ISSN 0219-3213

2015 #16

Trends in Southeast Asia

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ISEAS PUBLISHING
30 Heng Mui Keng Terrace, Singapore 119614
http://bookshop.iseas.edu.sg

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Published by: ISEAS Publishing
30 Heng Mui Keng Terrace
Singapore 119614
publish@iseas.edu.sg http://bookshop.iseas.edu.sg

ISEAS Library Cataloguing-in-Publication Data

Oh, Su-Ann.
Chinese Investment and Myanmar's Shifting Political Landscape.
(Trends in Southeast Asia, 0219-3213 ; TRS 16/15)
1. Investments, Chinese—Myanmar.
2. Investments, Foreign—Myanmar.
3. Myanmar—Politics and government.
4. Myanmar—Foreign economic relations—China.
5. China—Foreign economic relations—Myanmar.
I. Title.
II. Andrews-Speed, Philip.
III. Series: Trends in Southeast Asia ; TRS 16/15.
DS501 I59T no. 16(2015) 2015

ISBN 978-981-4695-32-9 (soft cover)
ISBN 978-981-4695-33-6 (e-book, PDF)

Typeset by Superskill Graphics Pte Ltd
Printed in Singapore by Mainland Press Pte Ltd

Trends in Southeast Asia

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FOREWORD

The economic, political, strategic and cultural dynamism in Southeast Asia has gained added relevance in recent years with the spectacular rise of giant economies in East and South Asia. This has drawn greater attention to the region and to the enhanced role it now plays in international relations and global economics.

The sustained effort made by Southeast Asian nations since 1967 towards a peaceful and gradual integration of their economies has had indubitable success, and perhaps as a consequence of this, most of these countries are undergoing deep political and social changes domestically and are constructing innovative solutions to meet new international challenges. Big Power tensions continue to be played out in the neighbourhood despite the tradition of neutrality exercised by the Association of Southeast Asian Nations (ASEAN).

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THE EDITORS

Chinese Investment and Myanmar's Shifting Political Landscape

By Su-Ann Oh and Philip Andrews-Speed

EXECUTIVE SUMMARY

- China has targeted Myanmar's resources to enhance and provide resources for its economic growth. Myanmar's proximity and pariah status (before 2010) made it both feasible and convenient for this purpose.
- Chinese investment in Myanmar intensified in the mid-2000s and has continued to increase. The largest increase in approved and actual Chinese FDI over the years has taken place in the energy (oil and gas) and mining sectors.
- The considerable rise in Chinese investment in the mid-2000s applies to the other Southeast Asian countries as well. If we exclude Singapore, China's stock in Myanmar was the highest between 2009 and 2012, but this was overtaken by stock in Indonesia in 2012.
- Since 2012, more companies from other countries have had their projects approved in Myanmar; this means that approved investment from mainland China as a percentage in total FDI per year is falling.
- There has been a groundswell of opposition to large oil and gas, hydropower and mining projects on the grounds of poor governance (e.g. land acquisition and compensation, the destruction of livelihoods), and secretive, inequitable wealth sharing.
- The Thein Sein administration has dealt with these conflicts by suspending projects; establishing an inquiry commission and an implementation committee; re-negotiating contracts and preparing to become a member of the Extractive Industries Transparency Initiative (EITI).
- These unprecedented measures will likely take place on an ad hoc basis rather than across the extractive industry. Dramatic changes

to contracts are more likely to take place with Chinese (and other) corporations that are involved in large-scale rather than small-scale projects.

- The changing political circumstances — Myanmar no longer being reliant on a handful of countries for strategic and financial support and the necessity of taking into account the wishes of its electorate — means that the political landscape has shifted under the feet of stakeholders.
- Chinese firms have responded by acceding to demands for improved profit-sharing and environmental and corporate social responsibility programmes. They have also begun diverting their interests to Indonesia and other Southeast Asian countries and are being cautious about investing in large projects in Myanmar.
- Given the deep strategic inter-dependence between Myanmar and China, the changed political circumstances will take the gloss off the previous exclusive bilateral relations between the two countries but is unlikely to prevent them both from working hard to maintain a good working partnership.

Chinese Investment and Myanmar's Shifting Political Landscape

By Su-Ann Oh[1] and Philip Andrews-Speed[2]

INTRODUCTION

This article presents detailed information on China's investment in Myanmar for the purpose of analysing Chinese interests in the country. Using new datasets created by the Energy Studies Institute, and official statistics from China and Myanmar, we show that China's investment in Myanmar has to be considered in the context of its region-wide investment, the state of foreign investment in Myanmar in general, and the political changes wrought in Myanmar since 2010.

The data indicate that Chinese investment in Myanmar, while wide-ranging, is predominantly clustered in the energy (gas, oil and hydropower) and natural resource (mining, logging, agribusiness) sectors. However, looking at China's global investment, it becomes apparent that the energy sector is being targeted by Chinese overseas investment in other countries as well, notably Indonesia in Southeast Asia, the Middle East, Africa and central Asia. In other words, at this point in time, Myanmar is not being singled out by China, but rather forms part of the latter's global energy acquisition strategy.

Further, the loosening and reduction of sanctions on the part of Western nations since the elections in 2010 in Myanmar has brought

[1] This paper was commissioned by ISEAS as part of its project on Chinese Immigration and Capital into Cambodia, Laos, Myanmar and Vietnam. Su-Ann Oh is a Visiting Fellow at the Institute of Southeast Asian Studies.

[2] Philip Andrews-Speed is a Principal Fellow at the Energy Studies Institute, National University of Singapore. He would like to thank Mr Mingda Qiu for his work compiling the database on China's energy and mineral resource investments in Myanmar.

about greater diversity in foreign investment in the country. This means that China, considered a big player since 2005, is becoming one of many foreign stakeholders in Myanmar.

Given these trends, we analyse Chinese investment in Myanmar against the backdrop of a shifting balance of power, both internal and external, and examine how this shift has created emerging forms of conflict between previously aligned stakeholders. The resultant changes in wealth sharing and governance of natural resource extraction, albeit limited, have implications for Chinese investment in the country.

BACKGROUND TO CHINESE INVESTMENT IN MYANMAR

Since 1988, Sino-Burmese relations have been driven by two considerations. First, Myanmar has sought to obtain support from China both economically and strategically. The junta at the time believed that China would act as an ally against what they perceived as external threats, especially from the United States.[3] Second, the Chinese government has targeted Myanmar's resources (and that of other countries) to enhance and provide resources for China's economic growth. Myanmar's proximity and pariah status (before end-2010) made it both feasible and convenient for this purpose.

The circumstances that led Myanmar to engage with China more intensely came about from certain developments. The year 1988 marked the end and the beginning of a host of political and economic events in Myanmar: the end of the socialist period, official promotion of the private sector and foreign (including Chinese) investment, the military coup, the beginning of extensive gas exploration and exploitation, ceasefires with seventeen armed groups and the collapse of the Burma Communist party.[4] This took place against the backdrop of currency demonetization in 1987 and sanctions imposed by Western and other countries.

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[3] David I. Steinberg and Hongwei Fan, *Modern China-Myanmar Relations: Dilemmas of Mutual Dependence* (Copenhagen: NIAS Press, 2012), p. 156.

[4] Ibid., p. 155.

These sanctions obliged Myanmar to turn to China for economic and strategic support. Moreover, after the disastrous economic policies of the socialist period, Myanmar did not have the capital, technology or skills needed to extract and exploit its own natural resources. Investment from China was a boon to the beleaguered Burmese economy, injecting capital for operations and infrastructure associated with the extraction projects.

The Burmese government also sought to enhance its diplomatic relations with China for a mix of strategic and economic reasons, including the supply of development aid or military hardware. In the 1990s to 2000s, China became a major supplier of consumer goods, machinery, equipment and intermediate products, as well as a market for wood, agricultural and marine products, minerals, and oil and gas to Myanmar. Even though China's official foreign investment in Myanmar was "rather small",[5] it was significant because it provided a large amount of economic cooperation and commercial-based financing in the areas of infrastructure, state-owned economic enterprises, and oil and gas exploitation, through long-term loans with low interest rates. While this supported regime survival, it failed to have a substantial impact on broad-based economic development in Myanmar.[6]

In the mid-2000s, Chinese influence increased because of expanding Chinese strategic concerns in Beijing and in Yunnan Province vis-à-vis Myanmar. These comprised the expanding reliance on imported energy and minerals for its continued economic growth and employment, and security issues. The latter pertained to Chinese concerns about narcotics and insurgent groups, for example on the Yunnanese border, the security

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[5] Toshihiro Kudo, "Myanmar's Economic Relations with China: Can China Support the Myanmar Economy?", Discussion Paper No. 66, IDE, 2006, pp. 17–19; Toshihiro Kudo, "Myanmar's economic relations with China: who benefits and who pays?", in *Dictatorship, Disorder and Decline in Myanmar*, edited by Monique Skidmore and Trevor Wilson (Canberra: ANU E Press, 2008), pp. 87–112.

[6] Kudo, "Myanmar's Economic Relations with China: Can China Support the Myanmar Economy?", pp. 17–19; Kudo, "Myanmar's economic relations with China: who benefits and who pays?", pp. 87–112.

of access to energy and minerals from Myanmar, and access to import and export routes in the Bay of Bengal and beyond.[7]

CHINESE INTERESTS IN ENERGY, MINERALS AND SECURITY

China is one of the largest producers of energy and mineral raw materials in the world.[8] It produces nearly 50 per cent of the world's coal and is the largest producer of non-energy minerals in the world. Although its oil production amounts to just 5 per cent of the global total, it is the fourth largest producer after Russia, Saudi Arabia and the United States. China's gas production continues to rise and it is now the sixth largest producer.

Despite its status as a major producer of these raw materials, China's sustained and rapid economic growth combined with the resource intensive nature of this growth has led to a dramatic rise in the country's import requirement for raw materials of all types, including oil, natural gas and non-energy minerals. Net imports of oil have risen steadily since the country became a net importer in 1993 and they now account for nearly 70 per cent of domestic consumption. Gas is playing an increasing role in the national energy mix and imports provide about 30 per cent of this supply, a proportion that rises each year. In respect of coal, China fluctuates between being a net importer and a net exporter, depending on conditions in the domestic coal market. Imports of iron ore, copper, bauxite and nickel all grew rapidly from 2002 when the economy accelerated,[9] though the level of imports has declined since 2013 as

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[7] Steinberg and Fan, *Modern China-Myanmar Relations*, p. 155. See also Chenyang Li, "The Policies of China and India toward Myanmar", in *Myanmar/ Burma: Inside Challenges, Outside Interests*, edited by Lex Reiffel (Washington: Brookings Institution Press, 2010), pp. 113–33.

[8] Magnus Ericsson, "Mineral supply from Africa: China's investment inroads into the African mineral resource sector", *Journal of the Southern African Institute of Mining and Metallurgy* 111 (July 2011): 497–500; BP, *Statistical Review of World Energy*, BP, 2014.

[9] David Humphreys, "New mercantilism: a perspective on how politics is shaping world metal supply", *Resources Policy* 39 (2013): 341–49.

growth slowed. China also imports small amounts of electricity from Russia and Myanmar.

This growth of imports of energy and mineral raw materials triggered the internationalization of many of China's energy and mineral companies. In the oil and gas industry, the great majority of this investment, in terms of both number of projects and aggregate value, has been carried out by the four national oil companies (NOCs), namely CNPC/PetroChina, Sinopec, CNOOC and Sinochem.[10] All four NOCs are owned by the central government and have invested in Myanmar. Overseas investment in minerals has involved a much wider range of companies including those owned by sub-national governments and by private investors.[11] However, state-owned companies (SOEs) owned at national or provincial levels hold the largest number of overseas projects that are directly controlled by Chinese companies.[12] The total value of these overseas energy and mineral investments probably lies between US$100 billion and US$200 billion, but even so, Chinese companies account for only a small share of energy and mineral production outside China.[13]

Myanmar has significant resources of oil, gas, hydro-electricity, metallic minerals and precious stones. As an immediate neighbour of China, the country is an attractive destination for investment by Chinese energy and resource companies. However, the motivations for this investment are multi-faceted and vary between different types of resource.

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[10] Julie Jiang and Jonathan Sinton, *Overseas Investments by Chinese National Oil Companies: Assessing the Drivers and Impacts* (OECD/IEA, 2011); Julie Jiang and Chen Ding, *Update on Overseas Investments by China's National Oil Companies. Achievements and Challenges since 2011* (OECD/IEA, 2014).

[11] Magnus Ericsson, "Mineral supply from Africa", pp. 497–500.

[12] Ruben Gonzales-Vicente, "Mapping Chinese mining investment, with a focus on Latin America", Paper prepared for the China-Latin America meeting at UCLA Asia Institute, 15–16 April 2011.

[13] Philip Andrews-Speed and Roland Dannreuther, *China, Oil and Global Politics* (Routledge, 2011); Magnus Ericsson, "Mineral supply from Africa", pp. 497–500.

China's government has a strong interest in these overseas activities, especially in the case of oil and gas which are seen as commodities of strategic importance. Its 'Go-Out" policy for selected large SOEs aims to build a number of international corporations able to compete with the best in the world. Formally initiated in the year 2000, this policy built on the earlier drive in the 1990s to create "pillar industries"[14] by providing positive support for companies to go overseas in search of resources and markets.[15] Since the first catalogue was issued in 2004, oil, gas and minerals have featured prominently in official documents relating to outward investment.[16] Securing resources lies alongside industrial policy as motivations for the energy and mineral sector and the government applies a mix of economic and diplomatic actions to manage the risk of supply disruptions.[17] This approach has been described as "neo-mercantilist"[18] or "hedging".[19]

In addition to supporting formal industrial policy, overseas investment by energy and mineral companies also addresses other economic goals such as providing employment and generating foreign exchange and,

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[14] Peter Nolan, *China and the Global Business Revolution* (Palgrave, 2001).

[15] Duncan Freeman, "China's outward investment. Institutions, constraints, and challenges", Brussels Institute of Contemporary China Studies, *Asia Paper* 7, no. 4, 12 May 2013.

[16] Ministry of Commerce and Ministry of Foreign Affairs, *Foreign Investment Industrial Guidance Catalogue, Country Directory*, August 2004; National Development Reform Commission and other entities, *2006 Catalogue of Industries for Guiding Outward Investment,* 2006; Ministry of Commerce and other entities, *Foreign Investment Industrial Guidance Catalogue, Country Directory*, 2007; Ministry of Commerce and other entities, *Foreign Investment Industrial Guidance Catalogue, Country Directory*, 2011.

[17] Bo Kong, *China's International Petroleum Policy* (Praeger Security International, 2010); Monique Taylor, *The Chinese State, Oil and Energy Security* (Palgrave Macmillan, 2014).

[18] Kenneth Lieberthal and Mikkal Herberg, "China's search for energy security", *NBR Analysis* 17, no. 1 (2006).

[19] Oystein Tunsjo, *Security and Profit in China's Energy Policy: Hedging Against Risk* (Columbia University Press, 2013).

possibly, profits. The large scale and long duration of commitments related to some of these projects also provide China with diplomatic advantages, especially if the investments are backed by loans and other economic and political engagement.[20]

In 2001, Chinese enterprises began their involvement in oil and gas exploration in Myanmar. In 2004, the Myanmar authorities intensified the opening of on-shore and off-shore blocks in oil and gas to foreign companies. Cooperation between both countries in the oil and gas sectors has increased since 2005.[21] These trends are borne out in the next section where we present figures on Chinese FDI in Myanmar.

The year 2010 marks a turning point in Myanmar's political and economic environment: the first elections since 1990 were conducted and the government has embarked on a series of economic reforms. At the time, many commentators were cautious and/or dubious about the prospect of democracy in Myanmar. However, ongoing political changes have persuaded the EU, the United States and Japan to loosen or lift economic sanctions. As a result, Myanmar is no longer reliant on a handful of countries (China and Russia for example) for strategic and financial support. It can now court other countries for aid and investment. This has brought about a major shift in the balance of power vis-à-vis China and its investments in the country.

Moreover, with the move towards a more democratic and open political environment, the Myanmar ruling party, to some extent, now has to take into account the wishes of its electorate. This means that the political landscape in Myanmar has altered under the feet of various stakeholders in natural resource extraction resulting in shifting alliances, different forms of conflict and a re-calibration of power. The stakes that Chinese corporations have in Myanmar are no longer as secure as they once were, and they are now required to (or be seen to) change their work practices, contracts, and public profile to maintain their hold over their investments.

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[20] Andrews-Speed and Dannreuther, *China, Oil and Global Politics*.

[21] Steinberg and Fan, *Modern China-Myanmar Relations*, pp. 166–67.

CHINESE FDI IN MYANMAR

Obtaining accurate data in Myanmar is the bane of the social scientist. Thus, when presenting statistics from Myanmar's Central Statistical Organization, we are aware that we can only make a limited and tentative analysis. In order to mitigate the inaccuracies in the Burmese datasets, we also present statistics from official Chinese sources and a new and unpublished dataset created by the Energy Studies Institute at the National University of Singapore.

Further, as in all economies, there is a host of activity that flies under the radar of the state and its institutions. Obtaining accurate data on this informal economy is notoriously difficult. Thus, we recognize that the data presented does not provide an accurate picture of Chinese investment in Myanmar.

We begin by looking at Chinese foreign direct investment (FDI) in Myanmar. FDI statistics include "direct investment positions (equity and debt), direct investment income flows (distributed earnings, reinvested earnings, interest income) and direct investment financial flows (equity and debt)"[22] and are divided into stocks and flows. FDI stock is the value of capital and reserves plus net indebtedness. FDI flow refers to capital provided by or received from a foreign direct investor to an FDI enterprise. FDI flows include inflows (capital flows into the host economy) and outflows (capital flows out of the home economy).[23]

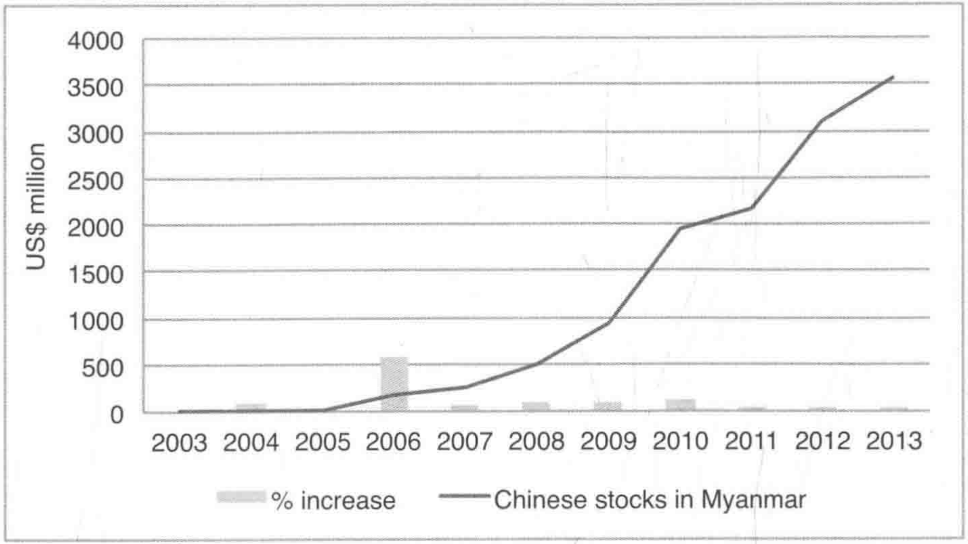
CHINESE FDI STOCKS IN AND FLOWS TO MYANMAR

Figure 1 shows the actual sum of Chinese investment in Myanmar per year and is cumulative. We use Chinese rather than Burmese sources of data because we believe that the Chinese sources are more accurate. We

[22] *OECD Benchmark Definition of Foreign Direct Investment* Fourth Edition 2008, p. 17 <http://www.oecd.org/daf/inv/investmentstatisticsandanalysis/40193734.pdf> (accessed 1 April 2015).

[23] See <http://unctad.org/en/Pages/DIAE/FDI%20Statistics/Sources-and-Definitions.aspx> (accessed 1 April 2015).

Figure 1: China FDI Stocks in Myanmar (US$ million) and Percentage Increase of China FDI Stocks in Myanmar per year (2003–13)



Source: Data from Ministry of Commerce of the People's Republic of China, National Bureau of Statistics of China, State Administration of Foreign Exchange, 2010 Statistical Bulletin of China's Outward Foreign Direct Investment (Beijing: China Statistics Press, 2011), p. 42; and Ministry of Commerce of the People's Republic of China, National Bureau of Statistics of China, State Administration of Foreign Exchange. 2013 Statistical Bulletin of China's Outward Foreign Direct Investment (Beijing: China Statistics Press, 2014), p. 132.