

# The Situation of Chinese Enterprises' Investment in Myanmar and the Three Types of Political Risks They Face

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**Abstract:** In early February, the turbulent social environment and turmoil under Myanmar's arms control lead the political situation in Myanmar to crisis again, and the future is yet uncertain. For Chinese-funded enterprises that have invested heavily in construction in Myanmar, the unstable political and turbulent social environment brought great uncertainty to the prospects of the projects. At present, Myanmar faces not only varies domestic political risks such as the widespread of various community conflicts, the need to improve the continuity and stability of domestic policies, and the need to improve government governance capabilities, but also political risks such as differences in the distribution of benefits arising from the interaction between Myanmar and China. It also faces political risks such as the intervention, both direct and indirect, in the operation of Chinese-funded enterprise projects in Myanmar by countries outside the region. Taking Myanmar as an example, this article discusses the current investment situation of Chinese-funded enterprises in Myanmar, summarizes the three types of political risks faced by overseas operations in Myanmar, and puts forward relevant feasibility suggestions for avoiding political risks.

## 1. Introduction

In terms of domestic politics, Myanmar is deeply troubled by ethnic conflicts and frequent political changes. Since the new NLD government came to power in 2016, the military conflicts between the local and the central government in northern Myanmar have been increasing unabated. Various kinds of problems such as ethnic conflicts and struggles between soldiers and the democratically elected government have been intertwined. In early February, the turbulent social environment and turmoil under Myanmar's arms control lead the political situation in Myanmar to crisis again, and the future is yet uncertain. For Chinese-funded enterprises that have invested heavily in construction in Myanmar, the unstable political and turbulent social environment brought great uncertainty to the prospects of the projects.

## 2. China's Investment in Myanmar

With abundant natural resources, suitable weather, fertile land and abundant human resources, Myanmar once became the granary of the entire Asia. As a member of Southeast Asia, its superior natural resources also make it one of the top ten exporters of natural gas. The Myanmar government changed the direction of economic development, from the original centrally planned economy to market-oriented economy model, and from the original agricultural-led economic efforts to an agricultural-based industry-based development model. In addition, Myanmar has developed national industrial zones since 1999 [1-3]. With the deepening of Myanmar's economic opening to the outside world, by the end of the year, the number of foreigners visiting and investing in Myanmar increased sharply, resulting in a shortage of local hotels.

Myanmar still needs more foreign investment. It not only needs foreign investment to develop infrastructure construction, but also hopes that foreign investors will invest in labor-intensive industries, such as textile, garment and shoe manufacturing, and electronics manufacturing. As Myanmar's economy is based on agriculture, agriculture and technology are the most beneficial to Myanmar's development [4]. Myanmar especially welcomes other countries to increase investment in Myanmar's agriculture, science and technology. Being in a major transition period, Myanmar

needs to adapt and run-in. Myanmar hopes that China will continue to increase investment and cooperation in Myanmar. Having been reforming for nearly four years, Myanmar has realized that Western countries cannot help it, and Japan only provides little help, and only China can help Myanmar.

## 2.1. Investment Amount

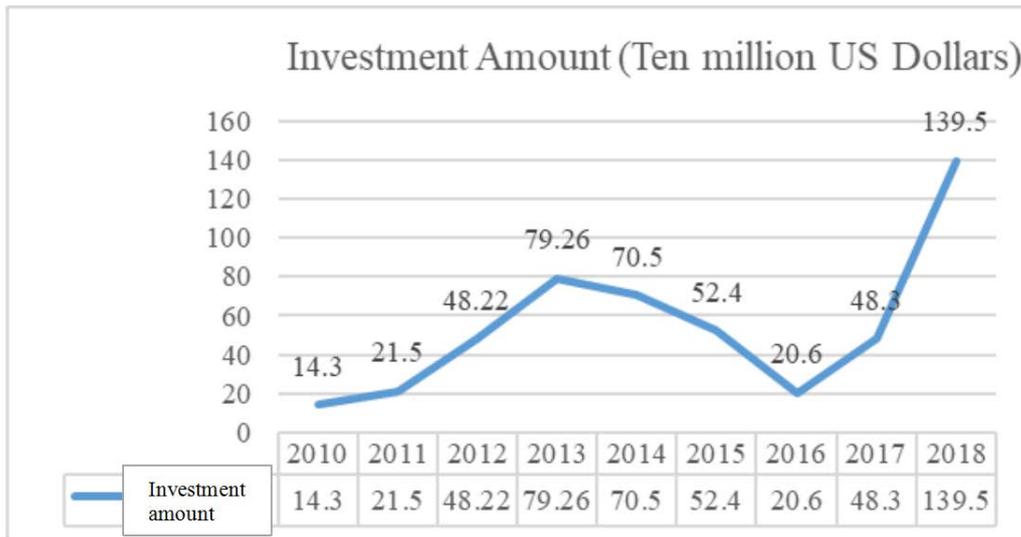


Figure 1 Analysis of China's investment in Myanmar from 2010 to 2018

Source: National Bureau of Statistics Website

The Chinese direct investment flow in Myanmar has increased significantly in the past 18 years. Especially in the context of the “One Belt, One Road” initiative, China's investment in Myanmar has shown a relatively large growth trend. In 2018, the investment amount reached the top, being US\$13.95 billion. But overall, investment flows showed significant fluctuations. The main reason is that after Myanmar’s democratic reforms, some forces within Myanmar politicized China-Myanmar economic and trade issues and deliberately "demonized" Chinese-funded enterprises that invest directly in Myanmar [5]. In addition, local forces in Myanmar continued to emerge, resulting in the instability of the domestic situation in Myanmar, so it presents a curved shape as shown in the figure above (Figure 1).

## 2.2. Investment areas

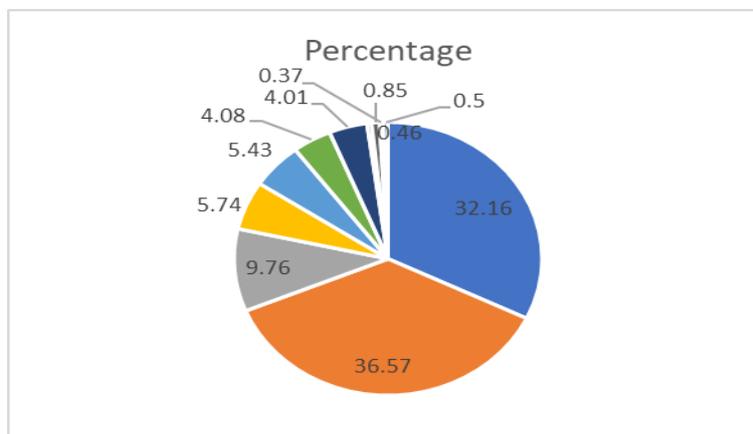


Figure 2 Industry distribution of Chinese investment in Myanmar

Source: Industry Distribution of Chinese Enterprises in Myanmar in 2018

China's direct investment in Myanmar are concentrated in natural resources, energy, etc., such as the development of resource industries like minerals, hydropower, and gas, etc. As a member of

Southeast Asia, Myanmar's abundant natural resources make it one of the top ten exporters of natural gas. China have relatively big investment in electricity and energy in Myanmar, accounting for 36.37%; followed by investment in oil and natural gas, accounting for 32.16%; and investment in manufacturing ranks third, accounting for 9.76%. China's investment in Myanmar's agriculture, animal husbandry and industry is relatively small (Figure 2). However, in recent years, China has gradually increased investment and cooperation in Myanmar's agriculture.

In general, direct investment by Chinese companies in Myanmar is relatively at low level, and there is a lack of investment projects with development potential, greater influence, and technological innovation [6]. And there's also a lack of investment in non-energy fields such as manufacturing, processing, agricultural machinery and equipment, agricultural planting and service industries.

### **2.3. Investment entity**

Chinese companies investing in Myanmar are mainly large state-owned enterprises. In recent years, China's small and medium-sized private enterprises and local enterprises are also active in investing in Myanmar, mainly engaged in timber production, agricultural farming and sideline product processing, and agricultural equipment manufacturing[7][8]. In particular, enterprises in Yunnan Province have taken advantage of their geographic and kinship advantages to "get ahead" and accounted for over 50% of China's investment in local enterprises in Myanmar. The investments include not only traditional industries such as electric power, mining, natural gas, and agricultural equipment manufacturing, but also rubber planting and processing, tobacco production, pharmaceutical production and sales and other fields.

## **3. Political Risks in Myanmar**

### **3.1. The Widespread of various types of Community Conflicts**

Community conflicts are widespread in Myanmar, among which ethnic and tribal conflicts are one of the most prominent contradictions. These conflicts have caused chaos in the local social order, and even lead to casualties, directly damaging the local investment and business environment. For example, during the Myanmar Taiping River I Hydropower Station incident in June 2011, the conflict between the minority ethnic group Kachin independence armed forces and the Burmese government army representing the majority ethnic group in Myanmar was stimulated and eventually rose to a military conflict [9]. The Kachin people pointed the finger at the construction project that was in cooperation by China's Da Tang Corporation and the Myanmar government. They blew up temporary construction bridges, and a large number of Chinese workers to evacuate, thus the operation of the Taiping River Hydropower Station was suspended.

### **3.2. The Continuity and Stability of Domestic Policies to be Improved**

The instability of the Myanmar government's policy lies in its political nature, which involves the political wrestling between the democratically elected government and the military-administered government in Myanmar, Myanmar's becoming a great power wrestling field, and Myanmar's state-owned resource allocation. Since Aung San Suu Kyi came to power, the NLD led by him has been given the mission of reform by the people. However, the changes made by the NLD government require the tacit approval of the military. And most of the policy making process is still top-down and low tolerance. The development history of the Myitsone Hydropower Station is a typical example of local government policy swings affecting the operation of Chinese enterprises in Myanmar [10,11]. After the democratically elected government of Myanmar came to power in March 2011, mass protests kept going on, and the struggle between the military and the Kachin Independence Armed Organization and other opposition groups became more intense. The control and affection by the Than Shwe faction that supported the Myitsone Hydropower Station also gradually weaken. The U Thein Sein government was forced to suspend the Myitsone project in order to stabilize the governing base. After the Democratic League led by Aung San Suu Kyi became the ruling party, there have been many good news about the resumption of negotiations on the construction of the Myitsone

Hydropower Station in Myanmar and officials in Myanmar are also discussing the construction plan in public, but the project is not yet restarted.

The military change in Myanmar has led the military government to step forward again, "legally" take over Myanmar affairs, and implement a one-year state of emergency in accordance with the constitution. At present, large-scale protests and demonstrations have broken out in Myanmar, and the country may be at a risk of instability, which may have an adverse impact on Chinese-funded enterprises' investment and construction projects in Myanmar.

### **3.3. Government Governance Capacity to be Improved**

At present, Myanmar has not yet formed a complete national governance system, which is mainly manifested in aspects such as the irregular social and economic resource allocation system, the imperfect market supervision and governance system, and the government's prestige to be further improved. According to the World Governance Index (WGI) released in 2019, most of the six government governance indicators in Myanmar have negative scores, with government efficiency (GE) being -0.98, regulatory quality (RQ) -0.87, and corruption control degree indicator (CC) being -0.65, the right to speak and accountability (VA) -0.85, political stability and the absence of violence (PV) 0.26, legal rules (RL) 0.08. Although in recent years, the Myanmar government has implemented a series of reform measures to improve its ability to govern the market economy, it has not been able to fundamentally improve the situation due to inefficient government operations and insufficient corruption control.

## **4. Political Risks Arising from the Interaction between China and Myanmar**

### **4.1. Interest Distribution Disputes between the Myanmar Government and Project partners**

The Myanmar Kyaukphyu port construction project led by CITIC Group has been in stagnation for a long time due to problems such as the failure to reach an agreement on financing details and the share of the two parties. In November 2015, China and Myanmar reached an agreement on the project implementation framework, and the proportion of Chinese and Myanmar equity was adjusted from the original "85%/15%" to "70%/30%". Deputy Minister of Commerce of Myanmar U Ang Du said that this means that the Myanmar government must also make a certain percentage of capital injection, instead of just providing land in Kyaukphyu to take shares. This move prompted the Myanmar government to be more cautious and conservative in the project operation, proposing that it needs to decide whether to proceed with the project in stages based on the construction situation and specific needs.

### **4.2. Disagreements with local people, non-governmental organizations, media and other stakeholders**

Some Chinese-funded enterprises tend to ignore local people, communities, and business associations and other stakeholders in their overseas operations, and fail to establish a complete development compensation mechanism and a communication mechanism with stakeholders. For example, in the construction of the Myitsone Hydropower Station in Myanmar, Chinese companies failed to cooperate with the local government in Myanmar to do a good job in resettlement and compensation of development sites, as well as solving water problems in downstream communities, which caused local people to doubt the investment intentions of Chinese companies and held protest. The opposition from civil organizations, news media, and local civil forces in Kachin State directly changed the Myanmar government's perception of Chinese companies.

## **5. Political risks brought by the Intervention of Foreign Countries**

### **5.1. Foreign Countries Directly Intervene in the Project Operation of Chinese-funded Enterprises**

In Myanmar, based on historical ties, considerations of regional security cooperation, and its strategic demands to integrate into the international community, when faced with the requirements of foreign countries to review Chinese companies, the local government often chooses to cooperate with foreign countries. In November 2018, Myanmar and Chinese investors renegotiated the scale of the Kyaukphyu deep-water port and industrial zone construction project. The United States Agency for International Development sent a team to help Myanmar "check" the terms of the contract with the Chinese side and directly review the commercial contract. As a result, the construction scale and initial investment of the project have been significantly reduced compared to the original plan. In addition, the United States has implemented a "Public Investment Plan" in Myanmar for a long time, conducting "investigation and evaluation" of the local government's potential investment plans and projects. According to this plan, the United States can "legally" directly intervene in the business projects of Chinese companies in Myanmar.

## **5.2. Countries Outside the Region Implement Indirect Intervention in the Project Operation of Chinese-funded enterprises**

Indirect intervention such as increasing bilateral or multilateral economic assistance, strengthening security cooperation, and funding private anti-China forces, has become an important channel for countries outside the Myanmar to try to influence Myanmar to handle Chinese-funded enterprise projects.

Firstly, provide exclusive financial assistance and investment. Take Japan's economic assistance to Myanmar as an example. It mainly assists Myanmar through low-interest loans, free loans, and technical support in the fields of infrastructure construction such as transportation, power, communications, logistics, and water supply and drainage systems. The assistance projects are large in scale and has an exclusive competitive effect on the investment and management of Chinese enterprises. For example, after the Myitsone Hydropower Station incident in 2011, Chinese companies' investment in Myanmar dropped sharply, while Japan acquitted Myanmar's 500 billion yen debt and increased development assistance to the Myanmar government year by year, reaching 135.8 billion yen in 2016. Japan also developed a special economic zone in Myanmar.

Secondly, increase cooperation with the host country (Myanmar) in the security field. In recent years, India has stepped up its deployment of the "Eastward Policy", providing military assistance to Myanmar and actively strengthened defense cooperation, and repaired the tension between India and Myanmar due to border issues. Since 2018, the joint military exercises of the Indian and Myanmar navies have been transformed into routine military exercises, and the cooperation between the navy and the army of the two countries has been strengthened. According to the analysis of the Times of India, India's aims to steadily developing its military relations with Myanmar, forming an asylum network closely related to Myanmar's security interests, thereby enhancing India's dominant voice in Myanmar's economy.

Thirdly, support the anti-China forces in the host country. For example, the non-governmental organizations that instigated the opposition of Myanmar society against the Myitsone Hydropower Station-Shwe Gas Movement and Kachin Development Network (KDNG) are all directly sponsored by the National Foundation for Democracy. In addition, organizations such as the "Lower Mekong Initiative" led by the United States have carried out poverty alleviation and environmental protection actions in the Lancang-Mekong region with the image of "Mekong River Protector". This organization has repeatedly provoked the relations between the lower Mekong countries and China, accused China's cooperation mechanism in the Lancang-Mekong region with the intention of seeking "water hegemony", spread false statements such as environmental damage caused by Chinese enterprise development projects, and incited the public to carry out "anti-dams". movement". In the name of public welfare, these multinational organizations actually serve as the fulcrum for the United States to expand the anti-China alliance to raise capital and expand social influence in Southeast Asia. Although non-governmental anti-China forces cannot directly obstruct the operation of Chinese enterprise projects, their public opinion influence is sufficient to incite people to boycott Chinese

enterprise' projects, thereby influencing the host country government's policy-making on Chinese enterprises from the bottom up.

## **6. Suggestion on Risk Management**

### **6.1. Actively Participate in Improving the Overall Business Environment of the Host Country**

In view of the general problems of weak government governance and poor policy continuity and stability in developing countries in Southeast Asia such as Myanmar, the Chinese government and enterprises should strengthen cooperation with host governments to help them improve policies and promote their implementation. For example, Chinese companies can act as third-party organizations to carry out human resource training, assist the Chinese government in establishing a broader and larger-scale administrative human resource development training program, and invite host country government officials to come to China for study and training to help the host country government improve governance capabilities.

### **6.2. Strengthen the Interaction and Communication with the Stakeholders of the Host country Project, and Strive for Understanding and Support**

Encourage overseas Chinese-funded enterprises to strengthen close cooperation and communication with the host country government and various stakeholders of the project, pay attention to the reasonable distribution of economic benefits, adapt to the special local political environment through multiple channels, and grasp relevant information in a timely manner when the social environment is unstable to make early warning and take emergency measures. Actively form strategic alliances with local influential companies, establish a community of shared interests, and jointly operate projects to make up for the disadvantages that Chinese companies do not understand the local political and social environment. Strengthen communication and coordination with local business associations, non-governmental organizations, and the public, prudently, actively and effectively resolve doubts, and strive for understanding and support.

### **6.3. Pay Attention to Play the Role of the Media, Improve Public Diplomacy Capabilities, and Reduce the Risk of Intervention by Countries Outside the Region**

Firstly, strengthen the construction of external publicity platforms, improve channels for public opinion, and establish a positive overseas image. Chinese companies should actively break the monopoly of Western media in the discourse power of social public opinion in the host country, and establish their own media influence in the local society. Chinese companies can strengthen their public relations work with local government officials, tribal chiefs, opposition leaders, NGO leaders, experts, scholars, and news media, especially establishing friendly relations with local news media and NGOs, and cultivate "Knowing China faction". "And the "Youhua faction" social forces, so that relevant personnel can speak for Chinese enterprises. Second, study the local customs, use the "language" familiar to the local society to carry out public diplomacy, strengthen the content construction of foreign propaganda, and avoid "talking to itself". Chinese companies cannot rely on local and foreign media to actively change their reporting methods. Instead, they should actively optimize their external communication strategies, pay attention to the role of local social media and we-media, and be good at using topics such as the cultural traditions and historical heritage of the Southeast Asian people to increase attractiveness of Chinese enterprises, and change from one-way "external propaganda" to two-way "international communication". Third, actively contact the local Chinese and overseas Chinese groups, understand the discourse system of the local society and tell the "Chinese story" in their familiar speech methods, so as to reduce the impact of non-traditional political risks on overseas business projects.

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