launch of BRI in 2013, they reflect the Chinese government's interests in gaining access to Myanmar's natural resources and promoting connectivity to its border regions. The KP SEZ and the Mandalay-Kyaukphyu Railway are official BRI projects and were approved as such by Myanmar under the CMEC cooperation framework agreement spanning 2018 and 2030.¹⁹ While the Letpadaung Copper Mine and the China-Myanmar Oil and Gas Pipelines predate the BRI, the projects fit the definition of what constitutes a BRI project; moreover, both the mine and the pipelines have since been identified as BRI by Chinese state media.²⁰

Nevertheless, there are differences in governance risks between the pre-BRI and official BRI projects in Myanmar. Construction of the pre-BRI copper mine and pipelines began before the 2011 election of Thein Sein, whose pseudo-civilian government began a so-called transition toward democracy. Construction of both the mine and the pipelines was fraught with corruption and land grabbing after Chinese investors colluded with the military-owned company, Myanmar Economic Holdings Limited (MEHL).

Chinese companies tried to rehabilitate their image under Thein Sein. Notably, the Chinese state-owned conglomerate CITIC Group Corporation Ltd. (CITIC) participated fully in the open tender process of the KP SEZ Management Committee, established under Thein Sein, before winning the tender in 2015.²¹

Other Chinese companies, too, adapted after Thein Sein initiated reforms expanding the roles of civil society and public consultation in SEZs and megaprojects.²² During pre-feasibility phases, for example, Chinese companies began to hold public meetings with affected communities, granting people reasonable access to project information. Later, after Myanmar's NLD-led government in 2018 strengthened the regulatory framework for public-private partnerships (PPPs) by establishing a PPP Center in Nay Pyi Taw,²³ Chinese companies agreed to reduce the scale of the Kyaukphyu Deep Sea Port from USD \$7.3 billion (10 berths) to USD \$1.3 billion (2 berths). China and Myanmar also agreed to implement the KP SEZ in distinct phases, allowing for sustained public scrutiny and segmenting out financial obligations.²⁴

There were also indications that Chinese investors adapted to the changes in transparency and accountability under the NLD when it was in the best interests of both China and Myanmar. As head of the BRI Steering Committee in Myanmar, Suu Kyi pledged that all BRI projects would be carried out in accordance with the Myanmar Sustainable Development Plan and subjected to a competitive tendering

¹⁹ Christopher Devonshire-Ellis, "Belt And Road Projects In Myanmar Likely To Progress In Light Of Military Coup," Silk Road Briefing, last modified February 2, 2021, <https://www.silkroadbriefing.com/news/2021/02/02/belt-and-road-projects-in-myanmar-likely-to-progress-in-light-of-military-coup/>

²⁰ Sun Guangyong, "China-invested Letpadaung copper mine brings tangible benefits to Sagaing Region, Myanmar," People's Daily, last modified January 15, 2020, <http://en.people.cn/n3/2020/0115/c90000-9649079.html>.

²¹ Sandhi Governance Institute, "Kyaukphyu Special Economic Zone," 2021 https://www.brimonitor.org/wp-content/uploads/2021/08/CS_KPSEZ.pdf

²² "Myanmar Negotiating with Chinese Consortium on Deep-Sea Port Project in Western State," Xinhua, last modified July 8, 2018, http://www.xinhuanet.com/english/2018-07/08/c_137309715.htm.

²³ Republic of the Union of Myanmar Office of the President, Project Bank Notification, Notification no.2/2018, [https://projectbank.gov.mm/static/docs/Project%20Bank%20Notification%20\[EN\].b4056940a552.pdf](https://projectbank.gov.mm/static/docs/Project%20Bank%20Notification%20[EN].b4056940a552.pdf).

²⁴ Kanupriya Kapoor and Aye Min Thant, "Exclusive: Myanmar scales back Chinese-backed port project due to debt fears – official," Reuters, last modified August 2, 2018, <https://www.reuters.com/article/us-myanmar-china-port-exclusive/exclusive-myanmar-scales-back-chinese-backed-port-project-due-to-debt-fears-official-idUSKBN1KN106>.

process.²⁵ Her government sought to vet—with the assistance of independent third parties—the feasibility study claim by CREEG that the Mandalay-Kyaukphyu Railway project represented a construction value of nearly USD \$9 billion. The government further pledged that the railway would not be built if it risked becoming a debt trap.²⁶

Hopes dimmed for the implementation of BRI projects in Myanmar in accordance with international standards after the February 2021 military coup, which ousted the democratically-elected civilian government.

Governance Gaps

Land Grabbing

Corruption was rife in Myanmar under military rule from 1988 to 2011. Land grabbing associated with megaprojects was commonplace. During the administration of the Myanmar State Peace and Development Council (SPDC), local authorities took advantage of the absence of legal registration of land ownership among farmers—often confiscating land and transferring it to companies linked to the megaprojects. Over the course of military rule the country dropped correspondingly low on Transparency International’s Corruption Perception Index (CPI). In 2008, for instance, Myanmar ranked 178—just above the world’s lowest ranked country, Somalia.²⁷

According to the Myanmar China Pipeline Watch Committee, a group of more than a dozen community-based organizations, military government officials exploited the lack of registered land ownership certificates among farmers during the construction phase of the China-Myanmar Oil and Gas Pipelines. The outright confiscation of farmland, coupled with government compensation for farmland at artificially low prices, caused many farmers to lose their livelihoods, according to interviews with villagers and community leaders conducted by the pipeline watch committee.²⁸ Most farmers were unaware of the levels of compensation stipulated in the pipeline contracts, which meant they were unaware they were receiving considerably less money than they were owed. In some cases, the amount of land confiscated by the government was greater than the amount of land required to build the pipelines.

Land grabbing issues also arose around the establishment of the Dawei Special Economic Zone (Dawei SEZ), on the Thailand-Myanmar border, among other projects.²⁹

²⁵ Priscilla Clapp, “Special Report: The Intersection of Investment and Conflict in Myanmar,” United States Institute of Peace, no. 463 (February 2020): 7, https://www.usip.org/sites/default/files/2020-02/sr_463-the_intersection_of_investment_and_conflict_in_myanmar.pdf.

²⁶ Nan Lwin, “China-Backed Muse-Mandalay Railway to Cost \$9 Billion,” *The Irrawaddy*, last modified May 14, 2019, <https://www.irrawaddy.com/news/burma/china-backed-muse-mandalay-railway-cost-9-billion.html>

²⁷ “Corruption Perception Index 2008,” Transparency International, accessed October 5, 2021, <https://www.transparency.org/en/cpi/2008>.

²⁸ “In Search of Social Justice Along the Myanmar-China Oil and Gas Pipeline,” Myanmar China Pipeline Watch Committee (January 2016): 63, https://www.mata-nrg.org/wp-content/uploads/2016/07/In-Search-of-Social-Justice-along-Myanmar-China-Pipeline_English-Version_18012016.pdf.

²⁹ “Land grabbing in Dawei (Myanmar/Burma), an (Inter)National Human Rights Concern,” Transnational Institute, last modified October 9, 2012, <https://reliefweb.int/report/myanmar/land-grabbing-dawei-myanmar-burma-inter-national-human-rights-concern>.

Lack of Transparency

A governance risk common to all four case studies is a lack of public access to information. Without reliable information, affected communities and concerned stakeholders cannot conduct a proper assessment of the risks posed by the projects. Proper public consultation around infrastructure projects was rare under SPDC rule. Although public consultation was later introduced under the civilian-run Joint Committee of the CMEC, such consultation has been abandoned in the wake of the 2021 military coup.³⁰

Lack of Public Information on Concessional Contracts

In Myanmar, access to the concession contracts signed by Myanmar's state-owned enterprises (SOEs) is off-limits to the public. In 2016, the Myanmar Oil and Gas Enterprise (MOGE), a state-owned oil and gas company, began to disclose some information about its pipeline projects, such as: total production figures for each offshore field; crude oil and gas volumes for export and domestic use; production sites currently under production sharing contracts; and engaged companies.³¹ Nevertheless, key information—such as the terms and conditions of concessional contracts—remains publicly unavailable. In the case of China-Myanmar Oil and Gas Pipelines projects, key information from the Special Purpose Vehicles (SPVs) partially owned by MOGE is identified as “non-communicated” in a report of the Myanmar Extractive Industries Transparency Initiative (EITI), a global initiative for good governance of extractive industries.

Transparency is essential to reducing the financial risks associated with large infrastructure projects. Without transparency, it is difficult to ensure that the projects, in the end, are using the country's money for the benefit of the public. Given that Chinese actors control the entire BRI project cycle—from design pre-feasibility and feasibility to financing, construction, and operation—there are concerns that the costs of BRI projects in Myanmar have been inflated. Chinese investments rarely are subject to competitive tendering processes; of the four case studies, only KP SEZ emerged in 2015 from an open tendering process. Moreover, the Chinese SOEs are not required to compete against each other for contracts.

Debt Burden

The debt burdens of BRI projects in Myanmar, particularly oil and gas pipelines, represent a substantial amount of total government spending. According to Myanmar-based analysts, Chinese loans account for “as much as USD \$500 million annually in both principal and interest.”³² Moreover, the Chinese loans carry higher interest rates than those from institutions like the World Bank and the International Monetary Fund, according to Myanmar Auditor General Maw Than.³³ For example, the 4.5-percent interest rate on the oil and pipeline projects is among the highest of Myanmar's bilateral loans, a factor that makes repayment difficult.

Strong public oversight of BRI projects—including the assessment of project costs, financial viability, and sources of funding—is crucial to shielding Myanmar from disproportionately high debt burdens.³⁴

³⁰ Lin Htet Myat, “Myanmar Junta Sells Resources to Neighbors in Exchange for ‘Legitimacy,’” *The Irrawaddy*, last modified June 15, 2021. <https://www.irrawaddy.com/opinion/guest-column/myanmar-junta-sells-resources-to-neighbors-in-exchange-for-legitimacy.html>.

³¹ Moore Stevens, “EITI Report for the Period of April 2015-March 2016 Oil, Gas, and Mining Sectors,” Myanmar Extractive Industries Transparency Initiative (March 2018): 179, https://eiti.org/files/documents/meiti_report_2015-2016_final.pdf.

³² “Myanmar Cautioned About Costly Borrowing From China.” *Radio Free Asia*, last modified June 10, 2020, <https://www.rfa.org/english/news/myanmar/costly-borrowing-06102020151951.html>.

³³ “Myanmar Cautioned About Costly Borrowing From China.”

³⁴ “Selling the Silk Road Spirit: China's Belt and Road Initiative in Myanmar,” 9.

The risk of unmanageable debt is especially high as Western sanctions against Myanmar lead to even greater dependence on Chinese investment—which, in turn, could allow Chinese lenders to set even higher rates.

Unpaid debt poses severe geopolitical consequences for Myanmar. The high costs of BRI projects, coupled with their questionable profitability, raises concerns of potential loan default and the subsequent seizure of assets by Chinese corporate developers or, even, the Chinese government. (Already some projects, such as the KP SEZ, are seen by some observers as serving not commercial interests, but the interests of Chinese national security.³⁵) To avoid such “debt-trap diplomacy,” transparency around project financing structures is critical.

Measures currently in place in Myanmar are weak when it comes to assessing the financial viability of BRI projects. Chinese SOEs often dominate the entire project life cycle, further obscuring transparency: Chinese state-owned banks issue loans to SPVs, the majority owners of which are Chinese SOEs that manage project implementation and operation. Moreover, Chinese companies increasingly are using SPVs and PPP models that require guarantees from recipient governments. Such guarantees—often free from public scrutiny—generate hidden debt. (Lending patterns by China are not exclusive to Myanmar, but common to BRI projects throughout the world.³⁶) Even the PPP Center in Nay Pyi Taw, established specifically to assess PPP projects, is ineffective in guarding against such practices.

In the case of the KP SEZ, specifically, Myanmar implemented measures aimed at improving the transparency and overall quality of the project. The government in 2011 created the KP SEZ Management Committee and—on the back of the 2014 law on SEZs, and in a nod toward international standards—required CITIC to compete with other bidders for the contract. (Given the project’s original scope and cost, few could truly compete with CITIC.) Still, even after the scale and cost of the project were reduced under Myanmar’s NDL-led government, perceptions remain that the KP SEZ is driven by “debt trap diplomacy.” Greater transparency around the project’s plans and financing structure would have gone a long way toward erasing doubts, and ensuring the successful implementation of the project.

SOE Governance

SOE governance in Myanmar is problematic for a host of reasons, primarily its low levels of transparency and regulation. Poor governance is particularly worrisome in the extractive sector in Myanmar, given the particularly substantial revenues and costs.³⁷

Lack of Public Disclosure of SOE Revenues

The SOEs in the extractive sector account for a significant portion of Myanmar’s balance sheet, comprising some 20 percent of public revenues and 15 percent of public expenditures in the 2015–16 fiscal year. SOEs are predominant in the extractive sector: SOEs collect nearly 80 percent of extractive sector revenue, and are managed primarily by ex-military officers, according to a 2019

³⁵ Gregory Poling, “Kyaukpyu: Connecting China to the Indian Ocean,” Asia Maritime Transparency Initiative, April 4, 2018 <https://amti.csis.org/kyaukpyu-china-indian-ocean/>

³⁶ Malik, A., Parks, B., Brooke Russell, Lin, J., Walsh, K., Solomon, K., Zhang, S., Elston, T., and S. Goodman (2021), *Banking on the Belt and Road Initiative: Insights from the New Global Dataset of 13427 Chinese Development Projects*: Williamsburg, VA, AidData at William & Mary

³⁷ “State-Owned Economic Enterprise Reform in Myanmar: The Case of Natural Resource Enterprises,” Natural Resource Governance Institute, (January 2018), <https://resourcegovernance.org/sites/default/files/documents/state-owned-economic-enterprise-reform-in-myanmar-policy-options.pdf>.



report by Myanmar EITI.³⁸ According to the 2013 Resource Governance Index of the Natural Resource Governance Institute, only SOEs in Turkmenistan disclosed less information than MOGE.³⁹

The lack of public disclosure of SOE revenue allows SOE managers to take on liabilities (including “hidden debt” incurred through SPVs and PPPs) on behalf of the public, while the revenue from projects funded by these debts can be moved to the SOE’s Other Accounts (OAs), which are separate from the government’s balance sheets and subject to little transparency or accountability. Of particular concern for SOE revenue transparency is the revenue retention rule implemented under 2012 reforms. The rule allowed SOEs to transfer a large portion of their profits to the Myanmar Economic Bank (another SOE) through OAs—transferring assets out of government coffers while leaving liabilities on the government’s balance sheet. A 2015 Myanmar EITI report revealed that more than 50 percent of SOE revenues were not transferred to the state budget, but moved to OAs shielded from public scrutiny.⁴⁰ MOGE transferred some USD \$1.4 billion to its OA in the fiscal year ending in 2014, and some USD \$504 million in the fiscal year ending in 2018.⁴¹

OAs were meant to be abolished under a June 2019 directive by the Cabinet of Myanmar,⁴² which would require SOEs to transfer all OA balances to the government for the funding of priorities such as public health, and education. But, as of 2020, MOGE OAs were still in use.⁴³

Lack of Public Disclosure of SOE Revenues

SOEs in Myanmar bring in nearly half of the country’s revenue, spend half of the government’s budget, and manage much of the economy. Yet formal supervisory institutions in Myanmar do not have the legal powers and resources to compel SOEs to comply with a system of checks and balances.⁴⁴ Instead, government ministries operate through affiliated SOEs that present inherent conflicts of interest. Because SOE managers are free to sign concession contracts, they exercise broad discretionary powers that make them de facto gatekeepers of the country’s natural resources.⁴⁵ For example, the Oil and Gas Planning Department (OGPD) is nominally responsible for policy formulation and the coordination and development of energy programs. Yet the OGPD also is responsible for tendering oil and gas blocks, managing contracts, and exploring, producing, and selling product.

³⁸ “Myanmar EITI Report 2017-18.”

³⁹ Patrick R.P. Heller, and Lorenzo Delesgues,, “Gilded Gatekeepers: Myanmar’s State-Owned Oil, Gas and Mining Enterprises,” Natural Resource Governance Institute, (January 2016): 39, [nrgi_myanmar-state-owned-enterprises_full-report.pdf](https://resourcegovernance.org/sites/default/files/documents/myanmar_eiti_annual_progress_report_2015-2016.pdf) (resourcegovernance.org).

⁴⁰ “Myanmar EITI Annual Activity Report July 2015 – June 2016,” Extractive Industries Transparency Report (November 2016): 7, https://eiti.org/files/documents/myanmar_eiti_annual_progress_report_2015-2016.pdf.

⁴¹ Ibid; “Myanmar EITI: SOE Reforms Underway in the Extractives Sector,” Extractive Industries Transparency Initiative, last modified May 28, 2020, <https://eiti.org/blog/myanmar-eiti-soe-reforms-underway-in-extractives-sector>.

⁴² This directive followed a 2018 report by the Renaissance Institute, a think tank under the National League for Democracy (NLD) government from 2015 to 2021, and the Natural Resources Governance Institute on state-owned economic enterprises in the extractive industries. The report recommended the reallocation of OA balances to the Union Budget Fund for priority expenditure items such as health and education, which will promote inclusive growth. “State-Owned Economic Enterprise Reform in Myanmar: The Case of Natural Resource Enterprises,” “This government was left with a huge mess,” Frontier Myanmar, last modified July 27, 2018, <https://www.frontiermyanmar.net/en/this-government-was-left-with-a-huge-mess/>.

⁴³ “Commodity Trading in Myanmar, Case Study: Oil and Gas,” Myanmar Extractive Industries Transparency Initiative (September 2020): 21, https://myanmareiti.org/sites/myanmareiti.org/files/publication_docs/meiti_commodity_trading_report.pdf.

⁴⁴ “Policy Options: State-Owned Economic Enterprise Reform in Myanmar: The Case of Natural Resource Enterprises,” Renaissance Institute and Natural Resource Governance Institute (January 2018): 3, <https://resourcegovernance.org/sites/default/files/documents/state-owned-economic-enterprise-reform-in-myanmar-policy-options.pdf>.

⁴⁵ Heller and Delesgues, “Gilded Gatekeepers: Myanmar’s State-Owned Oil, Gas and Mining Enterprises.”

Recommendations

The political and security risks to BRI projects following the February 2021 coup could make BRI investment untenable. Risks to the projects have grown because of armed conflict in the areas where the projects are situated; prior cost-benefit calculations and risk-mitigation measures are no longer applicable. Feasibility studies conducted during the NLD government are no longer relevant because of the worsening economic downturn, the banking crisis, and rising political tensions. Therefore, it is in the long-term interests of both the Chinese government and the Myanmar people to wait for the return of a legitimately elected democratic government before embarking upon new BRI projects.

Specifically, before implementing additional BRI projects in Myanmar, the following recommendations should be taken into consideration:

1. Strengthen the powers of the PPP Center in Nay Pyi Taw to assess both solicited and unsolicited proposals in accordance with the rules and regulations of the 2018 Notification (PBN) creating the publicly accessible Project Bank database. Under the previous NLD government in Myanmar, the PBN and the regulatory framework for PPPs (and infrastructure investments) were evolving. The changes already underway should be developed further to mirror the principles for public governance of PPPs adopted by the Association of Southeast Asian Nations (ASEAN) and the Organization for Economic Co-operation and Development (OECD).
2. Although publishing a Project Bank website (currently offline) was a step in the right direction toward transparency, Myanmar needs to provide considerably more information on infrastructure projects, especially in the pre-feasibility/feasibility stages. Greater transparency in the early stages of a project will ensure that all the relevant stakeholders, including affected communities, can participate fully in the process of public consultation. Early transparency also would help protect Chinese investments against political risks; public sentiment toward Chinese investment in Myanmar is generally negative.
3. Robust complaint mechanisms for each project must be established to not only curtail corruption, but to protect affected communities.
4. SOE reforms—including corporatization, or privatization—must be guided by adequate procedures and oversight. Concession contracts signed between Myanmar SOEs and private investors, regardless of their countries of origin, often deliver limited gains to the people of Myanmar. The military generals who control these SOEs often write contracts that allow them to siphon funds into OAs while committing the country to long-term commitments—reducing the public revenue potential by millions of dollars. For example, MOGE has been accused by pro-democracy activists, Justice for Myanmar, of colluding with French energy conglomerate Total to divert from Myanmar coffers millions of dollars in profits from a natural gas pipeline.⁴⁶

Lastly, and most importantly, the report makes a special recommendation:

⁴⁶ “IS TOTAL PROFITEERING IN MYANMAR?” Justice for Myanmar, last modified May 4, 2021, <https://www.justiceformyanmar.org/stories/total-profiteering>.



The people of Myanmar are currently struggling against a military dictatorship that is impeding Myanmar's long-term development and threatening regional stability—a crisis some analysts predict could lead to state collapse. Across Myanmar many people, from all walks of life, have taken part in the struggle against military rule (note the nationwide “silent strike” last December 10, Human Rights Day, during which people stayed home from 10 a.m. to 4 p.m.), refusing to recognize as legitimate the ruling State Administration Council (SAC).

Without genuine stability and legitimacy in the Myanmar government, mega-infrastructure projects across the country are becoming increasingly risky. If China decides to cooperate with the SAC in implementing the CMEC, the already-strong public backlash against BRI projects in the country could grow stronger, further harming the bilateral relationship between the two countries. The Myanmar public views China as the country with the most leverage over the ruling military junta, and believes China could tip the balance of power between opposition forces and the military. Therefore, in the current climate, Chinese SOEs should not implement BRI projects in Myanmar until the return of genuine stability and a civilian government. China's government also should do as much as possible to assist the people of Myanmar in their struggle for freedom, human rights, and federal democracy.

Conclusion

The four case studies from Myanmar featured as part of the BRI Monitor – the Letpadaung Copper Mine, the China-Myanmar Oil and Gas Pipelines, the Kyaukphyu Special Economic Zone, and the Muse-Mandalay Railway – highlight the importance of transparency and good governance. Projects implemented in the absence of transparency have had a devastating impact on Myanmar society, notably through inadequate compensation for land and violations of environmental regulations. Affected communities were not consulted prior to the rollout of the projects, and were offered few or no mechanisms for complaint. The lack of transparency also created opportunities for corrupt politicians and military leaders to design and implement projects for their own benefit. In particular, the role of government ministries as both gatekeepers and implementers of projects in the extractive sector posed conflicts of interest that empowered officials to approve projects that benefited them, personally. Reforms were not fully implemented that would have increased transparency, including the once-promising establishment of the PPP Center in Nay Pyi Taw. Since the February 2021 coup, many such reforms have been rolled back. Should a civilian government eventually return to power, efforts toward transparency and good governance should be reinvigorated.

While many of the issues highlighted in the case studies stem from governance gaps in Myanmar, Chinese state-driven financing appears to impart additional risks. Already the 4.5-percent interest rate on Chinese loans is higher than the percentages on loans from any other bilateral lender—and lending costs are only likely to increase under U.S. and European sanctions. Chinese lenders, moreover, have exploited financing structures such as SPVs and PPPs to bypass existing limits on debt. In the event of a return to a democratically-elected civilian government, it would be crucial for both Myanmar and China to more fully inform the public about the terms of the contracts for projects ultimately funded by the Chinese government. However, given that the Myanmar people cannot meaningfully assent to Chinese-funded projects under the current military junta, continued investment in Myanmar (and the alignment

with the junta implied by such investment) carries significant political risk for the Chinese government and associated Chinese entities, and should be reconsidered.





What is BRI Monitor?

BRI Monitor is a collaborative effort by five civil society organizations in Southeast Asia and the Pacific: the Institute for Democracy and Economic Affairs (IDEAS) of Malaysia, Stratbase Albert Del Rosario Institute (ADRI) of the Philippines, Sandhi Governance Institute (SGI) of Myanmar, the Institute of National Affairs (INA) of Papua New Guinea and the Future Forum of Cambodia to promote transparency and accountability in major infrastructure projects funded through the Belt and Road Initiative (BRI) in the region.

These organizations have studied the regulatory environments governing these large infrastructure projects in respective countries, including public procurement, official development assistance, public private partnership (PPP), and more, to identify regulatory gaps. They have each researched a set of case studies to identify implementation gaps and governance gaps. Each case study assesses the level of transparency based on almost 40 data points, from basic project information to the tendering process to project completion. Last but not least, each organization maps out the structure of the projects in question in order to understand the degree of public financial exposure resulting from each project. (please check our research methodology here).

This website is intended to be a platform for the publication of our research outputs and as a knowledge repository. We also hope that the website can be used as a platform for knowledge sharing and a tool to advocate better governance of major infrastructure projects in the region.

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