Myanmar: Can China be an effective Development Partner?

Neil Renwick

Stiftung Asienhaus

Burma-Initiative

The key to Myanmar's future lies in establishing strong foundations for sustainable development. In this task, it is working closely with donors and agencies. China is one of Myanmar's largest neighbours, sharing a 2.200km border, has been its staunchest supporter through the years of international isolation and is its main economic partner. China also has a powerful development story to tell and experience to share, pulling over 860 million Chinese out of poverty in just 20 years (1981-2010) and pushing China to global economic and political prominence. But China's relationship with Myanmar has reached a difficult juncture as a result of Myanmar's dramatic shift to civilian rule in 2011 and resulting reform process. Beijing was slow to react as its established policy was overtaken by events and has yet to formulate a coherent replacement. After decades of relying on China for political, economic and military support through the sanctions era, the reform process has brought an influx of international suitors to Myanmar, allowing Naypyidaw an unprecedented opportunity to widen its partnerships, and reduce its dependence upon China for its development. At the same time, reform has opened a new political space for civil society and ethnic communities to press for accountability and transparency in public and corporate conduct. In this context, China's presence is highly controversial, provoking widespread popular criticism and protest. Clearly, China remains Myanmar's main trade and investment partner, with a major stake in the country's resources sectors and, increasingly, in manufacturing. The key question is the extent to which China can be an effective development partner for Myanmar?

In answer to this question, China's role and the extent to which it is effective for Myanmar's sustainable development is driven by three main factors:

- **Firstly, 'economic cooperation' not development assistance.** China's approach to international development assistance is still evolving, but it is distinct from that of the so-called 'traditional' donors and it is defined by its own experience of transition through the post-1979 reform era and by its national economic interests;

- **Secondly, China's 'democratic deficit'.** The effectiveness of China's role is influenced by the evolving process of reform within Myanmar itself, specifically Myanmar's revitalised civil society, and the challenge this poses for China's ability to be able to respond and engage with Myanmar's development goals and to the wider reform process itself;

- **Thirdly, geo-political competition.** China's relationship with Myanmar can no longer be seen in essentially bilateral terms. It has become a regional issue of geo-political competition as Myanmar seeks to balance its relationship with China with that of the U.S., Japan and India.

This analysis begins by outlining the main features of China's current involvement in Myanmar's development and then goes on to examine this by analysing the three factors driving China's approach to Myanmar.

China's presence in Myanmar

The cornerstone of China's presence in Myanmar is its economic involvement. The principal features of this are its trade, investment and corporate involvement. Myanmar, with its resource wealth, constitutes an important economic interest for Beijing with large stakes in the mining, oil and gas sectors with telecommunications next on the agenda. The headline messages are:

Trade:
China is Myanmar's principal trade and investment partner accounting for a third of Myanmar's trade–annual trade between the two countries is now worth around 3.6 billion US dollars (USD) in 2014. Myanmar exports minerals and agricultural products to China, valued at around 1.6 billion USD. In turn, China exports raw materials and equipment, mainly to supply Chinese investment projects, worth about 2 billion USD;

Foreign Direct Investment (FDI):
China is the largest single investor, accounting for almost 16 billion USD. Over the period from 1988 to 2013, Chinese firms accounted for almost 33% of the total 44 billion USD invested during these years. According to recent assessments, the combined amount of FDI from the Chinese mainland and Hong Kong - the first and third largest foreign investors to Myanmar - reached over 20 billion USD in 2012, accounting for nearly half of its total FDI that year.

Chinese corporations:
Until recently, much of Chinese investment was through cross-border trade from Yunnan province by small firms. But the signing of contracts to underwrite large-scale oil, gas and infrastructure projects has drawn-in China's large State-Owned Enterprises (SoEs) into the energy, minerals and construction sectors.

Development assistance:
China adopts a wider term, namely, 'economic cooperation'. This covers the wide range of economic and related non-economic activity and includes, therefore, development aid, loans, technical assistance, and state-sponsored investments. Chinese economic cooperation with Myanmar comprises grant aid, interest free loans, and concessional loans, technical assistance, and debt relief. China concentrates its assistance on concessional loans and grants in the key sectors of agriculture, natural resource exploration, infrastructure, telecommunications, human resource management and industrial processing.

Mining in Kachin state ©Klaus Müller-Reimann

Two aspects are of particular note: agriculture and infrastructure.

1) Agriculture
One of the Myanmar Government's four development objectives is to prioritise food security. Agriculture accounts for 30% of Myanmar's GDP with 61% of the workforce in this sector. But it suffers from low levels of crop production and low incomes for farmers. China provides technical assistance for agriculture development. China works with Myanmar and Swiss organisations to provide training, technical advice, visits and exchanges and scientific cooperation to increase maize and rice production.

2) Infrastructure
In 2010 China committed 4.2 billion USD worth of interest-free loans over a 30-year period to help fund hydropower projects, road and railway construction and IT infrastructure. China is involved in all aspects of Myanmar's infrastructural capacity-building including new airports, dams, bridges, rail- and port facilities. The company, China Communications Construction (CCC), constructed the 100 million USD airport in the capital Naypyidaw backed by a China EXIM Bank loan. In hydropower, the massive 7,110 MW Tasang Dam on the Salween River in Shan State, costing at least 6 billion USD, is majority owned and constructed by the state-owned enterprise China Gezhouba. Sinohydro, China's largest dam builder, that has built a number of hydropower stations in Myanmar, including the Yeywa hydropower station on-stream in October 2011.

The Chinese Government argues that China's approach differs significantly from that of 'traditional' donors and is rooted in South-South dialogue and cooperation. It is portrayed as 'non-political', respecting the sovereignty and the principle of non-interference in the domestic affairs of other states; reducing sovereign debt in developing countries such as Myanmar by writing-off billions of dollars of outstanding debts to China; providing much-needed investment through major loans and guarantees at sustainable rates; spurring trade opportunities by opening-up China's domestic market to imports at little or no tariff costs; contributing labour and skills and corporate capacity to build the critical infrastructure without which sustainable development cannot progress. All these claims feature strongly in China's official discourse on Myanmar.

This warm, cooperative picture must be offset against experiences on the ground within Myanmar. The list of concerns is long and varied and, in many instances, involved mass public protests opposing Chinese-backed projects and corporate behaviour. Contrary to the Chinese portrait, opponents argue that China's non-intervention policy undermines the democratic reform process by turning a blind-eye and contributing to the continued violations of human and civil rights, lingering economic and political structures and power of the Tatmadaw (Myanmar military) and, relatedly, enduring corruption. Critics argue that Chinese firms and elements of the People's Liberation Army (Chinese military) retain long-standing relations with the Tatmadaw. This failure of political responsibility to engage with challenges of good governance is compounded by a lack of Chinese corporate responsibility. Popular protests have spread across Myanmar accusing Chinese firms of 'land grabs' and displacing local people, environmental neglect of land and water contaminating village supplies and losing livelihoods, the loss of homes, land and family and village heritage, a lack of transparency and accountability, secrecy and intimidating 'security', lack of local employment as Chinese workers are brought in to do the work, as well as alleged corruption. These criticisms are set against the backdrop of reports of continuing illegal cross-border timber, drugs, women and child trafficking, and endangered species into China. Tensions are also fuelled by growing civil society concern evident in the closing Statement Myanmar Civil Society Organisations Forum (October 2014), that the reform process is not making sufficiently deep changes.

China's development approach-economics first

China's approach to Myanmar's economic and political development is framed by its definition of Chinese national economic interests. Myanmar is rich in natural resources, has a geography that offers vital strategic advantage for the transit of oil and gas from the Indian Ocean to circumvent long and vulnerable sea routes through the Middle East as well as powerful river systems for hydro-electricity generation and natural gas reserves.

China needs Myanmar's energy and raw materials, which are vital to China's economic growth. The world's second-largest economy is said to be stalling, nevertheless, it is expected to have grown by around 8% in 2013. To sustain growth and meet rising consumer demands, it needs to import oil, gas and hydroelectric supplies as well as a range of raw materials from timber to strategic minerals. China's energy needs have grown considerably over the past 30 years of major economic growth and emerging consumer affluence, outstripping its domestic sources of supply, turning it into a net importer of oil and pushing it to import increasing amounts of oil and gas thereafter. According to the International Energy Agency, China consumed 10.9 million barrels per day (bpd) but produced only 4.6 million bpd. China became the world's largest oil importer in September 2013 with demand exceeding supply by 6.3 million bpd.

China's 'economic cooperation' approach, grounded in building much-needed infrastructure and increasing trade and FDI, is influenced by Myanmar's economic growth prospects. Myanmar's economy is recording remarkable growth, 7.8% in 2013/2014 and expected to be the same in 2014/2015. This is driven by higher gas output, improved services and construction sectors, growing tourism, increasing flows of FDI and strong commodity exports.

Expectations of future growth are high. Assessments, such as that of the McKinsey Global Institute, conclude that, if the reform aims are realizsed, then GDP could quadruple over the next 20 years from its 2012 level of 55 billion USD. This would see an increase to 200 billion USD, annual growth rates of 8% and attracting 100 million USD FDI. Given rising prices and increased land prices and the importance of the agricultural sector, such predictions may be over-stated. Moreover, a recent tailing-off of Chinese FDI in the wake of the termination of high-profile projects underlines the difficulties of long-term forecasting.

Exports growth will play a key role in Myanmar's future growth. Myanmar's total foreign trade in 2012 was 13.3 billion USD, contributing to about 27% of its GDP. Some 83% of Myanmar's exports are cross-border with China. The country's trade will diversify, especially to the US, European, Indian, Japanese and Australasian markets. Nevertheless, Myanmar's trade with China will be boosted by the new trade agreement signed with China in November 2014. This will have most effect on Myanmar's agricultural exports, especially rice exports to China which are now made legal. Until Myanmar's economy fully diversifies, agriculture remains vital with around 70% of people living in rural areas.

Myanmar's reforms and China's 'democratic deficit'

The issue here relates to the very character of change taking place in Myanmar, with distinct resonances for China's own domestic political culture. China's leaderships have always favoured and felt more comfortable working through State-to-State, government-to-government relations. However, Myanmar's reforms, whilst still problematic, have opened up a new space for civil society and the media and also for new influence in the ethnic-oriented politics of Myanmar's constitutive states.

The Beijing Government and Chinese firms operating in Myanmar were slow to recognise and respond to this shift. China has continued to rely on its tried-and-trusted established ways of doing things through high-level reciprocal visits, statements and agreements. The societal dimension has been neglected. Popular antipathy towards Chinese firms and Chinese-backed major projects has been high and vociferous. Naypyidaw's suspension of the major Chinese-backed Myitsone Dam on the Irrawaddy river until 2015, regarded as a response to civil opposition, is a clear marker for Beijing that it was no longer business as usual. Cancellation in July 2014 of the 20 billion USD railway connecting Kyaukpyu in Myanmar and Kunming in China simply compounded this.

However, the Beijing Government has been uncertain and reticent as to how to address this problem. New Guidelines for Chinese corporate responsibility overseas are criticised for their voluntary nature and lack of enforcement provision. Attempts to improve the Chinese image in Myanmar through publicity and goodwill campaigns have been weak and ineffectual in the face of civil society scepticism. The problem for China is that it lacks the requisite experience of dealing with a civil society of robust, independent non-governmental organisations and community based organisations. This is a weakness of Chinese political governance within China itself. But this domestic limitation also weakens the Chinese Government's recent attempt to go beyond its government-to-government comfort zone in its relations with Myanmar. The Beijing Government's faith in promoting closer 'people-to-people', grassroots good relations between their respective civil societies as a counter-balance to its State-to-State relations is likely to bear little fruit until a change in Chinese corporate practices is evident on the ground in communities and local antipathy is reduced; community trust and confidence will need to be earned by Chinese corporations and Government.

Woman working on the field

The regionalisation of Sino-Myanmar

Chinese capacity to help deliver effective sustainable development is now a regional issue of geo-political competition. Naypyidaw, unsurprisingly, is seeking to 'balance' its relationship with Beijing with those of its newly reinstated partnerships with Washington, Tokyo and Dehli. Recent visits by President Obama to Myanmar (his second in two years) and President Thein Sein's visit to India provoked critical commentaries within China, not only of Myanmar, but also of China's weak policy and lack of strategic thinking towards Myanmar, allowing China's rivals to gain significant strategic advantage at China's cost. Whether this translates into a shift towards more narrowly-defined, 'traditional' development assistance remains to be seen.

Conclusion

To date, the China-Myanmar 'strategic partnership' has been overwhelmingly asymmetrical, firmly balanced in favour of the economic, political and strategic interests of 'big brother' China rather than 'little brother' Myanmar. This relationship is changing as Myanmar strengthens its renewed international friendships, diversifies its sources of economic, social and political support, and seeks to reduce its over-dependency on China. Myanmar now has alternatives to China. For example, it became a full member of the ASEAN Infrastructure Fund in December 2014. Clearly, Chinese Government agencies and firms possess the technical potential to be effective development 'partners' to Myanmar, evident in the 2013 100 million USD loan from China's EXIM Bank to fund cooperative programmes that support Myanmar's farmers and the urban poor. However, to realise this potential fully, with greater demonstrable equity, there needs to be a fundamental change in Chinese attitudes, policies and towards the nature of development assistance, corporate social responsibility and, critically, towards the country's civil society. The Chinese Government has been promoting its 'good neighbour' approach to South-East Asia, including Myanmar, over the past year. But, for this major rethink to come about, it will be driven less by this approach than by Chinese 'enlightened self-interest'. Ultimately, it will be the dynamics of geo-political rivalry, the growing international competition for an economic stake and influence in Myanmar, rather than 'good neighbourliness' per se that will determine the path China follows in Myanmar and its effectiveness in meeting Myanmar's development goals.

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ABOUT THE AUTHOR:

Neil Renwick is Professor of Global Security and Coordinator of the Contemporary China Research Group at Coventry University in the UK. His research interest is in Human Security and International Relations, focusing particularly on China, East- and South-East Asia. He has taught and published extensively in this field and acts as an advisor to international development organisations.

EDITORS:
Christina Grein
Theresa Hanske

CONTACT:
Burma-Initiative / Stiftung Asienhaus
Hohenzollernring 52 / 50672 Cologne
Germany
<www.asienhaus.de/burma>
<christina.grein@asienhaus.de>

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