

# Selling the Silk Road Spirit: *China's Belt and Road Initiative in Myanmar*

## Key points

- Rather than a 'grand strategy' the BRI is a broad and loosely governed framework of activities seeking to address a crisis in Chinese capitalism. Almost any activity, implemented by any actor in any place can be included under the BRI framework and branded as a 'BRI project'. This allows Chinese state-owned enterprises (SOEs) and provincial governments to promote their own projects in pursuit of profit and economic growth. Where necessary, the central Chinese government plays a strong politically supportive role. It also maintains a semblance of control and leadership over the initiative as a whole. But with such a broad framework, and a multitude of actors involved, the Chinese government has struggled to effectively govern BRI activities.
- The BRI is the latest initiative in three decades of efforts to promote Chinese trade and investment in Myanmar. Following the suspension of the Myitsone hydropower dam project and Myanmar's political and economic transition to a new system of quasi-civilian government in the early 2010s, Chinese companies faced greater competition in bidding for projects and the Chinese Government became frustrated. The rift between the Myanmar government and the international community following the Rohingya crisis in Rakhine State provided the Chinese government with an opportunity to rebuild closer ties with their counterparts in Myanmar. The China-Myanmar Economic Corridor (CMEC) was launched as the primary mechanism for BRI activities in Myanmar, as part of the Chinese government's economic approach to addressing the conflicts in Myanmar. The CMEC has helped Chinese SOEs and the Yunnan provincial government revive dormant or delayed projects in Myanmar. However, these projects have faced the same challenges and criticisms as previous Chinese investments in Myanmar, and progress has been slow.
- A huge array of activities are being implemented under the BRI framework in Myanmar. Four case studies of BRI activities are examined in this briefing, using Chinese language sources: (1) the interconnection of the Myanmar and Chinese national electricity grids, (2) the China-Myanmar High-Speed Railway, (3) the Sino-Myanmar Land and Water Transportation Passage and (4) special economic zones (SEZs) and Industrial Zones. Closer examination of these cases shows the extent of lobbying by Chinese SOEs and the Yunnan provincial government to promote the projects, with support from central Chinese government. These cases highlight a lack of transparency and meaningful consultation, as well as the questionable financial viability and potentially harmful social, economic and environmental impacts of such projects. All the cases are likely both to impact the peace process and to be impacted by the conflict, with increased security necessary for such high-value investments.

- Given the BRI's character as a broad framework of activities, rather than a predetermined plan, there are opportunities for the Myanmar government and civil society organisations (CSOs) to influence BRI activities in the country. The Myanmar government has already shown that this is possible with their insistence on an open tendering process for the Muse-Mandalay Railway. CSOs in other countries have also been able to halt harmful projects, for instance by highlighting their unsustainability and lack of financial viability to Chinese banks and other government bodies.
- The current legal and policy framework for regulating foreign investment in Myanmar is weak and mostly benefits companies rather than local communities. Existing land laws, for instance, do not recognise ethnic customary tenure systems even while many of the country's natural resources attracting foreign investment are located within ethnic nationality areas. Government regulations on proper consultation processes, environmental standards, compensation and other key issues related to foreign investment are also either inadequate or non-existent. As a result, foreign investment projects have faced resistance from local communities.
- A significant number of BRI activities are taking place in conflict-affected areas. This includes areas of armed conflict as well as communal conflict. It is important that any foreign investment does not have negative impacts on these conflicts. Activities should not lead to increased militarisation to 'protect' foreign investment, nor should they contribute to exacerbating existing conflicts or creating new ones.

## Introduction

The Belt and Road Initiative (BRI) is often described as a 'grand strategy' led by President Xi Jinping, centrally planned and rolled out by obedient state-owned enterprises (SOEs).<sup>1</sup> The sheer size of the initiative – 136 countries have received US\$90 billion in Chinese foreign direct investment and exchanged US\$6 trillion in trade with China - can make the BRI appear monolithic and inevitable.<sup>2</sup> In Myanmar, the economic asymmetry between the two countries and related 'big neighbour' fears have, at times, compounded perceptions of the BRI in Myanmar as a 'done deal'.

Using a political economy analysis, this briefing demonstrates that the BRI is not a grand strategy, but a broad framework of activities that seek to address a crisis in Chinese capitalism.<sup>3</sup> The central Chinese government has encompassed and encouraged these activities under the deliberately vague BRI framework. Rather than rolling out the BRI on the basis of instructions from the central government, Chinese SOEs and provincial governments propose and promote projects themselves under the BRI

framework. Anyone in any place can brand their activities as 'BRI projects' under the broad framework, giving rise to an unbounded number of BRI activities across the globe. This has made the BRI broad and difficult to govern, but it has also created spaces for the framework to be influenced and the interests of local peoples advanced.

Large-scale Chinese investments in Myanmar have never been straightforward and BRI activities have been no exception. While former Myanmar President Thein Sein was an early supporter, momentum for the BRI in Myanmar built slowly. Relations between the two countries had cooled following the 2011 suspension of the Chinese constructed Myitsone Dam. What became known as 'Myitsone shock' reverberated in Chinese government and business circles, leading to substantial re-thinking of policies and investments relating to Myanmar during the following years.<sup>4</sup> Meanwhile, against Chinese expectations, Myanmar was undergoing a political and economic transition to a new system of quasi-civilian government. Support for this process ended Western isolation and

boycotts, drawing international support and investment. As the Myanmar government was presented with more diverse investment partners, the Chinese government and Chinese investors struggled to build momentum around the BRI.

Nonetheless, key Chinese investment activities during this period continued. Most notably, the oil and gas pipelines from the Rakhine State coast to Yunnan Province, first agreed in 2009, were completed during the Thein Sein administration. Yet, the political environment began to change during 2016-17 when the Myanmar armed forces instituted a clampdown on the Rohingya Muslims in Rakhine State, precipitating the flight of over 700,000 refugees into Bangladesh. Amidst accusations of 'war crimes' and 'crimes against humanity',<sup>5</sup> international condemnation was swift and many foreign investors became spooked. The Chinese government, in contrast, was quick to step into this vacuum by offering political and economic support.

In November 2017, Chinese Foreign Minister Wang Yi boosted efforts to promote BRI activities in Myanmar with the launch of the China-Myanmar Economic Corridor (CMEC). The CMEC was launched in tandem with proposals for ethnic peace and a resolution of the refugee crisis. The Chinese government presented the BRI, in the form of the CMEC, as part of a long-term solution for Myanmar's struggling economy and domestic political instability. The CMEC thus provided the Chinese and Myanmar governments with an opportunity to refocus their relations on positive cooperation after a turbulent period. At the same time, profit-hungry Chinese corporations have been keen to fill the gap left by other foreign investors who withdrew following the Rohingya crisis or whose proposed investments in Myanmar failed to materialise.

Against this backdrop, the intentions and implications of the BRI can be very confusing for the communities most affected by these new projects. There are few people in Myanmar who study Chinese politics and policies, and most governmental and business discussions have been taking place behind closed doors. The Memorandum of Understanding (MoU) relating to the CMEC is only the latest of dozens of cooperation agreements between the

two governments since the 1990s. Like its predecessors, it was signed without a process of public consultation. As a result, many questions remain about the likely scope and impact of CMEC, and the BRI more broadly. This, in turn, is increasing concerns about who will benefit, and in what ways, from a project of global ambition that is intended to open trading pathways. The main architects and motors for all these plans are in China, not in Myanmar.

As Daw Lahpai Seng Raw, co-founder of the Metta Development Foundation and Ramon Magsaysay Award winner, recently wrote: 'Hastily expanding connectivity without addressing the ethnic, religious and social cleavages that plague the project areas risks exacerbating existing conflicts.'<sup>6</sup>

To deepen this discussion, this briefing seeks to examine the nature and scope of the BRI more generally, before situating the BRI and CMEC within the broader framework of relations between China and Myanmar. It then examines the process to develop BRI projects, and their impacts, through four case studies: (1) the North-South Electricity Transmission Project, (2) the China-Myanmar High-Speed Railway, (3) the Sino-Myanmar Land and Water Transportation Passage and (4) SEZs and Industrial Zones. This briefing follows on from TNI's previous research of foreign investment and development models in Myanmar.<sup>7</sup>

Using Chinese language sources, the four case studies highlight the corporate lobbying in both China and Myanmar to promote BRI projects in Myanmar, and the supportive role played by the Chinese Embassy in Yangon and other central government institutions. The success of the four projects are interlinked. The transportation projects appear to lack financial viability and all four projects may result in a high debt burden for the Myanmar government. All have exhibited a lack of transparency and meaningful consultations with affected communities. The trajectories of the projects are also connected with that of the ongoing armed conflict in Myanmar, and efforts to promote peace. These are worrying trends. However, this paper also demonstrates that BRI activities are susceptible to influence. The Myanmar government and Myanmar CSOs can alter the course of BRI activities, and have already done so.

# Understanding the broad framework of the BRI

Launched in 2013, the BRI is a broad framework of activities, led mostly by Chinese provincial governments and SOEs, that seeks to address surpluses of capital and labour in China. These kinds of surpluses routinely appear in capitalist development and must be managed by states to avoid high unemployment, declining growth and potential social unrest. Like the 'Great Western Development Project' and the 'Going Out Strategy' before it (see 'Roots of the BRI' below), the BRI is seeking to fight off and address these crises through geographic expansion and spatial reorganisation, allowing for new ways of recombining capital and labour productively in the pursuit of profit.<sup>8</sup> The campaign-style mobilisation of the BRI allows provincial governments and SOEs to pursue their own profit- and growth-driven agendas. As a result, however, governance of the BRI is fragmented and the central Chinese government has limited control over its roll out.

## *Roots of the BRI*

The origins of the push for the BRI lie in the crisis-ridden tendencies of capitalist development in China. Geographer David Harvey explains that when capital, for different reasons, can no longer find profitable outlets, crises characterised by surpluses of money, commodities and industrial capacity emerge leading to 'mass unemployment of labour and an overaccumulation of capital'.<sup>9</sup> Capital is understood here as a process rather than a thing; capital emerges when money is invested into productive labour in order to earn more money. If this process stops, the process of accumulation (and economic growth) also stops, leading to surpluses of capital (including money, commodities and machines) and labour (meaning workers, who become unemployed). Governments of states with capitalist characteristics, including the Chinese government, must manage these crises which can otherwise lead to significant social unrest, potentially including the removal of governments.

Such crises are often managed by what Harvey describes as a 'spatial fix', that is, the 'absorption of these surpluses through geographical expansion and spatial reorganisation'.<sup>10</sup> The crux of spatial fixes is to provide new opportunities for productively combining capital and labour in pursuit of profit. Spatial fixes can take many forms, such as opening up new markets by breaking down trade and investment barriers or building large-scale infrastructure projects to absorb surpluses while facilitating expansion

into new territories. While these spatial fixes have occurred throughout the history of capitalist development, they are necessarily unable to permanently resolve the crisis, they merely delay or relocate it.

Since transitioning to an export-oriented industrialisation model in the 1980s, China has endured several cycles of crisis and attempted several spatial fixes, with the BRI being only the most recent. China's export-oriented industrialisation model saw the early development of 'special economic zones' (SEZs) and large-scale infrastructure in China's eastern provinces. People across rural China were uprooted to work in these new hubs, facilitating the production and transport of goods for export. The Chinese government's broader strategy for development saw high economic growth rates and rising standards of living for significant sections of the Chinese population. Already in the 1990s, however, profitability squeezes were felt across a number of sectors. This led to initial political attempts to facilitate spatial fixes within China and abroad, including in Myanmar.<sup>11</sup> Chinese corporations moved westwards into China's less developed central and western provinces. Here provincial governments were keen to support the development of transport infrastructure, SEZs, natural resource extraction and energy production in the pursuit of economic growth. At the same time, Chinese corporations began operating abroad, including where labour costs were low(er), seeking new consumer markets as well as new technologies, natural resources and investments, particularly in infrastructure and manufacturing.

These domestic and international activities represented China's first major spatial fixes and were encompassed and encouraged by the central Chinese government under two national policy frameworks. The domestic push westward was encapsulated under the 'Great Western Development Project' (西部大开发) in 1999, which sought to develop China's poorer western provinces, including Yunnan Province. The 'Going Out Strategy' (走出去战略), also launched in 1999, supported and encouraged the efforts of Chinese corporations to expand their operations abroad. 'Going Out', in particular, proved controversial. Chinese companies were often inexperienced in operating internationally and Chinese investments faced criticism relating to the use of Chinese workers, poor labour and environmental standards, and insufficient transparency, impact assessments and community consultation.<sup>12</sup>

While the attempted spatial fixes of the 1990s and early 2000s, in spite of the criticisms levelled against them, did temporarily solve the crises emerging from the Chinese development model, a new domestic crisis came to a head in 2007-8, during the global financial crisis (GFC). With the ensuing crash in consumer markets in the United States and Europe, export industries in China were badly hit leading to a 30 per cent contraction in exports and leaving 23 million migrant workers unemployed.<sup>13</sup>

Increases in unemployment make the Chinese government, like all governments, very nervous. The Communist Party of China's (CPC) legitimacy to govern the country is closely tied with its economic performance and improvements in livelihoods. To reduce unemployment, the Chinese government responded to the global financial crisis with a massive stimulus package worth RMB 4 trillion (US\$586 billion). Through this stimulus package, provincial governments could borrow money for development projects to revive economic growth, particularly through infrastructure construction.<sup>14</sup> This led to huge expansions in road networks, water systems, housing development, airports and railways across the country.

Despite these attempted fixes, the crisis in Chinese capitalism reoccurred. Domestic investments in infrastructure had resulted in a world-class transport system but also unprofitable oversupplies in housing and energy, among other sectors. Within a few years, massive loans for the infrastructure projects had left growth-seeking provincial governments heavily indebted. In 2011, for example, Yunnan Province was unable to finance the debt repayments for its highways and expressways, developed under the stimulus package, due to a RMB 2 billion (US\$280 million) shortfall in expected toll revenue.<sup>15</sup> By 2017, the province had a debt-to-gross domestic product (GDP) ratio of 40.8 per cent amounting to RMB 673.7 billion in debt (US\$94.58 billion).<sup>16</sup>

The SOEs implementing the infrastructure boom, meanwhile, had also become massively indebted and were facing a profitability crisis. Despite generating just 25 percent of China's GDP, by 2014 SOEs held 60 per cent of corporate debt totalling US\$12.5 trillion.<sup>17</sup> China's total corporate debt now totals 163 per cent of GDP, higher than the comparable figure of corporate debt in the US.<sup>18</sup>

Without adequate profitable domestic lending opportunities, Chinese banks had over US\$3 trillion in foreign reserves sitting idle.<sup>19</sup> At the same time,

China's export-oriented model of development was reaching its limits. Wage increases in China have made manufacturing low-cost goods less profitable and less competitive globally, and Chinese corporations have therefore begun looking for manufacturing sites in other developing countries. Chinese financiers were looking for profitable investments for their reserves, while provincial governments sought new projects to drive economic growth, and SOEs searched for more profitable ventures.

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To support and boost these endeavours, the central Chinese government repackaged the activities that were being carried out under the 'Great Western Development Project' and the scandal hit 'Going Out Strategy' under a new initiative - '一带一路' [*yidaiyilu*], directly translated as 'One Belt, One Road'. To create a more positive image of Chinese foreign investment and China as a global actor, the Chinese government invoked the imagery of the ancient Silk Roads in the promotion of the BRI and used language such as 'win-win', 'mutual benefit' and 'sustainability'. To begin with, the initiative was mostly a slogan, with little detail beyond broad visions of building trade routes by land and sea to better connect Europe and Asia.

This campaign-style mobilization is common in Chinese policy making processes, where the central government encompasses and encourages existing activities driven by sub-national interests under deliberately vague policies and slogans.<sup>20</sup> Major Chinese policies, like the BRI's predecessor the 'Great Western Development Project', have tended to emerge 'from below', driven by provincial government and corporate interests.<sup>21</sup> Once momentum is reached around a policy agenda, the central Chinese government typically develops a broad vision and directions in a campaign-like mobilization typified by slogans.<sup>22</sup> These can be interpreted and implemented by state institutions, sub-national governments, enterprises and other institutions as they see fit.<sup>23</sup> Scholars in universities and government-affiliated think tanks subsequently bolster the rationale and purpose behind these broad policies and slogans with analysis. This allows both corporate actors

and local governments to test their ideas and advance their own agendas, while the CPC maintains a semblance of control and leadership over activities across the country. Rather than Beijing directing SOEs to participate in particular projects abroad, in reality, SOEs search for potential projects and then seek financial and regulatory support for the projects from Chinese government bodies where necessary.<sup>24</sup>

In spite of the absence of a clear policy or detailed plan, 'One Belt, One Road' was often interpreted by international observers as a Chinese 'grand strategy'. Initial analyses of the initiative were polarised, with western commentators often highly critical, and Chinese commentators often highly positive.<sup>25</sup> Comparisons were made to the Marshall Plan, much to the annoyance of the Chinese government who endeavoured to emphasise the inclusive and 'win-win' nature of initiative and wanted to avoid the appearance of Chinese imperialism. In 2015, the official English language name was changed to 'Belt and Road Initiative' to emphasise that it was an initiative launched by China, which any country was free to join, rather than a Chinese strategy or policy. The Chinese government also launched a guiding document for the initiative 'Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road'<sup>26</sup> in an attempt to clarify the aims and scope of the BRI. Still, confusion remained about the nature and scope of the initiative.

### *The BRI Framework*

The 'Visions and Actions' document outlines five broad priority areas: (1) policy coordination, (2) infrastructure connectivity, (3) free-flowing trade and investment, (4) financial integration and (5) people to people bonds. Of these, the promotion of free-flowing trade and investment is described as the 'key substance',<sup>27</sup> and the other four priorities work in support of this. The priority areas provide a focus and framework for BRI activities, but are incredibly broad, allowing almost any activities between peoples, governments or companies to be counted. The trade and investment promoted could be in any sector, including in e-commerce, and is supported by the reduction of barriers to international trade and investment, the encouragement of trade and investment through fairs and exchanges, and the development of free trade zones. Trade and investment can be domestic, within China, as well as international in nature.

Learning from 'Going Out' experiences, the BRI framework recognises the importance of building local political and popular support for Chinese investments. Under the 'Policy Coordination' priority, political support and a policy foundation for the BRI is built through inter-governmental meetings and exchanges at all levels to synchronise national and sub-national development plans, and international mechanisms and standards.<sup>28</sup> 'People-to-people bonds' seeks to build popular support for the BRI and can include any cooperation between peoples. This could include, for example, government-supported traditional 'international aid and development' style projects and humanitarian responses, corporate social responsibility-style projects, and exchanges and exposure trips between schools, think tanks, political parties, cultural centres, sporting and religious institutions, and the promotion of BRI related activities through (social) media.

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The other two priority areas encourage the development of infrastructure and financial services to support free flowing trade and investment. Increased 'financial integration,' priority area four, includes easier financing, credit insurance, cross-border financial transactions and currency exchanges. These measures provide the financial support for BRI activities and enable trade and investment to flow more freely across international borders. 'Infrastructure Connectivity' seeks to develop hard and soft infrastructure, including roads, railways, bridges, ports, electricity lines and poles, internet cables, IT systems, satellites and other communications systems. Aside from facilitating the faster movement of goods, labour and information, infrastructure construction also serves as an investment in itself that can absorb surplus labour and produce returns.

Many ongoing or pre-existing but delayed or dormant projects have been revived, repackaged and rebranded under the BRI framework as 'BRI projects'. By promoting new or existing activities as part of the BRI, the parties

involved can garner political support for their projects, access BRI related funding and boost the prestige of the project. SOEs can also get access special financing, policy concessions, permits and licenses by framing their activities as contributing to the construction of the BRI.<sup>29</sup> Outside of China, it is often assumed that BRI branding means a project has backing from the Chinese Government. This is not necessarily the case, and the central Chinese government may not even be aware of the project's existence, let alone be actively promoting it.

Since 2013, the originally envisioned 'one belt and one road' connecting Europe and Asia by land and sea has expanded to include all continents and cross all oceans. Countries as far away as Argentina, Fiji and Madagascar are now participating in the BRI. A 'Silk Road on Ice' seeks to open the Arctic route to transcontinental sea shipping and an airport is being planned for Antarctica.<sup>30</sup> The Chinese government has banned maps of the BRI to avoid limiting the scope of the initiative.

Countries 'join' the BRI when their national governments sign an MOU with the Chinese government relating to the initiative. Even if a government has not signed an MOU relating to the BRI, local state institutions, companies, and not-for-profit organisations can brand their activities as 'BRI activities'. For example, the German government has not signed an MOU relating to the BRI and has at times appeared distrustful of the initiative. However, Duisburg in western Germany, is a key destination for the China-Europe Railway and Deutsche Bahn, the major German railway company, is a key partner in its development.

## Challenges in BRI Governance

With such a broad framework and an unbounded number of 'BRI branded' activities, it has been difficult for the Chinese government to effectively govern the initiative and control the BRI brand. An 'Office of the Leading Group for Promoting the Belt and Road Initiative' has been established under the National Development and Reform Commission (NDRC), however it is small and does not have regulatory powers. Its role is to promote, rather than govern, the BRI. Currently over a dozen national level government agencies have oversight of components of the BRI, including oversight of national SOEs, while each province has their own structure for oversight of provincial level SOEs.

The national Chinese government has likewise struggled to govern the activities of China's SOEs. Since the 1980s, major reforms corporatised large SOEs and sold off smaller SOEs. Just 97 national level SOEs remain, while 110,000 were designated as provincial level SOEs.<sup>31</sup> Many of the national level SOEs have become huge international companies and rank highly among the Fortune 500. The largest, Sinopec Group, has revenues of US\$414 billion and almost 620,000 employees. National level SOEs are overseen by the State-owned Assets Supervision and Administration Commission (SASAC) whose aim is to increase the economic value of China's SOEs. This means SOEs performance is measured largely in economic terms, on the basis of their profits.<sup>32</sup> The success of provincial governments is measured in similar terms, with provincial economic growth rates used as the primary measure of success for provincial leaders.

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SASAC, and their provincial equivalents, have struggled to stop illegal, harmful and unprofitable activities by SOEs. In 2017, the Chinese Ministry of Commerce (MOFCOM), NDRC, People's Bank of China and the Ministry of Foreign Affairs, released joint guidelines including a 'traffic light' system indicating in which sectors SOEs are prohibited, restricted and encouraged, with extra oversight for 'restricted' investments. The guidelines also require SOEs to abide by local laws.<sup>33</sup> Yet SOEs have invested in prohibited sectors and have broken local laws, something Chinese oversight bodies have been seemingly unable to stop. For example, several major SOEs or their subsidiaries have been blacklisted by the World Bank for tender fraud and misconduct.<sup>34</sup>

Chinese government agencies also lack the capacity to assess project viability and local social and environmental impacts, and have been known to overlook failures of compliance with regulations, especially if the project has high-level political support.<sup>35</sup> Likewise, SOEs often lack the experience and capacity to effectively conduct meaningful consultations with affected communities and social and environmental impact assessments that meet international standards. A 2017 study by the MOFCOM, SASAC and the United Nations Development Programme, found that only half of the Chinese companies surveyed were conducting social and economic impact assessments for their projects overseas.<sup>36</sup>

The Chinese government has even less control over activities by non-state-owned enterprises and locally branded 'BRI projects'. The development of the Shwe Kokko 'special economic zone' in the Kayin Border Guard Force (BGF) area of Kayin State is an example of a self-branded BRI activity. It is being developed by Myanmar Yatai International Holding Group, a private company based in Hong Kong. The project has faced widespread criticism for illegally employing Chinese workers, running illegal gambling

operations, destroying livelihoods and grabbing land.<sup>37</sup> The central Chinese government is unlikely to have been aware of Yatai's activities until media reports emerged. By that time, the damage, both locally and reputationally, had been done.

### *Influencing the BRI*

Since it is a broad framework rather than a predetermined strategy, activities under the BRI can be influenced by governments and civil society groups. BRI projects are, in theory, meant to support local plans for development. The Chinese government cannot force the implementation of Chinese investments. Rather, these must at least be accepted, if not supported, by local governments. With the Chinese government unable to effectively monitor and govern BRI activities, participating governments and civil society organisations must take a stronger role in governing BRI projects within their countries. This briefing shows the Myanmar government has taken some initial steps to improve governance of BRI projects in Myanmar, but can do much more than it has so far.

## The BRI in Myanmar

As mentioned above, the BRI is the most recent in a long series of efforts to boost trade and investment between China and Myanmar. Previous efforts have been fraught with challenges. The international isolation of Myanmar in 2016-2017 provided the Chinese government with an opportunity to refocus their relationship and (re)package projects in Myanmar under the new CMEC, the key mechanism for the BRI in Myanmar. Having learnt from previous experiences in Myanmar, Chinese investors, the Yunnan provincial government, and the central Chinese government have made efforts to publicise positive impacts of the BRI. However, the CMEC projects have not avoided the challenges facing foreign investment in Myanmar and progress has been slow.

### *Chinese trade and investment in Myanmar: hopes and disappointments*

Chinese spatial fixes began to impact Myanmar in the 1990s. While Chinese SOEs searched for profitable investments, and the neighbouring Yunnan provincial

government looked for means to boost economic growth, Myanmar was enacting its own economic reforms. Border trade between the two countries had been legalised in 1985, following reduced CPC support for the (banned) Communist Party of Burma (CPB).<sup>38</sup> After their coup in 1988, the State Law and Order Restoration Council (SLORC) continued General Ne Win's initial market-based reforms in an attempt to boost the country's weak economy.<sup>39</sup> In the same year, SLORC introduced the Foreign Investment Law to encourage foreign investment and began partially opening the economy to international trade and investment, much of which originated in China.

Trade between China and Myanmar grew quickly. Demand for cheap consumer goods was high in Myanmar following decades of isolation, and Chinese factories were eager to supply consumers with cheap products mass produced in China's export-oriented factories.<sup>40</sup> Trade was often facilitated by ethnic Chinese traders, both Myanmar locals and new Chinese migrants.<sup>41</sup> They imported cheap consumer goods, such as plates, textiles and cigarettes, flooding the

Myanmar market.<sup>42</sup> These traders became what Pal Nyiri describes as a 'new middleman' minority, connecting factories in China and consumers in Myanmar, a role Chinese traders also played in former Soviet States.<sup>43</sup>

During the 1990s and early 2000s, the SLORC and later the State Peace and Development Council (SPDC) governments sought bigger and more lucrative investments, particularly in industry and infrastructure. Myanmar continued to face boycotts and sanctions due to the military government's violent suppression of protestors in 1988, failure to recognise the results of the 1990 election and Aung San Suu Kyi's ongoing house arrest. As a result, the country was a less appealing destination for many foreign investors. The Chinese government and Chinese investors, however, were undeterred by the international sanctions and boycotts and provided the Myanmar government with political and economic support. This relationship was formalised and solidified through a series of economic cooperation agreements. In the 1990s, the two countries signed seven agreements on economic cooperation and China provided three large interest-free or preferential loans to support economic growth in Myanmar.<sup>44</sup>

In the same period Chinese SOEs started 'Going Out' in pursuit of profits, including in Myanmar. Myanmar is an attractive destination for Chinese investment – it has a consumer market of over 60 million people; a good strategic location between China, India, South East Asia and the Indian Ocean; a comparatively well-educated workforce with wages two and a half times lower than in China; and a rich potential for natural resource extraction and agricultural output.<sup>45</sup> Myanmar has, however, proved a challenging operating environment for Chinese companies. The north of the country, the natural link to China, has been plagued by long-running armed conflicts and political instability. The mountainous topography requires complex engineering solutions for infrastructure projects. Productivity is relatively low and poor quality infrastructure make the movement of goods, resources and people challenging.<sup>46</sup> Despite these challenges, Chinese investors pursued key projects in Myanmar including the China-Myanmar Railway, the Myitsonne Hydropower Dam and other hydro-power projects, a high-voltage electricity transmission line in Yangon and Ayeyarwady Divisions, the Sino-Myanmar Oil and Gas Pipelines, several factories, and fibre optic connections between the two countries.<sup>47</sup>

Throughout this period, the Yunnan provincial government has also been looking for projects to boost Yunnan's lagging provincial GDP. By 2005, Yunnan's position vis-à-vis other provinces had declined steadily, slipping from the 16<sup>th</sup> largest contributor to China's GDP in 1990 to the 24<sup>th</sup> in 2005.<sup>48</sup> Yunnan provincial officials promoted its location, as a bridgehead to southeast Asia, and to the Indian Ocean via Myanmar, as key to economic growth in the province. In particular they advocated domestically and internationally for the development of a 'landbridge' by which transportation routes could be developed from Yunnan Province to the Bay of Bengal. In support of this policy, four major areas of investment were advocated: oil and gas pipelines, the Trans-Asia Railway, highway construction (including the re-opening of the old Ledo Road to India), and power generation.<sup>49</sup> Their argument for the national importance of these projects was boosted by analysis showing that the 'land bridge strategy' would help to overcome what Chinese analysts call the 'Malacca Dilemma'.<sup>50</sup> Not only would transportation distances to China be reduced by up to 1,800 nautical miles, but ships could avoid passage through the narrow Malacca Straits around Singapore, which could be blockaded by the US navy and other foreign navies in the event of conflict.

To improve ties with Myanmar, the central Chinese government meanwhile embarked on a pragmatic strategy of engagement. There were four key elements. Officials quietly strengthened government-to-government relations, encouraged ethnic ceasefires along the common border, hastened the expansion of trade (both licit and illicit) in timber, jade and other natural resources,<sup>51</sup> and supported major development programmes in infrastructure-building and power generation.<sup>52</sup> Between 2000 and 2010 the Chinese and Myanmar governments signed at least 75 agreements relating to economic cooperation,<sup>53</sup> making China Myanmar's largest investor and trading partner.

In reality, much of the cross-border commerce was unregulated. Illicit narcotics was a particularly lucrative trade, and a matter of concern to the Chinese security services.<sup>54</sup> But, for the most part, daily life was characterised as *laissez-faire*. The Chinese authorities kept doors open to both the Myanmar government and influential ceasefire groups, such as the Kachin Independence Organisation (KIO) and United Wa State Army (UWSA). To facilitate trade, there were two kinds of border crossings: 'national' gateways

controlled by the Myanmar government and ‘provincial gateways’ controlled by ethnic ceasefire groups. There was good reason for different Chinese actors to support these arrangements. Most of the associated profits were made in China and, as trade boomed along the border, businessmen began describing Myanmar as ‘China’s California’.

But many of the key projects proposed by Chinese SOEs and the Yunnan provincial government faced cancellations and delays. The Land and Water Transport Passage and China-Myanmar Railway were both cancelled, in 1996 and 2006 respectively, while the Sino-Myanmar pipelines faced lengthy delays. MOFCOM warned Chinese investors that Myanmar was a difficult place to invest due to ‘... unsound legislation and unstable policy; poor infrastructure; and dual exchange rates with a large gap.’<sup>55</sup> MOFCOM therefore recommended that Chinese SOEs take out overseas investment insurance, or obtain guarantees from SINOSURE or the China Export Import Bank before investing in Myanmar. SINOSURE, the main state owned export credit insurer in China, in turn, designated Myanmar as a high-risk country to invest in. Agreements and MOUs signed regarding projects did not necessarily result in their completion, much to the frustration of their backers in China.

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***“Myanmar has, however, proved a challenging operating environment for Chinese companies. The north of the country, the natural link to China, has been plagued by long-running armed conflicts and political instability.”***

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The Chinese authorities – and the broader Chinese public – were also concerned when, in August 2009, the Myanmar armed forces (Tatmadaw) attacked the Myanmar National Democratic Alliance Army (MNDAA) in the Kokang region, an area populated by the ethnic Han Chinese Kokang people. The attack ended a 20-year ceasefire and over 37,000 people fled across the border to Yunnan.<sup>56</sup> But the worries of different Chinese actors were largely put to rest when the SPDC leader Senior-General Than Shwe visited Beijing

shortly before the 2010 general election, providing assurances about the security of Chinese investments during Myanmar’s political transition.<sup>57</sup> Senior Myanmar officials also travelled to the headquarters of key Chinese SOEs, including the China Railway Group, to reassure executives that their investments were safe and key projects would go ahead (see China-Myanmar High-Speed Railway case study below). Encouraged by this, official Chinese Foreign Direct Investment skyrocketed to over US\$ 12 billion during 2010-12, ensuring China’s status as the largest international investor in Myanmar.<sup>58</sup>

However, storm clouds were already gathering as the SPDC stepped down in 2011. The events that followed in quick succession over the next few years not only threatened Chinese investments in Myanmar but also saw China’s leading position come under threat. On the eve of Thein Sein’s inauguration in May 2011, the KIO Chairman, Zawng Hra, wrote to President Hu Jintao requesting him to stop the Myitsone Dam out of concern that it could lead to ‘civil war’;<sup>59</sup> in June the KIO’s 17-year ceasefire broke down when the Tatmadaw attacked KIO positions; in September, President Thein Sein postponed the Myitsone Dam project; in November of the following year, community protests started against both the Chinese-owned Letpadaung copper mine and pipeline projects in Rakhine State; in July 2014 the proposed US\$20 billion project to build a railway from Kunming to Kyauk Phyu was cancelled by the Myanmar government;<sup>60</sup> and conflict flared across northeast Myanmar, with Kachin, Kokang and Ta’ang forces resuming armed struggle. By 2016, to the concern of Chinese authorities, over 100,000 civilians had been displaced along the Yunnan border.

In many respects, the renewed conflicts and instability along the Yunnan border – and the back-step in Chinese relations – contrasted with the narratives of national reconciliation and political reform underway at the same time in other parts of the country. This rebalancing in the political landscape was not at all what Chinese leaders had envisaged when the SPDC stepped down. Indeed, President Thein Sein’s rapprochement with the National League for Democracy (NLD) and Western governments only increased Chinese government concerns about marginalisation.

The continued fighting along the border was a particular source of concern, especially after five Chinese citizens were killed in March 2015 when shells dropped by the Myanmar air force landed in Yunnan province. The Chinese public was outraged. In response, China's Vice Chairman of the Central Military Commission, Gen. Fan Changlong, warned that, if such an incident occurred again, China would 'take resolute and decisive measures to protect the lives, property and security of China's people'.<sup>61</sup> As Yun Sun of the Stimson Center remarked, this marked 'the worst day of Sino-Burmese relations' since 1967 when the Chinese Embassy was attacked and a number of Chinese nationals were killed in Yangon.<sup>62</sup> But the cross-border antipathies worked both ways, and there were still many in Myanmar who remained very cautious about their powerful neighbour. Not only were there concerns about the growing number of Chinese companies operating in the country, but the Chinese government's previous support for the CPB had not been forgotten. In particular, there were concerns that Chinese interests were still active across the border in Myanmar. As fighting continued in the Kokang region, the state media claimed that the battle was in defence of Myanmar's 'sovereignty'<sup>63</sup> and alleged that administrative positions in UWSA territory further south 'are being taken by ethnic Chinese and local culture is being swallowed and overwhelmed by the Chinese one'.<sup>64</sup>

As the clock ticked down on President Thein Sein's presidency, Chinese interests in Myanmar still appeared to be under threat. The landslide victory of the NLD in the November 2015 general election only further confirmed this widely-held impression. Under a government spearheaded by Aung San Suu Kyi, a human rights icon in the West, it was assumed that Myanmar's retreat from engagement with China would continue. Within two years, however, that expectation had been turned on its head.

### *The BRI enters Myanmar*

The Chinese government initially struggled to build momentum around promotion of the BRI in Myanmar. Anti-Chinese sentiment was high among the general population due, in part, to grievances relating to previous Chinese investments. Officials in the Chinese government, who had considered themselves good friends

to the Myanmar government while the country faced international sanctions, felt personally betrayed. President Xi Jinping, who had personally supported both the oil and gas pipelines and the Myitsone Dam project, reportedly questioned 'who lost Myanmar?'.<sup>65</sup>

However, political and strategic reasons were not the only source of difficulty for Chinese investment plans. In general, Chinese companies in Myanmar had a reputation for irresponsible operations, disregard for host communities' cultures, labour rights violations, land grabbing, and harmful impacts on both the environment and local livelihoods.<sup>66</sup> Chinese manufacturing was also associated with poor quality and cheap prices.

With the notable exception of the CITIC consortium, which won the tender to build the Kyauk Phyu Port, Chinese companies struggled to win contracts in Myanmar. Meanwhile, as the political transition continued, civil society groups grew in strength and improved their tactics for challenging problematic Chinese projects and manufacturers. Indeed, the Chinese scholar Du Lan suggested that sentiment was so negative towards Chinese companies in Myanmar that they should use companies registered in Hong Kong and Singapore to bid for projects, in order to improve their chances of winning contracts.<sup>67</sup>

During 2016, a series of articles written by Chinese academics voiced frustration with the lack of implementation of the BRI in Myanmar. Factors they blamed included the perceived incompetence of the NLD government; officials' lack of authority to make decisions; lack of political attention towards the BRI among politicians; challenges between 'two cores of political power' (i.e., the NLD and the Tatmadaw); and the deficiency of funds dedicated to BRI projects.<sup>68</sup> Li Chenyang, who had proposed the Yunnan 'landbridge' strategy in the 2000s, went so far as to describe Myanmar as acting like 'an emperor's daughter that does not need to worry about marrying'.<sup>69</sup> In essence, critics argued, Myanmar's leaders were acting as though their geo-political position, natural resources and economic potential meant that they had many international suitors and could select whoever made them the best offer. At the same time, Li also argued that Myanmar officials 'seriously overestimate' the importance of the country to the BRI on

the whole.<sup>70</sup> In other words, Myanmar's participation in the BRI was not essential to the success of the overall initiative, making the country's bargaining position weaker than its behaviour suggested. Li references the minor contribution the Sino-Myanmar oil and gas pipelines make to China's total supply of oil and gas (just 2.0 per cent and 3.6 per cent respectively in the first half of 2019) and Yunnan's current oversupply of electricity.<sup>71</sup>

The political landscape changed dramatically in 2017, following the crackdown by the Myanmar security forces on the Rohingya minority in Rakhine State. Suddenly the Myanmar government did not have as many 'suits' and the Chinese government was potentially back in favour with the Myanmar government. Over the following year, the Chinese government, aiming to rebuild relations, blocked motions against Myanmar at the United Nations, stepped up efforts to support the nationwide peace process, and promised increased investment in the country.

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***“This is not the first time an isolated government in Myanmar, seeking international backing, has signed a flurry of cooperation agreements with the Chinese government.”***

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In this context, BRI cooperation between the two countries was repackaged and relaunched as the China-Myanmar Economic Corridor (CMEC) by Foreign Minister Wang Yi in November 2017. This is not the first time an isolated government in Myanmar, seeking international backing, has signed a flurry of cooperation agreements with the Chinese government. In March 2004, during a visit by Chinese Vice-Premier Wu Yi, the two governments signed 21 agreements on trade and economic cooperation in everything from communications and power plants to mineral exploration and railways.<sup>72</sup> A further 12 accords were signed in July of that year, bringing the total number of economic agreements during 2004 to 33.

## ***The China-Myanmar Economic Corridor***

The CMEC has become the key mechanism for the BRI in Myanmar, encompassing the development of an economic mega-corridor further connecting China and Myanmar. The concept of 'economic corridors' was not new in Myanmar. Myanmar's own national infrastructure, industry and development planning are based on the development of economic corridors, including linkages between Yunnan Province and Kyauk Phyu and Yangon as envisaged under the CMEC.<sup>73</sup> Myanmar was also already part of two regional economic mega-corridors - the Greater Mekong Subregion and East-West Economic Corridor that linked five ASEAN countries. Economic corridors have been widely used in national planning in Asia and are promoted by financial institutions, such as the Asian Development Bank (ADB). Myanmar's 2016 *Industrial Policy* and the 2014 national transport development plan were both designed with support from the Japanese Government, who are also keen promoters of economic corridors.

Economic corridors are designed to link sites of extraction, production (in SEZs and industrial zones) and consumption through well-connected infrastructure including logistics hubs and transportation networks for natural resources, energy, people, goods and information. In Asia, however, the experience of these economic corridors has been painful, as they have often resulted in land grabs, environmental degradation, rural dispossession and new jobs with poor working conditions, while the companies involved have made massive profits from public-private partnerships developing the corridors.<sup>74</sup>

Information regarding the details of the CMEC has been scarce. An MOU was signed between the Chinese and Myanmar governments in September 2018 and covered 15 areas including infrastructure, construction, manufacturing, agriculture, transport, finance, human resources development, telecommunications, research and technology.<sup>75</sup> A cooperation plan for the CMEC 2019-2030 was signed by China's NDRC and Myanmar's Ministry of Planning and Finance prior to the Second Belt and Road Forum in April 2019.<sup>76</sup> 'CMEC project harvest lists' were also reportedly agreed at the meeting.<sup>77</sup> However none of these documents have been released publicly. Copies

of similar BRI MOUs have been released publicly when both parties agree to release them, for example, the MOU between Latvia and China on cooperation relating to the BRI was posted on a Latvian government website.<sup>78</sup> This shows that the Chinese government has been willing to make public these documents in some cases, and raises questions as to why the CMEC documents have not been made public.

Up to 40 projects were reportedly proposed by the Chinese government under the CMEC but only nine have been agreed with the Myanmar side.<sup>79</sup> Only three of these nine projects have been confirmed publicly: the Kyauk Phyu SEZ, the development of three border economic zones in Kachin and Shan states and the Muse-Mandalay Railway.<sup>80</sup> Both the Kyauk Phyu SEZ and the Muse-Mandalay Railway predate the BRI. Without details of the other six projects, it is difficult to assess the full scope and impact of the CMEC, and the initiative continues to be characterised by a lack of transparency.

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***“In Asia, however, the experience of these economic corridors has been painful, as they have often resulted in land grabs, environmental degradation, rural dispossession and new jobs with poor working conditions, while the companies involved have made massive profits from public-private partnerships developing the corridors.”***

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In the two years since the announcement of the CMEC, progress on the ground has been slow. In attempting to catalogue the results of CMEC so far, the Chinese state owned news outlet *Xinhua* could only identify two projects that had been completed: a pilotage stage in the Yangon River, for pilot boats to support navigation of the Yan-

gon River, and a gas fired power plant.<sup>81</sup> Both projects likely predate the CMEC but have been incorporated into its framework. Furthermore, as mentioned, the initiative has shrunk significantly from the Chinese government’s desired 40 projects to just nine. Yun Sun contrasted the progress of the CMEC with that of the China-Pakistan Economic Corridor (CPEC), where by the same two year mark, President Xi had visited the country and 51 agreements totalling more than \$46 billion had been signed.<sup>82</sup>

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***“In the two years since the announcement of the CMEC, progress on the ground has been slow.”***

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President Xi Jinping’s absence from Myanmar is notable since, as president, he has visited all other ASEAN nations except Thailand and has crisscrossed the globe to sign agreements relating to the BRI. Slow progress can be positive, if time is being taken for consultation, due diligence and careful assessment of projects’ viability and design. However, the pace of progress is likely to have been frustrating for Chinese officials and companies, who are keen to begin work and demonstrate results. Large-scale Chinese investments in Myanmar, however, have rarely been smooth and agreements have been made before, even on some of the same projects, without construction ever being completed.

### ***An abundance of activities under the BRI framework in Myanmar***

Although it is not clear exactly what is included under the CMEC, a myriad of activities are being implemented across Myanmar under the BRI framework. While attention is often given to the large-scale infrastructure projects – the Kyauk Phyu Port, Railway, and the SEZs - a range of other projects have been branded as ‘BRI activities’. Announcements are made so frequently that it can be difficult to keep track. These activities include engagements that build political and popular support for the initiative, create a policy foundation and provide the financial foundation for increased trade and investment. Bilateral meetings between the two governments have taken place, ranging

from head of state visits to departmental exchanges, as well as party to party exchanges. Agreements have been signed regarding taxation, financial transactions and trade quotas. Infrastructure projects are being developed including high-profile highways, railroads, ports, SEZs, airports, internet infrastructure as well as soft infrastructure such as customs IT systems and river satellite navigation. Investment summits have been instituted and Chinese companies have invested in natural resource extraction, energy, agriculture, manufacturing, real estate, tourism, hospitality, telecommunications and logistics.

Activities to build popular support for the BRI have included aid and development projects, scholarships, research cooperation, musical performances and religious exchanges. Myanmar politicians from multiple political parties, bureaucrats, business people, and media have visited China on organised study visits and exchanges.<sup>83</sup> Multiple new organisations have been established, including the China Enterprise Chamber of Commerce which opened a branch in Naypyidaw. Concerted efforts have also been made to promote BRI activities positively in the media and on social media in Myanmar, including in Myanmar language.

It is at this point that the BRI becomes difficult for the Myanmar, as well as the international, public to follow. Conceptualising or unifying this complexity is made more difficult by the fact that some of these projects predate the BRI, some have been rebranded within the BRI framework, and others are new. Some projects, such as the channelization of the Ayeyarwady River, were previously abandoned by Myanmar's military government and are now being revived under the BRI.

Equally critically, the BRI projects are located across parts of the country where various conflicts continue, and there may be significant differences of opinions about projects.

Key initiatives such as the Kyauk Phyu Deep Sea Port, the China-Myanmar Railway, the New Yangon Development Project, new SEZs and the Myitsone Hydropower Project could all significantly change the local topography and national economy of Myanmar, but the question of who will benefit and who will pay the price remains unanswered. As the Irrawaddy's founding editor Aung Zaw warned, NLD leaders know that resumption of the Myitsone Dam would be 'political suicide'.<sup>84</sup> In a January press release the Catholic Cardinal Charles Bo of Myanmar claimed the Myitsone project would be a 'death sentence' for the people due to the 'greed of a superpower'.<sup>85</sup>

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***“As public awareness has grown, concerns about the BRI in Myanmar have deepened in many communities, especially those in conflict affected areas.”***

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As public awareness has grown, concerns about the BRI in Myanmar have deepened in many communities, especially those in conflict affected areas. Parts of the Kachin, Rakhine and Shan States, especially, remained conflict zones, with major civilian displacement. In response, while repeating the mantra of development, ethnic peace and resolution of the 'Rakhine State refugee crisis', the Chinese government concentrated on relations with the NLD government and the Myanmar business community. As Khin Khin Kyaw Kyee wrote, in the context of realities in Myanmar 'China's multi-layered engagement strategy' is the 'best fit for Beijing's policy preferences'.<sup>86</sup>

## Four case studies of BRI activities in Myanmar

This briefing explores four case studies of large-scale activities promoted under the BRI framework: (1) the interconnection of the Myanmar and Chinese national electricity grids, (2) the China-Myanmar High-Speed Railway, (3) the Sino-Myanmar Land and Water Transportation Passage and (4) SEZs and Industrial Zones. These all involve long-standing projects or activities that predate the BRI, with support from the Myanmar government varying over time. A few general trends can be observed about these projects, which may also help to cast light on possible questions about the BRI in Myanmar.

These four projects are interlinked. Stable electricity is needed to power the electric railway and industrial zones, while the railway and land and water passage could better connect industrial zones in Yunnan and Myanmar. This highlights the interconnectedness of BRI activities, in which the success of separate projects is often interdependent.

An examination of the development process of these projects reveals that all four cases are driven by either Chinese SOEs or the Yunnan provincial government, rather than by the central Chinese government. The first two projects, pursued by Chinese SOEs, illustrate the process by which BRI projects emerge, and the extent of corporate lobbying within China and Myanmar for their implementation. The study of the Sino-Myanmar Land and Water Transportation Passage, which is driven by Yunnan provincial government, especially demonstrates the internal struggle to promote the project domestically and internationally. While not the initiator of these projects the Chinese government, through their Embassy in Yangon, played a supportive role in three out of the four projects studied once they had gained a certain level of momentum.

The case studies also reveal weaknesses in some of the projects. A closer look at the two projects connecting Yunnan with the Indian Ocean across Myanmar (the China-Myanmar Railway and the Land and Water Transportation Passage), raises serious questions about the financial viability of these projects. Both are costly endeavours and, if completed, could create a serious debt burden for the Myanmar Government.

All four cases also reveal a lack transparency and meaningful consultation with affected communities. More information regarding BRI projects is often available in Chinese than in English language sources, with even less available in Myanmar language. Chinese companies, for example, routinely post pictures and summaries of meetings with high level Myanmar officials on their websites, providing a timeline of their lobbying efforts surrounding key projects. These are usually posted in both Chinese and English but more information is usually included in the Chinese language version. However, information about the planned routes, contracting process and justifications for the projects is generally lacking. Where available, information is often segmented in press releases or media articles, requiring significant research and analysis to understand the project as a whole.

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*“More information regarding BRI projects is often available in Chinese than in English language sources, with even less available in Myanmar language.”*

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The same projects are often discussed differently in Chinese and English language media, meaning that the image of projects presented to the international community may differ from that within China. The project to connect Myanmar and China’s electricity grids and the Land and Water Transportation Passage, for example, have not been discussed widely in non-Chinese sources, but Chinese-language information regarding their progress is available in online company and government sources. Furthermore, academic commentators within China tend to be more diplomatic in their writings on Myanmar in English than in Chinese-language publications, in which they have given frank assessments about the prospects of BRI projects and expressed frustrations with the Myanmar government.

The final case study draws special attention to the impacts of BRI activities on agrarian communities in Myanmar. To build the SEZs and industrial zones, land has been grabbed and livelihoods eliminated, providing farmers with little choice but to work in low paying day labourer jobs, or to migrate in search of seasonal work. The industrial zones discussed in the final case study also illustrate the ability of any actor, including a private company, to brand their project as a 'BRI project'.

All four cases have possible impacts for the armed conflict and peace process in Myanmar. At the same time, they risk being impacted by the armed conflict. The three infrastructure projects pass through Kachin and Shan States in northern Myanmar, while the SEZs and industrial zones are also being developed in conflict-affected areas. The China-Myanmar Railway would, additionally, pass through Rakhine State. These activities can impact relations between ethnic armed organisations (EAOs) as well as having potential negative impacts on efforts to promote peace and reconciliation. The complex relationships between investment projects and the conflict and peace process was vividly illustrated in 2019 when the China Railway Eryuan Engineering Group (CREEG) took advantage of a unilateral ceasefire announced by the Myanmar Army – and most likely encouraged by the Chinese government – in order to conduct a feasibility study for the high-speed railway between Muse and Mandalay. Furthermore, major Chinese investments in physical infrastructure in all four cases is likely to lead to an increase in militarisation. The Myanmar army, EAOs, local militia groups formally under Myanmar Army control, and private security firms are all already reportedly involved in protecting assets.

The ongoing conflict remains the biggest risk for the completion of these and other high profile BRI projects. The Chinese government is eager to foster agreements between the conflict parties in Myanmar to stabilise the border region, which would allow Chinese investments to prosper and guarantee the security and safety of Chinese citizens in these areas. Recent attacks by EAOs in northern Shan State have, however, highlighted the difficulties in promoting such agreements. Promotion of BRI activities cannot be separated from the Chinese Government's role in the peace process, as both are interlinked, with BRI-related investment adding an additional factor to an already complex and volatile situation.

## **Case Study 1:** **Interconnection of the Myanmar and Chinese national electricity grids**

A decade ago, Chinese energy corporations looked to Myanmar as a potential supplier of electricity to China through large-scale hydroelectricity generation using the country's extensive river networks. Dams built by Chinese companies such as Myitsone and Dapein in Kachin State were originally intended to send the majority electricity generated to China. However, with a massive and unprofitable oversupply of electricity now occurring in southwest China, Chinese energy companies and the Yunnan provincial government are looking to Myanmar as a potential customer for excess Chinese electricity. Myanmar, meanwhile, faces significant shortfalls in electricity supply and is seeking more sources as domestic demand grows. The large-scale sale of Chinese electricity to Myanmar would require a huge investment in high-voltage electricity transmission infrastructure, passing through conflict areas in northern Myanmar. It could also leave Myanmar reliant on Chinese electricity supplies.

In 2014, under the BRI framework, Chinese energy and construction SOE China Southern Power Grid (CSG) began lobbying the Myanmar and Chinese governments to connect the two countries' electricity grids and enable the sale of more Chinese electricity to Myanmar. Within five years CSG was successful and the Myanmar government has now committed to buying 1,000 megawatts (MW) of electricity. Using CSG's statements and Chinese media articles, the timeline for the project's development will be unpacked below, revealing the corporate-driven nature of the project.

### ***Selling China's excess electricity to electricity hungry Myanmar***

In 2000, the Chinese government launched the 'West-East Transmission Project' (西电东送), to encourage the generation of fossil free hydropower in southwest China and its transmission to high-consuming areas in southeast China. The project was developed in the context of the larger 'Great Western Development Project' and the Yunnan provincial government was an enthusiastic supporter. The Yunnan provincial government hoped electricity sales to other provinces would boost Yunnan's lagging provincial

GDP, generate tax revenue for the province and attract industries with high energy needs. The subsequent dam building frenzy, led by large Chinese energy SOEs, resulted in China's hydropower generation capacity growing to 352,000 MW, representing roughly a quarter of the world's total hydropower generation capacity.<sup>87</sup>

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***“However, with a massive and unprofitable oversupply of electricity now occurring in south-west China, Chinese energy companies and the Yunnan provincial government are looking to Myanmar as a potential customer for excess Chinese electricity.”***

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The sharp increase in hydropower generation capacity over the last two decades has, however, resulted in a significant surplus. Since 2012, Chinese hydropower plants have been ‘abandoning water’ and choosing not to generate to their full capacity due to lack of demand.<sup>88</sup> In 2018, the total surplus power generation capacity from China's hydropower plants reached 69.1 billion kWh of electricity, the majority of which was in Yunnan and Sichuan.<sup>89</sup> Yunnan's excess capacity was caused by multiple factors: (1) rapid growth in dam construction; (2) reduced electricity demand in Yunnan; (3) limited electricity transmission capacity, including to other provinces; and (4) issues with pricing and market reforms.<sup>90</sup> Facing billions of dollars in lost revenues, Chinese electricity suppliers, CSG in particular, sought to export the electricity to neighbouring countries, including Myanmar.

Meanwhile, the Myanmar government has very different reasons for wanting to increase electricity supplies. Only 44 per cent of the population is connected to the electrical grid and there is limited high-voltage transmission.<sup>91</sup> Existing generation capacity and stability are poor, while residential and industrial demands are growing. Myanmar currently consumes approximately 13 billion kWh annually, but by 2030 annual consumption is expected to rise to 80 billion kWh.<sup>92</sup>

### ***CSG's lobbying to connect China and Myanmar's national electricity grids***

In 2012, CSG, the national level SOE that sells and supplies electricity to southern China, began promoting the sale of Chinese hydropower internationally to absorb excess hydroelectricity.<sup>93</sup> They had been selling large amounts of electricity to Vietnam since 2004 and wanted to expand the model to other countries.<sup>94</sup> CSG already sold electricity to a few border towns in northern Myanmar but these towns were not connected to Myanmar's national grid with high-voltage transmission lines. To increase electricity sales to Myanmar, CSG needed the country's electricity infrastructure to be upgraded and the two countries to be connected by high-voltage transmission lines.

CSG has a strong, profit driven, motive to push for the grid interconnection. CSG has an annual revenue of US\$80 billion (more than Myanmar's national GDP) and a workforce of 289,000 employees. To sustain their workforce and increase profits, the company must continually increase sales and construction projects, including through international expansion. Through its subsidiary, Yunnan Power Grid, CSG manages the sale and supply of electricity in Yunnan. CSG, therefore, has a stake in finding customers for Yunnan's currently underutilised hydroelectricity generation. As the success of CSG, and its managers, is judged on the basis of economic output, primarily profit, there is a strong corporate motive to expand sales to Myanmar.

To promote sales to Myanmar, CSG began lobbying both the Myanmar and Chinese governments. As early as 2014, the SOE was reportedly in discussions with the Myanmar government to sell electricity to Myanmar via a 500kV high-voltage transmission line.<sup>95</sup> On 19 May 2015, Wang Jiuling, the Deputy General Manager of CSG, met with the Myanmar Minister of Electricity and Energy (MOEE), to discuss the ‘China-Myanmar Grid Project.’<sup>96</sup> An article in *Sina Finance* reports that CSG, together with the China-Myanmar Friendship Association were ‘actively working to incorporate the project into the BRI.’<sup>97</sup> At the meeting, the MOEE committed to holding talks with leaders of the Chinese National Energy Administration (NEA) to discuss the power grid, hydropower projects and other power projects between the two countries, including the project with CSG. At the May 2015 meeting, CSG was therefore both lobbying the Myanmar government to support the project and enlisting the MOEE to lobby the Chinese government in support of the project.

In October 2017, as the project grew and more government bodies became involved, a 'Chinese Working Group' led by CSG was formed to advance the project.<sup>98</sup> The working group is responsible for the promotion of the project, strengthening communications between the Chinese NEA, the Chinese Embassy in Myanmar and the Myanmar MOEE, and working closely with the Myanmar side to jointly develop the project including a workplan and timetable.<sup>99</sup> While CSG is in the lead, the organisation of the group appears to have been undertaken by CSG's subsidiary, CSG Yunnan International Company. By this time, Myanmar MOEE had agreed to purchase Chinese electricity 'in principle'.<sup>100</sup> In three years, CSG had managed to build political support for the project in both Myanmar and China.

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***“To promote sales to Myanmar, CSG began lobbying both the Myanmar and Chinese governments.”***

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CSG also succeeded in having the project recognised for its national-level importance under the BRI framework. On 19 July 2018, China's NEA board argued that Yunnan's hydropower oversupply could be eased through increased export of electricity to neighbouring countries under the BRI framework.<sup>101</sup> The NEA argued that the necessary electricity transmission infrastructure could be funded and constructed under the BRI, and the desired regional electricity market could be developed.<sup>102</sup>

However, despite being the working group lead for the project, CSG appeared to face competition from China's other major grid owner, State Grid Corporation of China (SGCC). On 21 August 2018, the President of SGCC, Kou Wei, also met with the Minister for Electricity and Energy, U Win Khaing, to discuss the interconnection of the two grids.<sup>103</sup> In attendance was their subsidiary, China Electric Power Equipment and Technology Company (CET), which had already been contracted to build sections of Myanmar's national electricity grid. Four days later, on 25 August 2018, Minister U Win Khaing met with CSG representatives again in Kunming, together with officials from the Yunnan Provincial Energy Department.<sup>104</sup>

The individual lobbying by both companies highlights the competition among Chinese SOEs, with both seeking to increase their own revenues and profits.

Within five years CSG had successfully made the sale to Myanmar. In May 2019, the Myanmar MOEE announced its intention to buy 1,000 MW of electricity from CSG.<sup>105</sup> The electricity from the CSG will reportedly service Muse, Mineye and Hopong in Shan State, Loikaw in Kayah State and Phayargyi in Bago Region.<sup>106</sup> It is not clear why these towns, in particular, were chosen to buy Chinese electricity. Muse, Mineye and Hopong are close to the Chinese power grid but Loikaw and Phayargyi are not. Phayargyi and Loikaw are, however, both connected to the national high-voltage grid. While 1,000 MW is much smaller than the amount CSG currently sells to Vietnam and Laos, it is a beginning and the purchase will require the construction of high-voltage transmission lines, making future sales of more electricity more viable.

CSG is also looking to Myanmar as a thoroughfare to another potential market in Bangladesh. A feasibility study is underway to assess the viability of extending the high-voltage grid from Myanmar to Bangladesh.<sup>107</sup> This would link the three countries' national power grids and enable CSG to sell electricity to Bangladesh, via Myanmar. Connecting the line onwards to Bangladesh would also further expand the development of a 'regional electricity grid' across Asia and allow for greater international electricity sales.

Examination of the development of the China-Myanmar grid interconnection project gives an insight into the process behind the formation of massive infrastructure projects under the BRI framework. In this case, CSG appears to have proposed the grid interconnection project to the Myanmar Government, actively lobbied for their support and requested the Myanmar government lobby the Chinese NEA to support the project. Over time, the company built political support for the project both in China and in Myanmar. Later, the Chinese Embassy in Myanmar supported the initiative and the whole effort appears to have been managed through an organised 'Working Group' of Chinese stakeholders, led by CSG. This highlights that, rather than the central Chinese government directing SOEs to develop projects, SOEs can propose and progress projects, with central Chinese Government authorities playing a supporting role.

## ***Constructing Myanmar's national high voltage power grid***

Before the deal to sell Chinese electricity to Myanmar was finalised, routes to connect the two electricity grids had already been proposed by Chinese companies. One route travels via Bhamo in Kachin State and the other via Muse in Shan State. Both projects are supported by the Chinese government and former Chinese Ambassador Hong Liang attended the ground-breaking ceremony for the Bhamo Route.<sup>108</sup> The construction of multiple transmission lines would not only enable greater sales, but would also provide alternative routes if transmission lines are damaged in conflict.

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***“The construction of multiple transmission lines would not only enable greater sales, but would also provide alternative routes if transmission lines are damaged in conflict.”***

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The Bhamo route is more advanced, with construction already completed on one section of the transmission line. Sometimes referred to as the ‘Backbone Network Power Transmission Project’, the SGCC, through their subsidiary CET, have built a 230kV transmission line from Ohntaw to Nabar, both in Sagaing Region.<sup>109</sup> The new transmission line, CET argues, would transmit electricity to where it is most needed and provide electricity for 5 million households.<sup>110</sup> From Nabar, a 230kV transmission line to Bhamo is being built Union Resources and Engineering Company (UREC).<sup>111</sup> UREC is the ‘general contracting vehicle’ of the Yunnan Province Energy Investment Group (YEIG), a Yunnan Provincial SOE.<sup>112</sup> The whole project, connecting Ohntaw to Bhamo, is expected to be completed by October 2019.<sup>113</sup> By constructing a high-voltage electricity transmission line between Ohntaw and Bhamo, China and Myanmar’s national electricity grids will be connected. Ohntaw will be connected to Myanmar’s national grid and Bhamo is already linked to China’s national grid in Yunnan with a 230kV transmission line via the Daepin Dam.<sup>114</sup>

The route connecting Myanmar and China’s national grid via Muse and Meiktila is still under consideration. An MOU was signed between CET and the Myanmar government

in March 2016 to investigate the construction of a 500kV transmission line from Muse to Meiktila.<sup>115</sup> Similar plans were reportedly proposed in 2017 by CSG. Another plan to use existing lines was proposed by CSG’s subsidiary, the Yunnan International Company.<sup>116</sup> This route is likely more complex as it passes through conflict areas in northern Shan State.

The high voltage connection between Meiktila and Yangon is also being upgraded to a 500kV line in sections. Two other Chinese SOEs, China Energy Engineering Group Hunan Electric Power Design Institute (CEEG-HEPDI) and SEP-CCO Electric Power Construction Corporation, recently built a 500kV transmission line from Meiktila to Taungoo.<sup>117</sup> CEEG-HEPDI is a subsidiary of China Energy Engineering Group (CEEG), a national SOE energy engineering conglomerate, while SEP-CCO is a subsidiary of PowerChina, a mammoth Chinese SOE in energy infrastructure construction.<sup>118</sup>

### ***Key concerns regarding the grid interconnections***

The interconnection of the two countries’ grids raises two major concerns. First, increased purchase of Chinese electricity could leave Myanmar reliant on China as a source of electricity. One of the reasons there is a surplus of Yunnan hydropower is because it is more expensive than other forms of electricity in China.<sup>119</sup> An open and transparent assessment of cost of Chinese hydropower compared to other sources of electricity is needed to assess whether this arrangement with Myanmar represents good value for money. Dependence on Chinese electricity could also leave Myanmar vulnerable to price increases. In the unlikely event of conflict with China, transmission to Myanmar could also be stopped, crippling Myanmar’s electricity supply. These factors need to be taken into consideration when assessing the ratio of imported to domestically produced electricity.

Second, the transmission lines and many of the proposed hydropower plants are in conflict areas and may lead to increased militarisation. High voltage electricity transmission lines are expensive. One company has estimated the cost of constructing a 500kV line between the Shweli Hydropower Dam and Meiktila at US\$300 million.<sup>120</sup> The transmission lines are likely to be high-profile targets open to sabotage and their owners will want to secure their investments. Protection of these assets may mean an increase in security infrastructure, and

potentially of militarisation, in these areas. The Myanmar army, EAOs, local militia groups formally under Myanmar Army control, and private security firms are all already reportedly involved in protecting assets in northern Myanmar.<sup>121</sup> The difficulty in securing such expensive investments may be why the development of the Muse route is taking longer than the Bhamo route. For the Bhamo route, the high voltage lines through conflict areas are already in place and appear to be secured. Further transparency and consultation over the construction of the transmission lines is necessary to assess the impact of the project on the conflict and the peace process.

### ***Myanmar's own North-South Electricity Transmission Project?***

The construction of high-voltage electricity transmission infrastructure will not only connect China's and Myanmar's national grids, it will also provide the 'backbone' infrastructure to connect existing and proposed hydropower plants within Myanmar to the national high-voltage grid. In the Chinese media and on their website, SGCC describes their Myanmar electricity transmission infrastructure projects as helping to build a '北电南送' 通道' (North-South Electricity Transmission passage), invoking China's own West-East Electricity Transmission Project.<sup>122</sup> SGCC, as well as CSG, YEIG and several other Chinese SOEs, have invested in existing and planned hydropower plants in Myanmar and are therefore keen to develop transmission and generation capacity under such a scheme in order to increase their profits.<sup>122</sup>

With the exception of the Lawpita hydropower project in Kayah State, the majority of Myanmar's existing and planned hydropower generation capacity is located in the north of the country. In contrast, the majority of electricity demand for industrial and residential consumption is located in the centre and south of the country. The Myanmar government has already begun upgrading the national grid to expand access to electricity under the World Bank financed US\$400 million National Electrification Project (NEP).<sup>123</sup> The construction of high-voltage infrastructure between Myanmar and China, together with the NEP, would inadvertently construct the electricity transmission infrastructure necessary for a 'North-South Electricity Transmission Passage'. If the Myanmar government chooses to, they could then implement an energy strategy whereby more hydropower plants were built in the north of the country to power the centre and south, similar to China's 'West-East Electricity Transmission Passage'.

The 'powershed' approach of producing electricity in one part of the country to supply another should be treated with caution. The implementation of this strategy in China saw mass displacement and environmental damage.<sup>124</sup> What's more, the scheme was largely financed through provincial debt and has not been as profitable as expected.<sup>125</sup> In Myanmar, communities have already experienced similar harm from large-scale hydropower plants including mass displacement, land grabs and environmental damage.<sup>126</sup> The International Finance Corporation (IFC), an affiliate of the World Bank Group, recently conducted a Strategic Environmental Assessment (SEA) of hydropower in Myanmar and found the number of existing and planned hydropower plants to be unsustainable, recommending planned dams on five rivers including the Ayeyarwaddy and Thawlin be abandoned.<sup>127</sup>

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***“The ‘powershed’ approach of mass producing electricity in one part of the country to supply another should be treated with caution.”***

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The SEA was originally conducted with the support of the Myanmar MOEE, however the MOEE withdrew their support following the release of the draft assessment. Since then, the MOEE has reportedly been developing their own 'white paper' on hydropower, with technical support from the Chinese NEA.<sup>128</sup> As discussed above, the NEA was actively involved in the development of the China-Myanmar grid interconnection project as well as the West-East Transmission Project within China. It is likely, therefore, that they will support the development of hydropower dams in northern Myanmar and the further interconnection of the two countries' grids.

Communities in Shan and Kachin states have already expressed their opposition to hydropower developments including the Myitsone Dam and Ngo Chang Hka River dams proposed by Yunnan Energy Investment Company.<sup>129</sup> Furthermore, the planned hydropower dams are mostly in Kachin, Shan and Chin states and it is therefore people from ethnic nationalities in these states who will bear the burden of these hydropower projects for the national benefit. In such a conflict-divided country as Myanmar, a focus on national benefit is likely to prove highly contentious until nationwide peace and reforms are established.

As current conflicts in the Kachin, Rakhine and Shan States highlight, the national government's interests can be seen as synonymous with the interests of the majority Bamar population and may disproportionately disadvantage ethnic nationality peoples. As the experience of the Lawpita Hydropower Project in Kayah State has shown,<sup>130</sup> there can be resentment and conflict over who benefits from energy projects, and who pays the costs.

## **Case Study 2:** **The China-Myanmar High-Speed Railway**

The China-Myanmar High-Speed Railway has been hailed as a key project in the CMEC. Yet it is not new and the railway has already experienced several cycles of proposal, design and suspension or destruction. Now, under the CMEC framework, the project has again been suspended in light of ongoing conflict along the railway route. Here we examine the process to develop the railway, revealing the long-term efforts by Chinese SOE China-Railway Group (CREC) to advance the project.

A railway connecting Yunnan and Myanmar was originally proposed in 1907 by British colonial officials but their requirement that the British hold authority over the railway was unacceptable to the Chinese Qing Government of the day.<sup>132</sup> Sun-Yet Sen, revived the idea to build a trainline to the Myanmar border in his 1917 'Strategy for Founding the Country' (建国方略) but the plan never came to fruition.<sup>133</sup> In 1938, during the Sino-Japanese War, the Chiang Kai-Shek Government in Chongqing proposed building a railway from Kunming to Lashio to transport supplies to the hemmed-in Government.<sup>134</sup> Three-hundred thousand Yunnanese workers, mostly army recruits, were organised to build the railway with support from the US.<sup>135</sup> The incomplete statistics available show that nearly 100,000 workers died during the three years of construction, largely due to disease and the hard manual labour.<sup>136</sup> After the Japanese army occupied Myanmar in 1942, the Chinese government ordered the bombing of the China-Burma Railway (of which approximately 50 per cent had been built) so that the Japanese could not use it to attack south-west China.<sup>137</sup> After four years and approximately 100,000 deaths the railway was all but destroyed.

The proposal for a China-Myanmar railway was again revived in the mid-1990s as part of the proposed

Trans-Asian Railway, backed by ASEAN and the UN Economic and Social Commission for Asia and the Pacific (UNESCAP).<sup>138</sup> CREC, the national level Chinese railway construction SOE, began exploring possibilities for the railway.<sup>139</sup> An agreement to develop a railroad between Muse and Lashio, with the intention of eventually connecting the railway to Yangon, was among the 33 agreements signed between China and Myanmar in 2004.<sup>140</sup> CREC subsidiary, China Railway Eryuan Engineering Group (CREEG) began a 'comprehensive study' of the Myanmar section of the China-Myanmar railway in 2005.<sup>141</sup> Despite reports in the Chinese media as early as 2006 that construction was about to commence, the railway was never implemented and the agreement expired.<sup>142</sup> Chinese officials in Yunnan privately expressed frustration at the lack of commitment from the Myanmar side.

In 2011, the project was again revived and on 28 May the two countries signed a new MoU to develop a much longer railway from Ruili, in Yunnan Province, to Kyauk Phyu, in Rakhine State.<sup>143</sup> The railway construction was reportedly intended to take place in five stages, within three years, with the line following the same route as the oil and gas pipelines.<sup>144</sup> A contract was never signed but the project was expected to cost RMB70 billion (approximately US\$9.8 billion), with the finance coming from China and the Myanmar government reportedly repaying this through an exchange in natural resources.<sup>145</sup>

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***“While frustrated, CREC and the Yunnan provincial government did not abandon the project.”***

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On 27 October 2011, three weeks after the suspension of Myitsone Dam, Myanmar Vice-President Tin Aung Myint Oo travelled to Guangzhou to meet CREC Chairman Li Changjin. Together with the Chinese Ambassador to Myanmar, the Deputy Director of the Myanmar Ministry of Railways, and Steven Law, Chairman of Asia World,<sup>146</sup> they discussed issues related the construction of the China-Myanmar Railway. The aim of this trip appears to have been to reassure CREC that the project, which was also facing local protests, would not be suspended as the construction of the Myitsone Dam had been.

The project was, however, cancelled by the Myanmar government in 2014 due to what the Director of the Myanmar Railway Ministry described as 'public opposition'.<sup>147</sup> It marked another frustrating moment for the Yunnan and central Chinese governments, and a RMB70 billion (approximately US\$9.8 billion) loss in potential revenue for CREC.<sup>148</sup> The company also lost their investment in the preparatory work for the project, including the study.

While frustrated, CREC and the Yunnan provincial government did not abandon the project. Rather, they powered ahead with the Chinese side of the China-Myanmar Railway with the hope that the Myanmar side would one day be constructed. The Ruili-Dali high-speed railway began construction in 2015 and completion is expected in 2022, including the 34.5 km Gaoligongshan Tunnel which will be Asia's longest mountain railway tunnel.<sup>149</sup> The intermediary town of Dali is already connected to Kunming by a 2-hour high-speed train (200km/hour maximum speed). The railway from Dali to Ruili will be slower, with a top speed of 140km per hour.<sup>150</sup> A high-speed railway line is also being developed between Dali and Licang, with hopes of connecting onwards to the Myanmar border from there as well in the future.<sup>151</sup>

The Dali-Ruili high-speed railway has faced significant engineering challenges and was originally delayed due to difficulties obtaining finance for the project.<sup>152</sup> The Dali-Ruili section of the railway is more likely to be commercially viable if there is an ongoing connection to Myanmar, rather than terminating at the small border town of Ruili. The lack of commitment to build the railway on the Myanmar side may have impacted the process of obtaining finance for the Chinese section.

### ***The revival of the China-Myanmar Railway under the CMEC***

As political and investment conditions swung back in favour of Chinese companies in 2017, CREC resumed lobbying for the project. In April 2017, before the CMEC was announced, CREC Chairman Li Changjin, Vice-President Liu Hui and their chief engineer travelled to Myanmar to meet Vice-President Henry van Thio.<sup>153</sup> During the meeting, the Vice-President, on behalf of Aung San Suu Kyi and the Myanmar President, said that the development of the railway was welcomed.<sup>154</sup> During the trip, Li Changjin also met with the Myanmar Minister of Transportation and Communications and the Deputy Minister of Planning and Finance.<sup>155</sup> He also met with

Chinese Ambassador Hong Liang, who said he would help to support the project within Myanmar and shared his analysis of the current situation in Myanmar.<sup>156</sup> Just one month later, in May 2017, CREC proposed the feasibility study for the Muse to Mandalay section of the railway.<sup>157</sup>

Direct lobbying from high-level company executives, such as CREC Chairman Li, shows the importance of the initiative to the company and demonstrates their forthright lobbying approach. CREC is a Fortune 500 company with an annual revenue of US\$112 billion dollars (almost double Myanmar's GDP) and more than 300,000 employees.<sup>158</sup> In the 1990s, CREC began to look abroad for projects. As a construction company, CREC must continually seek new projects to maintain their enormous revenues and workforce. CREC, and their subsidiaries, are involved in railway construction projects in, among others, Ethiopia, Morocco, Bangladesh, South Africa, Fiji, Vietnam, Russia and Israel as well as in a proposed railway across South America, the high-profile Jakarta-Bandung Railway and the China-Laos Railway.<sup>159</sup> Several of these projects are controversial and have faced allegations of social and environmental harms and a lack of financial viability.<sup>160</sup> As a project worth US\$7 billion, the construction of the China-Myanmar Railway has clearly been prioritised by CREC, in spite of similar criticisms.

Learning from their previous failed attempts to implement the railway, CREC also began promoting 'corporate-social responsibility' activities. For example, to demonstrate their commitment to training local labour and to help ease implementation, CREC signed an MOU for a Myanmar Railway Talent Training Project in 2017, under which more than 200 design and construction technicians would receive long-term professional training.<sup>161</sup>

Throughout 2018, as the content of the CMEC was being negotiated, CREC continued to lobby for the project to resume under the CMEC. On 19 June 2018 CREC Chairman Li Changjin met with the Myanmar Minister for Transport and Communications at the company's headquarters in Beijing. On 9 September 2018, CREC Vice-President Ren Hongpeng met with the Myanmar Minister of Planning and Finance, U Soe Win, at Diaoyutai State Guesthouse in Beijing to discuss the China-Myanmar railway. Ren said 'He hopes that CREC could work with the Myanmar government to speed up the signing of MOU on Muse-Mandalay Railway Project, so that the two sides would be able to sign the Letter of Intent within this year.' U Soe Win reportedly said that the Y-shape railway line was '... the top priority'.<sup>162</sup>

Statements by the company and by Ambassador Hong Liang describe CREC as taking the lead in implementing the railway. In the statement about the June 2018 meeting on CREC's website, Li describes CREC as the lead unit for the China-Myanmar Railway Project.<sup>163</sup> In a statement about a March 2019 meeting between Chinese Ambassador to Myanmar Hong Liang and CREC President Zhang, the Ambassador describes CREC as the 'sole lead' designated by the state to promote the project.<sup>164</sup> This suggests that CREC's role in the China-Myanmar Railway project is similar to the role played by CSG in the national grid interconnection project discussed above.

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*“Direct lobbying from high-level company executives, such as CREC Chairman Li, shows the importance of the initiative to the company and demonstrates their forthright lobbying approach.”*

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In October 2018, CREC's lobbying paid off and the project was officially revived under the CMEC. CREEG, the same subsidiary that completed the 2005 feasibility study, signed an MOU with Myanmar Railways to conduct a feasibility study for a railway between Muse and Mandalay.<sup>165</sup> The study was to include an environmental and social impact assessment and CREEG moved quickly to begin. In early 2019, they took advantage of a temporary ceasefire in Northern Shan State, that had been encouraged by the Chinese government, to complete the feasibility study. According to an article in the Myanmar Chinese-language newspaper 'the Golden Phoenix', on 5 January the 'responsible persons of China and Myanmar' had met in Muse to discuss matters related to the railway's construction.<sup>166</sup> The same article said the Nawnghkio to Lashio road sections were to be surveyed from 6 January to 13 April, and the Lashio to Muse sections from 15 January to 2 April.<sup>167</sup> This indicates that the studies were likely planned before Myanmar armed forces announced their unilateral ceasefire on 21 December, or they were organised very quickly.<sup>168</sup>

Despite the progress, CREC continued acting to secure their investment, maintaining their engagement with

high-level Myanmar officials. On 21 March 2019, the President of CREC, Zhang Zhongyan, and Vice-President Ren Hongpeng met with the Minister of Transport and Communications, U Thant Sin Maung.<sup>169</sup> They met again on 27 April 2019 and reportedly '...had an in-depth communication and reached broad consensus on promoting infrastructure development in Myanmar.'<sup>170</sup> The NLD remained supportive, with Minister U Thant Sin Maung saying that the railway project is regarded as a priority in the country's transport master plan.<sup>171</sup> Despite difficulties accessing the proposed line due to security concerns, CREEG submitted their feasibility study to the Myanmar government in May 2019.<sup>172</sup>

Crucially, the delivery of the feasibility study does not guarantee that CREC or any of its subsidiaries will receive the contract to construct the railway. Rather, once the route of the railway is decided, the construction project will be opened to international tender.<sup>173</sup> The Myanmar government's ability to insist on an international tender process shows the power that they have to influence the trajectory of BRI projects in the country. CREC, for their part, would surely have preferred to secure an exclusive agreement regarding the project, as they had done previously in 2004 and 2011. Their development of the feasibility study does, however, show a level of confidence in their ability to win the contract in an open tender process. Perhaps they are aware of the complex nature of the railway, in an active conflict zone, and believe that other railway construction companies may be hesitant to take on the project. Security along the proposed line remains the key challenge for the construction of the railway.

On 25 September 2019, the managing director of Myanmar Railways announced the suspension of the Muse-Mandalay High Speed Railway project due to security concerns.<sup>174</sup> In August three groups, the Arakan Army (AA), Ta'ang National Liberation Army (TNLA), and the Myanmar National Democratic Alliance Army (MNDAA), calling themselves the Brotherhood Alliance, attacked key Myanmar military and police targets along the highways between Mandalay and the Chinese border, including along the route of the proposed railway.<sup>175</sup> The fighting closed the road to Muse as well as Chinshwehaw, a border town in the Kokang Region. The attacks on two key trading routes with China were also seen as intended to send a message to the Chinese government to take a more active role in the peace process, thereby improving the armed groups' negotiating positions in any future talks.<sup>176</sup>

The suspension of the railway project, this time due to the ongoing conflict along the route, highlights the challenges for implementing infrastructure projects that traverse northern Myanmar. Land-based transportation between China and Myanmar must pass through this area, making this a key challenge for many BRI projects in the country. Conflict in the area continues and, despite Chinese government efforts to negotiate one, there is no settlement in sight. The future of the China-Myanmar Railway now appears to be intrinsically tied to that of the conflict in northern Myanmar.

### ***Key concerns regarding the Sino-Myanmar Railway***

If the China-Myanmar Railway project restarts, key concerns remain about the viability of the railway, the high debt burden it will likely entail, the process of consultation with affected communities, and the potential to increase militarisation in a volatile region.

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***“The suspension of the railway project, this time due to the ongoing conflict along the route, highlights the challenges for implementing infrastructure projects that traverse northern Myanmar.”***

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The commercial basis of a China-Myanmar railway has always been predicated on the assumption of a high volume of rail cargo being exported through the Kyauk Phyu Port. This is by no means certain. Professor Li Chenyang of Yunnan University has argued that, for the railway to be commercially successful, it would need to be multi-track.<sup>177</sup> The track from Dali to Ruili currently under construction is only single-track, and there is limited multi-track capacity in southwest China. Professor Li thus argues that the railway project is unlikely to be commercially viable.<sup>178</sup>

The commercial viability of the railway is also linked with the commercial viability of the Kyauk Phyu port. If there is less cargo on the trains, there will be less cargo to be shipped in and out of Kyauk Phyu, requiring fewer berths

in the port. With fewer berths and less cargo, there would be fewer sailings to fewer destinations, as the port, in these circumstances, would likely not be able to provide enough cargo to fill a modern high-volume ships for multiple direct point-to-point voyages. This means that ships from Kyauk Phyu port would likely have to dock in the regional shipping hub of Singapore to transfer cargo to other destinations.<sup>179</sup> This would likely negate the time saved by transporting cargo from southwest China through Myanmar.

This means that from Yunnan, Sichuan and Chongqing, the key industrial hubs in southwestern China, it may not make sense for export cargo to travel via Myanmar on the China-Myanmar Railway. A new high-speed cargo railway was recently opened linking Chongqing, Chengdu in Sichuan and Kunming in Yunnan with the port of Fangchenggang on the Beibu Gulf in the Zhuang Autonomous Region of Guangxi, from where there are frequent sailings to 250 ports in 100 countries. The connection, developed with the Singaporean port operator PSA International and shipping company Pacific International Lines (PIL), has reduced the travel time from Chongqing to Singapore to just eight days, 20 days faster than the existing Yangtze River route via Shanghai.<sup>180</sup> Furthermore, the stretch of railway is contained within China's borders, avoiding the need for international rail transit. In an industry where faster travel times equal lower costs, the China-Myanmar Railway and Kyauk Phyu port may struggle to attract cargo.

The much-discussed 'Malacca dilemma' is unlikely to impact commercial routing decisions, as it is only an issue during conflict. Cargo can continue to pass through the Malacca Straits unless or until conflict causes it to be closed to ships destined for China. The closure of the Malacca Straits, and therefore the closure of the Singapore port, even just to Chinese ships, would have a significant impact on the Singaporean economy and would likely only occur in an extreme situation. Outside of such a case, decisions on the routing of cargo are likely to be made based on cost and speed, two factors on which the Myanmar route may struggle to compete.

If the railway is unlikely to be commercially viable, why is CREC pursuing it? As a railway construction company, CREC will profit from the construction of the railway if they are successful in securing the contract, regardless

of the commercial viability of the project. With the Muse-Mandalay section of the railway forecast to cost some US\$7 billion, fears about the potentially high debt burden associated with the railway have already been raised.<sup>181</sup> Given the doubts about the commercial viability of the project, an independent assessment of the financial viability of the project is necessary. CREEG, as a subsidiary of CREC, who have been lobbying for the project for two decades and who had completed two pro-implementation feasibility studies of the railway before, was unlikely to have concluded in its feasibility study that the project was not commercially viable.

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***“The commercial basis of a China–Myanmar railway has always been predicated on the assumption of a high volume of rail cargo being exported through the Kyauk Phyu Port. This is by no means certain.”***

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Further consultation with affected communities is also required to assess the impact of the railway before the project is re-started. Unlike in the 2004 and 2011 studies, CREEG did include some public consultations in their 2019 feasibility study of the proposed railway. However, while public meetings were arranged with residents in Kyaukme, Lashio and Muse, sufficient advance notice was not given, documents were not provided in advance and invitations were issued primarily to government administrative staff. This made it difficult to residents to participate in the consultations. The meetings were also held exclusively in towns, meaning people in rural villages found it difficult to attend and were therefore not able to provide their opinions on the railway. While an important initial step, the consultations appear insufficient for the purposes of making an assessment of the social and economic impacts of the railway on affected communities along the railway route. The process is clearly insufficient to obtain free, prior and informed consent from the communities affected. A thorough consultation is necessary for the project to be sustainable or to realise positive impacts for the communities affected.

Lastly, just as the conflict in northern Myanmar has already affected the railway, the railway could impact upon the ongoing conflict in the country. As with the electricity transmission line discussed above, the Muse-Mandalay Railway would be a major investment (US\$7 billion) in infrastructure running through a conflict zone. The ability of the Brotherhood Alliance to shut down the two main highways along the same route highlights the vulnerability of transportation infrastructure through this region. Unless the conflict is resolved, the railway will need to be protected to protect the investment and to ensure that passengers and cargo are not harmed. This could lead to increased militarisation with a stronger national, ethnic or private army presence, which is likely to exacerbate tensions in this already volatile region. The impact of the railway on peace processes was highlighted by the cease-fire, encouraged by China, which conveniently occurred just before the, likely scheduled, feasibility study. Further assessment of the impact of the railway on the conflict and peace process is therefore needed before the project resumes.

### **Case Study 3:** **Sino–Myanmar Land and Water Transportation Passage**

Rivers and waterways are important transportation routes in Myanmar, but there is one river route that has attracted particular interest in China: the Ayeyarwady River. Linking Yunnan to the Indian Ocean via the Ayeyarwady River has been promoted for two decades, but projects have so far failed to get off the ground. In this case we examine the efforts by the Yunnan provincial government to advance the project, highlighting the extent of planning within China for a project in Myanmar that is rarely discussed there.

The Governor of Yunnan province first raised the prospect of using the Ayeyarwady River for mass transportation from China to the Indian Ocean in 1989.<sup>182</sup> The route would involve the transport of cargo from the Sino-Myanmar border to the northern trade hub of Bhamo, in Kachin State, by road. From there, cargo and passengers could sail down Myanmar’s major waterway to reach Mandalay, Yangon and the Indian Ocean. The official name of the project is the ‘China Kunming-Myanmar Yangon Ayeyarwady River Portage Passage’, but it has also been known as the ‘Sino-Myanmar Land and Water Transportation Passage’.<sup>183</sup>

From a Chinese perspective, the merits of the Ayeyarwady route look strong.<sup>184</sup> It could provide a new outlet for Chinese trade with Myanmar and beyond, while at the same time largely avoiding land routes through the conflict-prone mountain regions, providing uninterrupted passage to the sea. China also has a well-established network of river transportation routes that are significantly cheaper than road or rail transportation, so there is confidence about this waterway model. Through the development of these inland shipping routes in China, Chinese SOEs have become some of the largest dredging companies in the world. These companies therefore have the expertise and experience to tackle the engineering challenges of shipping in the upper Ayeyarwady River.

In Myanmar, by contrast, the landscape is very different. River transportation is slow and expensive, while the depth of the Ayeyarwady River varies greatly depending on the season and the river is difficult to navigate.<sup>185</sup> Thus, to transport the volume of goods required to make the route commercially viable, the river would need to be extensively dredged. This would likely cause significant environmental, social and economic upheaval for those whose lives depend on the river.

Despite these concerns, negotiations between the Chinese and Myanmar governments to construct the water route began in 1996, well before the BRI.<sup>186</sup> The two governments reportedly agreed in principle to a transportation agreement and a 'build, operate, transfer' (BOT) financing model.<sup>187</sup> Possible routes for the road link between Dehong prefecture, in Yunnan, and the river hub of Bhamo, in Kachin State, were surveyed and upgrades to the road connecting Longchuan and Bhamo via the Zhangfeng/Loi Je customs gate were funded and completed by the Longchuan Government.<sup>188</sup> Yet inter-governmental negotiations for the project ceased in 1999. Reportedly, the Chinese government wanted to use the route to increase trade with Myanmar, while the SPDC government only wanted to allow Chinese goods to pass through for export to other countries.<sup>189</sup>

Despite the cancellation of the negotiations, the Yunnan provincial government has continued to pursue the project and lobbied to have it included in Chinese national planning. They were successful and the project is now included in Chinese planning at the national, provincial and prefecture levels. The construction of the river passage is included in the Chinese State Council's 'Overall Infrastructure Interconnection Master Plan (2014-2035)', the 'Yunnan Water Transport Logistics Development Plan

(2014-2020)' and the 'Development and Opening Up Plan for the Border Areas of Yunnan Province (2016-2020)'.<sup>190</sup> In 2015, Dehong Prefecture officials also described the passage as a priority in their planning,<sup>191</sup> and promotion of the passage was referred to in the Luanchuan County's 2019 plan.<sup>192</sup> Inclusion in Chinese government planning processes does not, however, guarantee implementation and as some of these plans near conclusion, the project remains stalled.

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***“Despite the cancellation of the negotiations, the Yunnan provincial government has continued to pursue the project and lobbied to have it included in Chinese national planning.”***

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In May 2018, an academic in Yunnan also promoted the merits of the project. Liu Jinxin, Dean of the South-East Asia International Logistics Research Institute in Kunming, suggested the passage be a key project for development under the CMEC. He also suggested using an international security company to establish a non-military security zone to jointly maintain road transport safety along the route.<sup>193</sup> Promotion of major infrastructure projects by Yunnan based academics seemingly played a role in the elevation of the Sino-Myanmar pipelines to a national project and in securing financial and political support for their construction. Perhaps the Yunnan provincial government is hoping that this success will be replicated with the Sino-Myanmar Land and Water Transportation Passage.

In June 2018, the Yunnan Provincial Development and Reform Commission (YPRDC) applied to the 12<sup>th</sup> Session of the Chinese People's Political Consultative Conference of Yunnan Province to restart the construction of the Ayeyarwady River passage.<sup>194</sup> According to the proposal, Dehong Prefecture is responsible for coordinating with Myanmar enterprises to obtain approval from the Myanmar government to upgrade the road between Zhangfeng and Bhamo in order to connect to the Ayeyarwady River.<sup>195</sup> An engineering feasibility study has been completed, but the two governments disagree about the standards to which the road should be upgraded.<sup>196</sup>

For its part, the YPRDC outlines three problems with the project in a note regarding the proposal: (1) the offshore

part of the project (i.e. the section in Myanmar) belongs to the central government and is dependent on its attitude towards the project; (2) the project involves the ministry of construction and the ministry of communications, and a lack of coordination between the two has slowed progress; (3) the finance model and sources of financing of the roads and ports are still being negotiated, although the YPRDC is seeking to have the project included in the Silk Road Fund or funded by the Asian Infrastructure Investment Bank (AIIB).<sup>197</sup> In short, neither funds nor agreement for the project to go forward have yet been achieved.

Key concerns also remain about the impact of channelization on the river, and the commercial viability of the project. For the moment, no official statements could be found on the size of ships expected to navigate the river passage. Du Lan, a researcher from the China Institute for International Studies, a Beijing-based think tank affiliated with China's Ministry of Foreign Affairs, states that the passage could accommodate cargo vessels of up to 3,000 tons.<sup>198</sup> According to China's standard river classification system, a passage to accommodate these vessels would require a minimum water depth of 3.5 to 4.0 metres across the route and be classified as a 'Class I' route, the largest class.

Applying such a system in Myanmar would be problematic. The current depth of the Ayeyarwady River between Bhamo and Yangon varies by up to 11 metres between the wet and the dry seasons, with a minimum depth in some months of just 95 centimetres. The lower Yangon to Mandalay route is current only navigable year-round by vessels up to 100 tons, while north of Mandalay 50 ton vessels can navigate the river during 95 per cent of the year.<sup>199</sup> A 2016 study of Myanmar's river transportation system by the ADB therefore recommended against channelization between Mandalay and Bhamo because it would be prohibitively expensive and claimed that channelization south of Mandalay was viable only to a depth of 1.5 metres, which would allow for vessels of up to 300 tons year-round.<sup>200</sup>

In contrast to the previous two case studies, the Sino-Myanmar Land and Water Transportation Passage is being driven by the Yunnan provincial government, rather than an SOE. The Yunnan government has managed to have the project included in national plans, but has so far struggled to advance it. Representatives from CREC are known to have participated in one meeting, but no

Chinese corporation appears to be closely associated with the project, let alone taking the lead.<sup>201</sup> With a Chinese SOE involved, the project would potentially have access to preferential financing. Without this involvement financing options are more limited. Although this project represents just a single example, it suggests that BRI projects may have more chances of success when a Chinese corporation is involved.

The difficulty securing financing is an early indication of the viability and implementation challenges facing the project. As a decade of protests over the Myitsone Dam have warned, the Ayeyarwady River is important both economically and culturally. It provides transportation for goods and people, irrigation for crops, farmland in the dry season, and bankside ports for local trade and economies. According to the local NGO Airavati, which seeks to protect the river, 20 million people live along the Ayeyarwady.<sup>202</sup> Channelization and large-scale shipping would inevitably have widespread social, environmental and economic impacts. Improved river transportation could indeed benefit Myanmar's national economy. But, whether through erosion, sedimentation, flooding, pollution or threats to clean water supplies, the challenges to communities along Myanmar's waterways are likely to increase if the project is implemented.<sup>203</sup>

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*“The difficulty securing financing is an early indication of the viability and implementation challenges facing the project.”*

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For the moment, it is not known whether the NLD government has agreed to the project under the CMEC, although the YPRDC note does imply discussion with the commission's Myanmar counterparts. While Chinese interests continue to pursue this project, such uncertainties are emblematic of the confusion about what is and what is not included in CMEC and BRI. Furthermore, although the project is discussed in Chinese media and Yunnan provincial meetings and documents, it does not appear to have been openly discussed in Myanmar. This lack of transparency can only fuel confusion about the progress of the initiative, and whether it is included in the CMEC, or merely remains on the Yunnan Government's wish list.

As with the future of the Thanlwin (Salween), Mekong and other rivers in the country, civil society voices in Myanmar say that clarity is urgently needed. 'We seek a country in which the rights of peoples and communities to their rivers and natural resources are respected, protected, and promoted,' says the Burma Rivers Network.<sup>204</sup> But, in the case of the Ayeyarwady River, political opposition can be expected. Inclusion of the project in Chinese government planning does not necessarily mean that it will go ahead, and such a large-scale project will be impossible to implement without public support.

### **Case Study 4:** **Special Economic Zones and industrial zones**

Both the former Thein Sein Government and the current NLD Government have promoted the construction of SEZs and industrial zones as part of their corridor-based economic development approach. Their aim is to stimulate growth by attracting foreign investment with low operational costs, good transport links and limited regulation. The connection of sites of production in SEZs and industrial parks through transportation networks is also key to the CMEC and BRI, however, there is a high cost for local communities. Here we examine the development and linking of SEZs and industrial zones in China and Myanmar, and the involvement of Chinese SOEs and sub-national governments in their construction.

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***“The Myanmar government has found willing partners in Chinese SOEs for both the construction and the operation of these zones.”***

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In 2014, the Thein Sein Government passed a law providing the basis for the construction of SEZs in Myanmar and further institutionalised them under Myanmar's *Industrial Policy*.<sup>205</sup> Three SEZs were announced by his government: at Thilawa, led by Japan, near Yangon (now realised); at Dawei, on the southern coast, led by Thailand, which has moved slowly; and at Kyauk Pyu, in Rakhine State, which was rushed through during Thein Sein's last days in office and immediately ran into controversy because of its high cost and lack of debate.<sup>206</sup> Under the NLD government,

the SEZ plan has been retained, and the construction of SEZs is included in strategy 3.3 of Myanmar's Sustainable Development Plan (2018-2030). A further four SEZs have been proposed in Myitkyina, Kachin State; Kampaiti (the base of the Kachin BGF); Chinshwehaw (base of the Kokang BGF); and Muse in Northern Shan State. The latter three are located at key border crossings with China.

The Myanmar government has found willing partners in Chinese SOEs for both the construction and the operation of these zones. Five SEZs have reportedly been incorporated under the CMEC framework: Kyauk Phyu, Myitkina, Kampaiti, Muse and Chinshwehaw. Other industrial zones, such as New Mandalay Resort City, Myotha Mandalay Industrial City, New Yangon City, Patheingyi Industrial Zone and a zone near Shwe Kokko have also been branded by their developers and supporters as 'BRI activities'.

A key component under the BRI, SEZs and industrial zones are frequently associated with human rights abuses, while their net effect on growth is questionable.<sup>207</sup> In Myanmar, the pursuit of growth through SEZs and industrial zones has already resulted in land grabs, labour abuses, illegal practices and damage to livelihoods, while the development of the zones has lacked transparency.

### **Chinese involvement in the construction of SEZs and industrial zones**

Chinese construction SOEs are well experienced in building SEZs and industrial zones and are keen to obtain the high-value contracts to build these sites in Myanmar. SEZs were first built in Shenzhen in southeast China in 1979.<sup>208</sup> Since then 2,543 SEZs have been built across the country, mostly by large construction SOEs. As the number of sites increased in China, Chinese construction SOEs began looking abroad for SEZ construction projects from the late 1990s, seeking to employ their capacity wherever possible in pursuit of profit.

The high cost and lack of transparency and consultation surrounding the construction of SEZs and industrial zones in Myanmar has already caused controversy, especially in relation to the Kyauk Phyu SEZ.<sup>209</sup> While the debates surrounding the Kyauk Phyu SEZ have played out in the media, other deals have passed without public mention. Notably, in April 2019, a US\$470 million contract to construct road, water, drainage, sewage treatment, power, communications and fire protection infrastructure for the New Mandalay Resort City was quietly awarded to China Railway International Group, a subsidiary of CREC,

which is leading the China-Myanmar railway project discussed above.<sup>210</sup> Notification of the signing of the design, procurement and construction contract was posted on China Railway International Group's Chinese-language website and an announcement was made to the Hong Kong Stock Exchange, where CREC is listed.<sup>211</sup> However, the developers of the New Mandalay Resort City do not appear to have made an announcement to the media nor does notification of the deal appear on their website. Questions have also been raised about the process preceding the award of a contract to build the infrastructure for the New Yangon City Development, at an expected cost of US\$1.5 billion, to China Communications Construction Company (CCCC), China's largest infrastructure construction company.<sup>212</sup>

### ***Linking industrial parks in both China and Myanmar***

Meanwhile, Yunnan provincial and prefecture level governments have been implementing their own strategy to develop interlinked industrial zones in both China and Myanmar. As the minimum wage in China has risen, Chinese companies have looked abroad for cheaper manufacturing locations. The minimum wage in Myanmar is two and a half times lower than in neighbouring Yunnan Province, making the country an attractive destination for Chinese manufacturers.<sup>213</sup> However, productivity is also significantly lower in Myanmar and this, coupled with poor infrastructure and a difficult operating environment, have limited this appeal to some degree. Nonetheless, the Baoshan municipality and Tengchong county governments in Yunnan are now seeking to link newly developed industrial parks and SEZs in Yunnan with industrial parks in Myanmar.<sup>214</sup> This would allow companies to link their production lines to take advantage of cheaper labour in Myanmar while fostering 'higher-value production' in Yunnan.<sup>215</sup>

To develop these links, the Yunnan, Baoshan and Tengchong governments have been investing in Myanmar's SEZs and industrial parks. The investments for these sites do not come from the governments directly, but are channelled through their provincial SOEs. For example, on 16 January 2018 the Baoshan Municipal People's Government announced that they would invest US\$390 million in the Mandalay Economic and Trade Cooperation Zone in the Myotha Industrial Park City (MIPC) near Mandalay.<sup>216</sup> The investment is being made through Mandalay Baoshan Myotha Industrial Development.<sup>217</sup> At the same time, the

Tengchong county government affiliate, Yunnan Baoshan Hengyi Industry Group, through their subsidiary Yunnan Tengchong Heng Young Investment Company (YTHYIC), is jointly developing the Myitkyina SEZ.<sup>218</sup> On the Chinese side, a dozen economic zones are being developed in Yunnan in the border areas with Myanmar, Laos and Vietnam. These include at Ruili, Wanding, Tengchong and Lincang.

This approach of interlinked industrial zones in economic corridors would leave Myanmar at the low-value end of the production line. The tasks completed in Myanmar are likely to be poorly paid manual labour, taking advantage of Myanmar's lower labour costs, while the higher-value aspects of the production line and consumption are likely to occur in China. Chinese factories have filled the low-value production role in global value chains since the 1980s and this something the Chinese government is now trying to move away from to avoid the 'middle income trap'.

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***“This approach of inter-linked industrial zones in economic corridors would leave Myanmar at the low-value end of the production line.”***

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In addition to this general concern about the type of jobs likely to be created in Myanmar, the construction of the MIPC, in which the Baoshan Municipal Government has invested, has been mired in controversy and can be viewed as an example of 'accumulation by dispossession'.<sup>219</sup> The industrial park is 40km<sup>2</sup> and lies on former farmland in southwest of Mandalay.<sup>220</sup> In 2013-2014 the land was confiscated from 1,000 families in 14 villages for the construction of the industrial park, with little or no compensation.<sup>221</sup> Local Authorities and the company developing the industrial park, Myanmar Myotha Industrial Development (MMID), tried to intimidate those who resisted, with 55 people ultimately arrested for opposing the land seizures.<sup>222</sup> These families mostly relied on farming their land for their livelihoods. Once dispossessed of their land, they had little choice but to work as poorly paid day labourers.<sup>223</sup> Farmers from the dryzone, the area in central Myanmar where Myotha is located, have joined the estimated half a million Myanmar citizens who cross border into China, mostly illegally, and work there as primarily seasonal labourers for six months at a time doing work such as cutting sugarcane.<sup>224</sup>

MMID initially struggled to attract investors and has since attempted to change the image of Myotha to that of 'socially responsible development' to boost international investment. The company's website shows photos of traditional corporate social responsibility type activities including support for schools, clinics and religious institutions.<sup>225</sup> MMID, a Myanmar company run by ethnic Kokang tycoon Aung Win Khaing as part of his Royal Hi-tech Group, has also repackaged and promoted the project under the BRI framework in a bid to attract Chinese investors. For his part, Ambassador Hong Liang also visited Myotha to help promote the project.<sup>226</sup>

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***“Compensation paid to land owners for land seizures related to Chinese investments has often been highly problematic.”***

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Compensation paid to land owners for land seizures related to Chinese investments has often been highly problematic. The processes for providing compensation have often been inconsistent and lacked transparency. This has caused uncertainty and stress for land owners as it affects the value of land and their ability to restore their livelihoods. The recent amendment of Myanmar's 2012 Vacant, Fallow and Virgin Land Law has further exacerbated these problems, as the law fails to recognise communal ownership, and criminalises communities who have been living and working on ancestral lands for generations.<sup>227</sup> For example, in Kyauk Phyu, for 55 per cent of the land in the SEZ designated area which was reported as 'used for livelihoods,' land users did not have Form 7 Land Use Certificates under the Farmland Law.<sup>228</sup> Hence, this land could be automatically regarded as 'vacant, fallow or virgin' land, for which the Myanmar government has allegedly said users will be unlikely to receive any compensation. As one CSO leader said, 'Chinese investors, Chinese government, and Chinese companies should not negotiate only with the Myanmar government. They have to care for and consider all communities' desires, wants and demands. They should respect the communities' rights.'<sup>229</sup>

The Sino-Myanmar oil and gas pipelines discussed above also afforded prominent examples of problems related to compensation for land seizures. Grievances related to the compensation included a lack of consultation with the affected communities to negotiate a compensation package, and the failure to provide an agreement contract in advance for thorough review by those affected. About ninety-four per cent of the farmers never received a copy of the final agreement. In some cases, farmers faced intimidation from the authorities to sign the agreement without complaint. Furthermore, compensation that was provided was not distributed to all affected people equally.<sup>230</sup>

Chinese factories have also faced broader discontent over labour rights violations. In mid-2018, for example, during the strike over pay and labour rights abuses at the Hangzhou Hundred-Tex Garment factory in Yangon, the factory was damaged and the Chinese managers were 'trapped' inside.<sup>231</sup> The Chinese Embassy in Yangon reportedly had to negotiate their exit.<sup>232</sup> Such protests and the active civil society movements in Myanmar have raised concerns among Chinese investors about the security of establishing their operations in the country. Seemingly in response, a Chinese-language advertisement for real estate in the Patheingyi Textile and Garment Industrial Zone listed 'closed style management to put an end to illegal strikes' as one of the selling points for establishing factories in the zone.<sup>233</sup>

For the moment, there appears to be agreement between the Chinese and NLD governments over the importance of manufacturing and SEZs as part of the CMEC/BRI framework and Myanmar's broader national development plans. How they will be received by local communities on the ground is more open to question. Much depends on the design, planning processes and implementation. There have already been protests at Kyauk Phyu where around 20,000 locals face losing their lands and livelihoods.<sup>234</sup> The poor record of transparency and accountability associated with these projects so far suggests that significant changes will be required if local people are to realise any benefits from these projects, and be protected from concrete abuses and dispossession.

## Conclusion

This briefing has shown that the BRI is not a monolithic grand strategy, tightly planned and rolled out from Beijing, but is instead a series of activities promoted under a broad and loosely-governed framework. While the national Chinese government presents the BRI as a cohesive and unified initiative, in reality BRI activities are being implemented by disparate actors pursuing their own agendas. Large-scale BRI projects are promoted by Chinese SOEs and provincial governments, including the Yunnan provincial government, with the central Chinese government playing a more supportive role only once a project has gained momentum.

As the BRI is a response to a crisis in Chinese capitalism, it is important that the problems related to Chinese surpluses of capital and capacity are not simply moved to Myanmar. BRI projects must benefit the Myanmar people, and not just the Chinese companies and provincial governments driving them. Otherwise, Myanmar people, especially in ethnic nationality areas, will bear the brunt of negative impacts from BRI activities. Chinese companies, governments and academics have tried to reflect on past mistakes with Chinese investments, especially with regard to the Myitsone Dam. Since then, efforts have been made to communicate the benefits of Chinese projects and to conduct impact assessments of planned projects. However, consultation processes still need further development and it is important that projects deliver genuine benefits to local communities. Otherwise communication and consultation efforts risk becoming simply public relations exercises.

Like other foreign investments, however, BRI projects cannot be implemented without the consent of the Myanmar government. To begin with, as Walden Bello has written, 'the Myanmar government must first decide not whether or not to accept foreign investment, but what would be the development paradigm within which foreign investment will be inserted.' Within an alternative strategy, he argues, 'foreign investment may well be positive in some areas of the economy, but not in others. Moreover, the kind of investment matters.'<sup>235</sup> Myanmar should establish foreign investment rules that are strict, fair, and geared towards widening access to useful and sustainable foreign technologies. The Myanmar government should also ensure that other key laws and policies related to foreign investment, such as the Investment Law, SEZ law and various land

laws, prioritise and benefit local communities and are in line with international human rights standards.

At the first meeting of the Steering Committee for Implementation of the BRI, Aung San Suu Kyi emphasized the need 'to make sure that the selected projects are in conformity with national plans, policies and domestic procedures.'<sup>236</sup> The Myanmar Government's history of altering, suspending or cancelling Chinese projects when it sees the need to do so demonstrates that such statements can be much more than empty platitudes. With the Chinese government lacking the capacity and local knowledge to effectively govern BRI activities, it is more important than ever that the Myanmar government continues to scrutinise the merits of proposed activities. Monitoring their progress and rejecting projects that are harmful to or fail to benefit the Myanmar people is vital.

After contracts for BRI projects are signed, Chinese investors involved may be able to sue for lost expenses and lost future profits under the China-Myanmar Bilateral Investment Treaty (BIT). The BIT includes an investor-state-dispute settlement (ISDS) mechanism, which allows investors to sue the Myanmar government before an international tribunal of three private lawyers if new regulations or policies impact on their investments.<sup>237</sup> These tribunals have the power to order the Myanmar government to pay billions of dollars from the public budget to compensate investors, including for alleged impacts on company profits, even if the regulations and policies are in the public interest, for example new environmental or public health laws. This makes it especially important for the Myanmar government to review projects – and contracts – carefully before they are signed. It is, however, important to note that the Myitsone Dam investors have not yet used ISDS to recoup lost investments and future profits since the project was suspended. This is perhaps because the project has not yet been officially cancelled and they hold out hope it will be restarted, or because the companies and the Chinese government fear public backlash in Myanmar from such a legal move.

With the very high cost of key infrastructure projects, it is important also to assess the debt burden that any BRI project could create. China already holds the largest share of Myanmar's foreign debt (US\$3.8 billion) and this would likely increase greatly if potential BRI projects continue as

planned.<sup>238</sup> Chinese loans often have higher interest rates than those from other international lenders so scrutiny of the costs of BRI projects, their financial viability, and their sources of financing will be particularly critical to ensure that the Myanmar government avoids a disproportionately high debt burden. The Myanmar government has already negotiated major changes to BRI projects, including a reduction in the size of the Kyauk Phyu Port and an open tendering process for the Muse-Mandalay High-Speed Railway. This shows that the Myanmar government can assert their requirements for BRI activities within the country.

State and region governments within Myanmar also play a key role in the development and implementation of BRI projects. It is crucial that these sub-national governments not reproduce the top-down and elite-centred economic development approach that has characterised interventions by the current and previous national governments. This approach has historically eroded trust and increased hostility between communities and the central government. Instead, the Myanmar government should support state and regional governments to assert their own, and their communities', requirements for BRI projects, ensuring that they meet local needs and benefit local peoples.

Civil society groups can also influence the trajectory of BRI activities. The Chinese government is increasingly sensitive to criticism regarding the BRI, including activist accusations that activities do not live up to the standards set by Beijing. Chinese banks have also refused to finance some projects that are judged to be unprofitable or that face accusations of causing significant social and environmental harms. The Chinese government and Chinese banks do not want another Myitsone Dam, which damaged China's international reputation, harmed bilateral relations and lost money.

Activists can therefore halt harmful and unwanted projects by drawing the central Chinese government and the relevant Chinese financing institutions' attention to controversies surrounding a project. Additionally, they can highlight any breaches of local laws, or Chinese rules for SOEs, as well as doubts about the financial viability of a project. A useful guide for navigating the policies, standards and guidelines for Chinese investments is the Inclusive Development International (IDI) *Safeguarding People and the Environment in Chinese Investments: A Reference Guide for Advocates*.<sup>239</sup>

The strategy of targeting the financing for projects has already led to the review of one project in Asia. In May 2019, the Bank of China responded to international protest led by WALHI, the largest environmental network in Indonesia, regarding the Batang Toru Dam in North Sumatra. In response, the bank said that they would 'evaluate the project very carefully and make prudent decisions'.<sup>240</sup> Activists in other countries have also used different strategies to halt BRI activities that they perceived as harmful. In Kenya, activists successfully used litigation to block the construction of a coal-fired power plant based on environmental grounds and the companies' lack of consultation with affected communities.<sup>241</sup> In Sierra Leone, the government cancelled the planned redevelopment of the Freetown Airport over concerns about the debt burden and project viability.<sup>242</sup>

For the moment, however, both the BRI and CMEC are still in the initial stages, and many challenges remain ahead. As Seng Raw Lahpai has written:

'A clear mechanism needs to be put in place for resource sharing and evaluation of social and environmental impacts before implementing national level projects. Unless such steps are taken, the trust deficit in China-backed economic ventures will only intensify. China also stands to lose credibility as an honest mediator in the peace process.'<sup>243</sup>

It is crucial that local communities and civil society are properly consulted and play a real part in decision making processes about all projects. This requires, initially, the adequate, timely and accessible provision of information regarding project proposals and designs, including possible consequences.

The future of BRI projects is interlinked with the future of communal and armed conflict, and of efforts to promote peace and dialogue. It is in the interests of all BRI project backers that their activities avoid either exacerbating existing conflicts or triggering new ones. A broader assessment and understanding of the impact of BRI projects on the conflict is necessary to ensure that these projects do not increase grievances and militarisation in conflict-affected areas. As the Chinese government attempts to support the peace process, it is important that BRI projects do not hinder or harm efforts to build peace and reconciliation, and that profit is not prioritised before peace.

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