

## On the Road to Kyaukphyu

Issues and Debates around a Myanmar Special Economic Zone

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## Summary

As part of its Belt and Road Initiative (BRI), China has planned to create the China-Myanmar Economic Corridor (CMEC). Through Myanmar's small town of Kyaukphyu (Rakhine State), China intends to gain direct access to the Indian Ocean which would significantly reduce its dependence on the Strait of Malacca. Already, an oil and a gas pipeline have been constructed and lead from Kyaukphyu to China. Alongside these pipelines, a railway is planned. In Kyaukphyu, China and Myanmar have agreed to construct a special economic zone (SEZ) which is planned to consist of an industrial park and a deep-sea port. With regard to these projects, this report addresses the following questions.

1. On a **local** level, what do residents think about the project and which demands do they voice?
2. On a **national** level, how could the projects be implemented so that they benefit Myanmar as a whole and without incurring too much debt?
3. On a **geostrategic** level, which interests do China and Myanmar respectively have and how do these interests shape the implementation of the projects?

### 1. Local Level

Kyaukphyu is situated in one of Myanmar's poorest regions. As it provides only few jobs to young people, many of them leave the town to find their luck elsewhere. In conversations with locals, we found that many urban Kyaukphyu residents welcome the SEZ because they hope for more jobs. Rural residents, however, fear that their land will be taken away and that they are under-qualified for the jobs that will be created in the SEZ. Everyone demands proper trainings and compensation which will secure livelihoods. These demands are supported by evidence from Myanmar's Thilawa SEZ. Here, monetary compensation was provided but displaced people could not find a job in the SEZ or elsewhere, leading to loss of livelihood issues and debt problems. Above all, the planning process in Kyaukphyu crucially needs more transparency and local participation.

### 2. National Level

Establishment of a port and an industrial zone requires the Myanmar government to contribute substantial finance. This has led to fears that similar to the Hambantota port in Sri Lanka, Myanmar may in the end have to cede authority over the port to China, if it became unable to repay the debts. While, in the meantime, the overall amount of required financial commitment has been reduced, research on SEZs worldwide shows that the most important factor for an SEZ to be successful is its integration into the national economy. In Myanmar, this firstly requires a significant upgrade of the transport infrastructure. Secondly, industries like a garment sector could be attracted to the SEZ. However, this is connected to many social and environmental risks and will also take time as there are no concrete plans yet.

### 3. Geostrategic Level

In the context of rising alienation between Myanmar and the West over the Rohingya / Rakhine crisis, China emerges again as one of Myanmar's few remaining political allies. It is likely to use this leverage to realize its aim to secure unhindered access to the Indian Ocean through Myanmar. While China may have little immediate economic interest in establishing an industrial park in Kyaukphyu, it will thus strongly push for the construction of the port and the railway line. Myanmar could use this attention on Kyaukphyu to spur local development in Kyaukphyu. To create sustainable and socially inclusive growth, planning has to include the local population.



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## 1. Introduction

Just as the ancient Silk Road can be seen as one of the first instances of globalization,<sup>1</sup> the latest push for globalization also comes from China. With claims to win-win relationships and large mutual benefits, China's 21<sup>st</sup> Century Silk Road or Belt and Road Initiative (BRI) tries to garner support among its neighbors and across the world. However, as China has its eye on the big picture, local consequences for smaller states such as Myanmar are only slowly becoming apparent. In Myanmar, China's engagement mainly centers on the Kyaukphyu Special Economic Zone (SEZ) and on connecting it to China through the China-Myanmar Economic Corridor (CMEC). This report provides an overview about current planning and debates and explores possible paths for the Kyaukphyu SEZ, highlighting risks and benefits for Myanmar in the process.

In Myanmar's Rakhine State, China has committed to upgrading the Kyaukphyu port, constructing an industrial park near the port and establishing a railway and highway connecting China and Kyaukphyu. While most of these projects are in very preliminary stages, the oil and gas pipelines from Kyaukphyu to China have already been completed. Although there is a great opportunity in China's proposed investments for Myanmar, there is also a danger that China sees Myanmar only as one building block of the whole picture but not as independent state with interests of its own. This has become apparent already before China announced the BRI. In 2011, the Myitsone Dam hydropower project was suspended due to public pressure.<sup>2</sup> Protests against the Letpadaung Copper Mine did not result in a stop of mining activities but showed that the public did not approve of the way that mining took place.<sup>3</sup> The Chinese-planned railway connecting Kyaukphyu and Kunming in China was stopped due to public pressure.<sup>4</sup> Problems in these projects were not merely rooted in financial disagreements but, even more important, in cultural conflicts that ensued as locals did not feel that Chinese investors paid sufficient attention to their grievances.

However, Myanmar is in desperate need of infrastructure investments, whether this comes from China or other countries. The Global Competitiveness Index ranks Myanmar among the least developed in terms of infrastructure, placing it 134<sup>th</sup> of 140 countries.<sup>5</sup> The Asian Development Bank (ADB) has shown that Myanmar not only has one of the lowest road densities<sup>6</sup> across Southeast Asia, it also shows one of the lowest growth rates for road density (ADB 2017). Also, in 2017, 70 percent

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<sup>1</sup> Martell, Luke (2010): *The Sociology of Globalization*, Polity Press; 1 edition, p. 44ff.; see also: <https://af.reuters.com/article/idAFKBN17S18S>, 31.8.2018.

<sup>2</sup> <https://www.chinadialogue.net/article/show/single/en/4832-Behind-Myanmar-s-suspended-dam-1->, 9.10.2018.

<sup>3</sup> <https://www.opendemocracy.net/civilresistance/michael-caster/against-letpadaung-copper-mining-in-myanmar-and-struggle-for-human-ri>, <https://www.mmtimes.com/national-news/5175-fury-at-copper-mine-report.html>, 9.10.2018.

<sup>4</sup> <https://www.voanews.com/a/china-backed-railway-expansion-stalls-in-myanmar/1969392.html>, 9.10.2018.

<sup>5</sup> <http://reports.weforum.org/global-competitiveness-report-2015-2016/competitiveness-rankings/#indicatorId=GCI.A.02>, 9.10.2018.

<sup>6</sup> Road density is defined as the number of kilometers of road per 1000 km<sup>2</sup> of land area.

of rural inhabitants in Myanmar did not have access to electricity.<sup>7</sup> Thus, the government's plan to electrify all households by 2030,<sup>8</sup> is just as ambitious as it is much-needed.



Through Kyaukphyu, China gains access to the Indian Ocean and thus avoids the Strait of Malacca. Colored blue is the shipping route through the Strait of Malacca and colored red is the trade route through Kyaukphyu. (© OpenStreetMap Contributors, own alterations)

China frames its investments in Kyaukphyu as a win-win relationship. But so far, the actual benefits from the Kyaukphyu programs seem to materialize mostly on the Chinese side. Bypassing the Strait of Malacca, it can ship oil and gas at a much lesser cost and in a much shorter time. Furthermore, as part of its “string of pearls,” the deep-sea port in Kyaukphyu as well as the railway connecting this port with the Chinese province of Yunnan would transform Myanmar into a major transiting hub for import and export of Chinese goods. Lastly, Kyaukphyu is of great strategic value for China as it provides the most immediate and direct access to the Indian Ocean which has so far been regarded as the backyard of China’s major regional rival, India.

<sup>7</sup> <https://www.mmtimes.com/national-news/nay-pyi-taw/25957-off-grid-projects-to-jump-start-rural-electrification.html>, 11.7.2018.

<sup>8</sup> [https://www.seforall.org/sites/default/files/Myanmar\\_IP\\_EN\\_Released.pdf](https://www.seforall.org/sites/default/files/Myanmar_IP_EN_Released.pdf), 11.7.2018.

This report is an evaluation of news, official reports, secondary literature, and a number of interviews held with civil society activists during visits to Kyaukphyu and Thilawa special economic zones. In order to protect their identity, the names of civil society activists interviewed for this report have been anonymized. Interviews with civil society activists A, B and C were carried out during a field visit in Kyaukphyu on the 10<sup>th</sup> and 11<sup>th</sup> of October, 2018. While A and B work in the town of Kyaukphyu, C is a civil society activist in rural Kyaukphyu. The interview with civil society activist D took place in the Thilawa SEZ on the 5<sup>th</sup> of November, 2018.

Drawing on these sources, this report will provide an assessment of the financial as well as the social and environmental prospects and risks of the SEZ. In particular, it will highlight the often competing interests between China and Myanmar as well as between local and national interests within Myanmar. From here, it will provide an assessment of where the SEZ appears to be heading and what this means for Myanmar both on a local and on a national level.

## 2. The Belt and Road Initiative in Myanmar

### 2.1. What Is The Belt and Road Initiative?

Xi Jinping announced the idea to build a 21<sup>st</sup> Century Silk Road on a visit to Kazakhstan in 2013. The plan was seen to fund infrastructure across Central Asia and Europe in order to use excess steel that China had produced, give opportunities to Chinese construction companies and facilitate greater trade across the Eurasian continent.<sup>9</sup> In financial terms, China has so far planned or committed to roughly US\$900 billion worth of projects. Five years later, not only the name has changed from One Belt One Road (OBOR) to Belt and Road Initiative to account for the multitude of trade routes. Also, various interpretations of China's ambitions have emerged.

Beijing insists that the BRI is a giant stimulus program for the world economy, a "Chinese solution to global economic blues"<sup>11</sup> that is being implemented as "a 'symphony' of all relevant parties."<sup>12</sup> Apart from this official narrative, speculations have run high as to what China's underlying goals are. One aspect is linked to China's domestic politics: The BRI provides a much needed economic boost for China's Western regions. After opening up in the 1980s, only the coastal regions prospered but large parts of China did not gain much from the coastal growth. Even the large "Develop the West" program, launched in the early 2000s, could not decisively turn the tide. Thus, ethnically volatile regions like Tibet, Xinjiang but also Sichuan are economically left behind and could profit enormously from the increased trade brought by the BRI.<sup>13</sup> Most importantly, Yunnan's capital Kunming could serve as a trade hub for Southeast Asia.<sup>14</sup>

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<sup>9</sup> <http://fengzhangmc.com/wp-content/uploads/2017/05/China-as-a-Global-Force.pdf>, 11.7.2018.

<sup>10</sup> General Office of Leading Group of Advancing the Building of the Belt and Road Initiative (2016). "Belt and Road in Big Data 2016". Beijing: the Commercial Press.

<sup>11</sup> [http://www.xinhuanet.com/english/2017-04/18/c\\_136218567.htm](http://www.xinhuanet.com/english/2017-04/18/c_136218567.htm), 11.7.2018.

<sup>12</sup> [http://usa.chinadaily.com.cn/us/2015-03/08/content\\_19752472.htm](http://usa.chinadaily.com.cn/us/2015-03/08/content_19752472.htm), 11.7.2018.

<sup>13</sup> <https://jamestown.org/program/one-belt-one-road-enhances-xi-jinpings-control-over-the-economy/>, 11.7.2018.

<sup>14</sup> <http://hkmb.hktdc.com/en/1X0A60BP/hktdc-research/Yunnan-A-Planned-Hub-of-Belt-and-Road>, 10.8.2018.

In recent years, however, the general impression has shifted more and more towards a more international and geopolitical explanation of China's ambitions. With new institutions like the Asian Infrastructure and Investment Bank (AIIB) and the Silk Road Fund (SRF), it could potentially build parallel structures to the Western-led Bretton Wood institutions.<sup>15</sup> Similarly, BRI can be seen as a way for China to establish technical standards in various areas such as railway transport, energy, telecommunications, finance and data management in the world.<sup>16</sup> With Chinese standards along the BRI, China's firms would have a crucial competitive edge over their global competitors.

In terms of energy, China has recently been more invested into promoting green energies than the USA. It is the only global power which, with the BRI, could shape the global green energy market.<sup>17</sup> Growing Chinese investments in foreign countries will also make these countries more economically dependent on China which potentially gives greater leverage over them.<sup>18</sup> In a geopolitical sense, the BRI is seen as a vehicle to challenge US-American power in the world.<sup>19</sup>

Just as interpretations of China's goals are unclear, so is the question which projects can be counted as BRI project. There is no fixed list of projects and some projects have even been labeled BRI project after they had already been started. In all its variety and fuzziness, it might be a fruitless endeavor to find a coherent description. Above all, it should thus be seen as a process which is evolving at all times.<sup>20</sup> More specifically, it should be seen as a process which describes large-scale, state-supported Chinese projects in other countries geared at improving infrastructure and trade.

## 2.2. China's Role in Myanmar

As Myanmar's neighbor and closest ally during the rule of the military junta in Myanmar, China is already the major foreign power in Myanmar. With Myanmar's opening to the West in 2011, however, China's influence started to wane as Western investments were suddenly appearing as an alternative to China's and President Thein Sein tried to steer the country away from over-dependence on China. Thus, Chinese investments plummeted from a yearly average of over US\$4 billion between 2008 and 2011 to just US\$407 million in the fiscal year 2012-2013.<sup>21</sup> Large-scale projects like the Myitsone Dam and the Myanmar-China railway were suspended under Thein Sein's rule.

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<sup>15</sup> <https://theconversation.com/the-belt-and-road-initiative-chinas-vision-for-globalisation-beijing-style-77705>, 11.7.2018.

<sup>16</sup> <https://teacircleoxford.com/2018/10/10/maximizing-benefit-and-reducing-risk-in-the-china-myanmar-economic-corridor/>, 17.10.2018.

<sup>17</sup> <https://theconversation.com/the-belt-and-road-initiative-chinas-vision-for-globalisation-beijing-style-77705>, 11.7.2018.

<sup>18</sup> <https://chinapower.csis.org/china-belt-and-road-initiative/>, 11.7.2018.

<sup>19</sup> Thorne, David / Spevack, Ben (2017): Harbored Ambitions. How China's Port Investments Are Strategically Reshaping the Indo-Pacific, C4ADS innovation for peace, <https://c4ads.org/s/Harbored-Ambitions.pdf>; Cai, Peter (2017): Understanding China's Belt and Road Initiative, <https://www.lowyinstitute.org/publications/understanding-belt-and-road-initiative>; Gabuev, Alexander (2018): Belt and Road to Where?, <https://carnegie.ru/2017/12/08/belt-and-road-to-where-pub-74957>, 31.8.2018.

<sup>20</sup> Stec, Grzegorz (2018): China's Belt and Road Initiative is Neither a Strategy, Nor a Vision. It is a Process, European Institute for Asian Studies, [http://www.eias.org/wp-content/uploads/2016/03/EU\\_Asia\\_at\\_a\\_Glance\\_Stec\\_BRI\\_2018-1.pdf](http://www.eias.org/wp-content/uploads/2016/03/EU_Asia_at_a_Glance_Stec_BRI_2018-1.pdf), 29.8.2018.

<sup>21</sup> Yun Sun (2013): Chinese Investment in Myanmar: What Lies Ahead?, Stimson Center Issue Brief No. 1, [https://www.stimson.org/sites/default/files/file-attachments/Yun\\_Issue\\_Brief1\\_1.pdf](https://www.stimson.org/sites/default/files/file-attachments/Yun_Issue_Brief1_1.pdf), 29.8.2018.

At the same time, China also has significant stakes in Myanmar's peace process. Armed groups like the Kachin Independence Army, the United Wa State Army or the Kokang Army are – at least partly – ethnically Chinese and have longstanding connections across the border to China. China serves as a safe harbor for some and many of their operations are planned from Chinese soil.<sup>22</sup> Furthermore, at the 3<sup>rd</sup> Session of the 21<sup>st</sup> Century Panglong Conference, China is said to have been the deciding factor in bringing the non-signatories of the National Ceasefire Agreement (NCA) to the table.<sup>23</sup> It thus seems clear that without China, peace in Myanmar will be difficult to achieve.

After winning the 2015 election, the National League for Democracy (NLD), the party of State Councillor Daw Aung San Suu Kyi, seemed to continue the path of balancing Chinese and Western influence after coming to power in 2015. However, the mass killings and expulsion of the Rohingya population in Rakhine changed the strategic picture. As Western countries criticized the NLD government for staying indifferent to these atrocities, China was once again becoming one of Myanmar's only major political allies.<sup>24</sup> In the United Nations (UN) Security Council, China vetoed a resolution that would have condemned Myanmar's action in Rakhine. Further, China's presumed veto is the only thing preventing Myanmar from being dragged in front of the International Criminal Court (ICC) for its atrocities against the Rohingya.<sup>25</sup> Without a major shift in the Rakhine question, Myanmar seems to be most reluctant to do anything that might lead China to re-think its support for Myanmar.

### 2.3. Myanmar and China: Diverging Interests in BRI Projects

Defining BRI projects as Chinese-financed large-scale connectivity projects, three main projects can be seen as part of BRI in Myanmar.

- ◆ An oil and a gas pipeline connecting Kyaukphyu with China's southern province of Yunnan (completed)
- ◆ An SEZ in Kyaukphyu (planned) which includes:
  - Building an industrial park with textile, food processing and construction material industries
  - Expanding the existing oil terminal to a deep sea port
- ◆ A railway connecting Kyaukphyu with Mandalay and then with Kunming (suspended, about to be re-launched)

Furthermore, a basic understanding was reached in November 2017 to build the China-Myanmar Economic-Corridor (CMEC), a significant part of which is the above mentioned railway. Since then, the two governments renegotiated the financial side and cut the costs from a total of US\$9 billion to US\$3 billion.<sup>26</sup> In September 2018, a Memorandum of Understanding (MoU) was signed which outlined cooperation in issues such as "basic infrastructure, construction, manufacturing, agriculture,

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<sup>22</sup> Yun Sun (2017): China and Myanmar's Peace Process, United States Institute for Peace, Special Report 401; International Crisis Group (2016): Myanmar's Peace Process: Getting to a Political Dialogue, Crisis Group Asia Briefing N°149.; most recently, see: <https://www.mmtimes.com/news/government-meets-northern-alliance-groups-first-time.html>, 6.9.2018.

<sup>23</sup> <https://www.mmtimes.com/news/china-urges-northern-alliance-attend-panglong-conference.html>, 29.8.2018.

<sup>24</sup> <https://www.irrawaddy.com/opinion/editorial/burma-stand-chinas-one-belt-one-road.html>, 29.8.2018.

<sup>25</sup> <https://www.bbc.co.uk/news/world-asia-45324092>, 29.8.2018.

<sup>26</sup> Chapter 4 will explore the financial side of the project in more detail.

transport, finance, human resources development, telecommunications, and research and technology.”<sup>27</sup> While both governments are thus pushing cooperation, the specific steps to be taken still remain unclear.

These developments are often seen as moving the development of the whole SEZ forward. For now, however, only the construction of the port seems to be progressing, while there is no news about the construction of the industrial park.

During the debate about the project’s finances, it was agreed to develop the project in phases. First, the port should be developed step-by-step. Only once the entire port project is completed, the industrial park will be tackled. Thus, while media often speak of progress for Kyaukphyu as a whole, only the plans for the port are becoming more specific.<sup>28</sup>

This process mirrors Chinese strategic and economic interests in Myanmar. Investments in Kyaukphyu can help China become less dependent on the Strait of Malacca, a major bottleneck in international sea trade. About 80% of China’s maritime oil imports go through the Strait.<sup>29</sup> If the United States of America (USA) were to block Chinese ships from entering the strait, this would force them to take 5,000km detour across Southeast Asia which would incur huge costs on China.

With the gas and oil pipelines completed and operational in 2013 and 2017, respectively, China has already achieved a part of its goal. Through Kyaukphyu, oil from the Middle East can directly be transported to China. Furthermore, by tapping into Myanmar’s Shwe Gas fields off the coast of Rakhine State, China has secured access to gas from a stable political ally. Upgrading Kyaukphyu’s oil terminal to a proper deep-sea port will allow China to not only use Kyaukphyu as a hub for its oil and gas but also for all other trade. The port will only be valuable to China, however, if the railway is developed at the same time. Only with the railway can China transport goods from Yunnan directly to Kyaukphyu and thus make use of Kyaukphyu’s port.

With the Kyaukphyu port, China also adds one more pearl to its string of pearls – a series of ports across different oceans in which China can do business unhindered.<sup>30</sup> As with the whole concept of BRI, China’s intentions are not purely economic. With the string of pearls, China acquires control over the Indian Ocean and thus gains significant power in India’s backyard. This not only keeps its long-term rival at bay in terms of trade but also create a set of countries that are economically so dependent on China that they are less likely to criticize China in any dispute with India or other countries.

Thus, out of the four projects in Kyaukphyu – deep-sea port, pipelines, railway and industrial park – China has significant interests mainly in the first three projects. The pipelines transport oil and gas to China and the deep-sea port as well as the railways are used to transport other good to and from

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<sup>27</sup> <https://www.irrawaddy.com/news/burma/govt-signs-mou-beijing-build-china-myanmar-economic-corridor.html>, 26.9.2018.

<sup>28</sup> <https://www.bangkokpost.com/business/news/1512470/green-light-for-kyaukphyu>, <https://www.mmtimes.com/news/myanmar-successfully-renegotiates-debt-ownership-terms-kyaukphyu.html>, <https://frontiermyanmar.net/en/the-grand-plan-for-the-china-myanmar-economic-corridor>, 3.10.2018.

<sup>29</sup> <http://www.atimes.com/article/how-china-gets-what-it-wants-in-myanmar/>, 21.9.2018.

<sup>30</sup> <https://edition.cnn.com/2018/02/03/asia/china-sri-lanka-string-of-pearls-intl/index.html>, 14.7.2018.

China. The industrial park however, provides no immediate strategic value to China and does not seem to be at the center of any negotiations at this time.

The political role of the Kyaukphyu projects is also indicated by the fact that almost all Chinese firms that will develop the SEZ are state-owned enterprises (SOE). The Chinese SOE CITIC leads a consortium of mostly other Chinese SOEs which will develop the SEZ.<sup>31</sup> While transparency in this sector is generally low, Chinese SOEs have often been found to pursue mixed goals. As SOEs and the state are often also personally intertwined, SOEs have shown to play a political role in China's global strategy. While they are also bound to make profits and become self-sustaining, they are often used by the Chinese state of various levels to further China's political goals through economic means.<sup>32</sup>

“The top management of large SOEs and the political leadership have a symbiotic relationship, and it is not always clear who is in the driver's seat when decisions are made.” (Jakobsen/Knox 2010: 24)

For Myanmar, however, the order of importance is quite different. Myanmar could profit from increased trade through the Kyaukphyu port but this will hardly be enough to alleviate poverty in Kyaukphyu. In Kyaukphyu, both proponents of the SEZ and those that were more skeptical about it agreed that the SEZ is the only element that could potentially bring more jobs to Kyaukphyu. While the track record of SEZs all over the world is mixed, the SEZ could provide an opportunity that creates jobs for local people. The following chapters will discuss how this can be achieved and what risks for Myanmar lie ahead.

### 3. Local Level: Hopes and Concerns

#### 3.1. Local Demands for a Successful SEZ

In a very critical account, Focus on the Global South's Charlie Thame claims that SEZ development in the Mekong region generally goes hand in hand with land grabs and amplification of poverty. While SEZ proponents argue that SEZs bring jobs to poor farmers, Thame argues that the development that SEZ bring is not the right kind of development. Apart from the economic impacts of losing one's livelihood, he argues that the SEZs also destroy social relations and downgrade formerly independent farmers to wage laborers dependent on jobs in the SEZ.<sup>33</sup> On the one hand, this highlights the fact that SEZ are not a universal remedy which creates sustainable development automatically. On the other hand, while local people voiced fears and concerns, there was also a lot of hope that a project

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<sup>31</sup> Led by one of China's largest construction companies, CITIC, the consortium developing Kyaukphyu consists of the SOEs CITIC, China Harbor Engineering Company, China Merchants Holdings (International) and TEDA Investment Holding. The Yunnan Construction Engineering Group is the only private enterprise involved. The only non-Chinese firm is the Thailand Charoen Pokphand Group Company Limited. For more information, see: <https://www.mmbiztoday.com/articles/kyaukphyu-sez-bids-awarded>, 18.8.2018.

<sup>32</sup> Jakobson, Linda / Knox, Dean (2010): New Foreign Policy Actors in China, SIPRI Policy Paper No 26, p. 24-28, <http://lindajakobson.com/wp-content/uploads/2014/12/Jakobson-Knox-New-Foreign-Policy-Actors-in-China-SIPRI26.pdf>, 6.9.2018.

<sup>33</sup> Thame, Charlie (2017): SEZs and Value Extraction from the Mekong: A Case Study on the Control and Exploitation of Land and Labour in Cambodia and Myanmar's Special Economic Zones, Focus on the Global South, p. 52, [https://focusweb.org/system/files/sezs\\_and\\_value\\_extraction\\_in\\_the\\_mekong\\_english.pdf](https://focusweb.org/system/files/sezs_and_value_extraction_in_the_mekong_english.pdf), 6.9.2018.

like the SEZ could alleviate the lack of jobs in Kyaukphyu. Most strikingly, opinion is divided between urban and rural residents.

Speaking with urban civil society activists in Kyaukphyu, they say that most people welcome the SEZ. While they are concerned about environmental dangers and demand trainings for local people as well as the provision of jobs suitable to local people, they do see the opportunities of the SEZ.<sup>34</sup> As there are currently no perspectives for young people to earn a living, many leave the town to work either in other parts of Myanmar or abroad. The SEZ might provide the jobs that enable people to make a living in Kyaukphyu.

On the countryside, there is greater concern as the process for land acquisitions has begun. 4,000 acres of land in different places have been marked to be acquired for the SEZ later. After this has been made public, however, no further steps toward land acquisitions have been taken. Nevertheless, the demarcations have sparked a fear of losing the land which has caused many rural people to oppose the SEZ. A civil society activist explained that although young people are leaving the area for jobs elsewhere, there is a reluctance to give up their farms in exchange for jobs which, in the end, might not materialize.<sup>35</sup> He claimed that urban people have nothing to lose from the SEZ: Even if it does not turn out to provide benefits for them, they are not worse off than before. Rural people, on the other hand, will definitely lose their farmland and thus their entire current livelihood. If the SEZ then does not provide jobs, they are left with nothing. If, however, the SEZ does provide good jobs for local people, also rural people would support it. These deep suspicions towards the unclear development plans are mainly based on the bad experiences from the construction of the Shwe Gas Pipeline.

The uncertainty about jobs mainly stems from the fact that there is no clear path how the Kyaukphyu SEZ will contribute to Kyaukphyu's local development. The only clear thing is that jobs will be created in the construction of the SEZ which is, however, not enough to make up for the loss of livelihood because construction work will only be temporary. CITIC, the Chinese firm with the most stakes in developing the SEZ, claimed in its original feasibility study that 100,000 jobs will be created in the area. However, as Arakan Oil Watch argues, the lack of skills among the local population will most likely lead to a lot of these jobs being filled by people outside Kyaukphyu.<sup>36</sup> In Pakistan's Gwadar port, a BRI project similar to Kyaukphyu, these fears have materialized as about half of the jobs were not given to locals but to Chinese.<sup>37</sup> In Myanmar, the oil and gas pipeline construction may serve as a warning, as explained by Debbie Chang, independent researcher from Hong Kong. During the construction process, local people were given low-paying jobs on a temporary basis – the bulk of the higher-paid jobs were given to Chinese, Indian or central-Myanmar workers. Once the construction of the pipelines was finished, local workers were laid off and no new employment opportunities have arisen since then.<sup>38</sup>

This argument is also supported by experiences from the Thilawa SEZ near Yangon. While the new houses for displaced people were often better than their old ones and compensation was also on an

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<sup>34</sup> Interview with civil society activist B, Kyaukphyu, 10.09.2018.

<sup>35</sup> Interview with civil society activist C, Kyaukphyu, 10.09.2018.

<sup>36</sup> Arakan Oil Watch 2012: 7;

<sup>37</sup> <https://asia.nikkei.com/Spotlight/Cover-Story/Is-China-s-Belt-and-Road-working-A-progress-report-from-eight-countries>, 17.10.2018.

<sup>38</sup> Interview with Debby Chan, 10.07.2018.

acceptable level, they were left without jobs and livelihood.<sup>39</sup> Most of them used to work as farmers but after the relocation, they were not given any farmland. In the SEZ, they could only be hired as cleaners or security guards which did not pay well enough to sustain a family. Even though the companies in the SEZ provided trainings for more qualified jobs, local people were mostly not educated enough to be allowed to attend these trainings. Thus, once the compensation money had run out after about a year, it was difficult to sustain a living as there were no jobs for them. This often prompted them to incur debts for which they pawned their houses. In this process, 18 out of the 68 displaced households were not able to repay the money and thus lost their home to money lenders.<sup>40</sup>

A quantitative study further found that compared to non-relocated households, relocated households in Thilawa had significantly higher risks of falling into debts. This is mainly due to the fact that they have less or no farmland and are thus in need of buying food. While resettlement houses were often of better qualities as they provided better roofing or better access to water, the lack of sustainable income had many people spiral into debt.<sup>41</sup> These experiences from Thilawa show that compensation should not only be paid in monetary terms but must also include the possibility to find jobs and thus livelihoods after resettlement.

In local opinion, two things are thus needed to develop the Kyaukphyu area. Firstly, in order for the SEZ to be beneficial to local people, it must provide trainings and jobs suitable for them. As most local people in and around Kyaukphyu have are largely uneducated, companies will have to provide them with training so that they are not bound to the lowest-paid jobs without any chance of improvement.<sup>42</sup> Secondly, and more broadly, the planning process needs a lot more transparency and possibilities for participation by local people. An alliance between the Myanmar government and the civil society<sup>43</sup> would allow both sides to find agreeable solutions and could rebuild trust between residents and developers.

### 3.2. Preparatory Work and Previous Projects near Kyaukphyu

The International Commission of Jurists (ICJ) and other NGOs claim that so far, the preparatory work for the SEZ has not yet yielded benefits to the local populations but instead negatively affected both people and environment. As a lot of research has already been put into assessing the social and environmental costs already incurred, this chapter will only provide a brief overview.

The most pressing issue has been the displacement of local farmers and the lack of compensation they received. There are two instances where resettlements came to the forefront of the conflict. In 2014, 26 families were displaced for two dams related to the future SEZ. Prior to the displacements,

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<sup>39</sup> Interview with civil society activist D, Thilawa, 05.10.2018.

<sup>40</sup> Interview with civil society activist D, Thilawa, 05.10.2018.

<sup>41</sup> Griffiths, Mike (2018): Using Vulnerability mapping to measure medium term impact of relocation and resettlement by Special Economic Zones (SEZ): Thilawa SEZ, Yangon Region, Myanmar, Social Policy & Poverty Research Group, p. 10-13.

<sup>42</sup> Interview with civil society activists A and B, 10.09.2018.

<sup>43</sup> <https://teacircleoxford.com/2018/10/10/maximizing-benefit-and-reducing-risk-in-the-china-myanmar-economic-corridor/>, 17.10.2018.

no formal notification was given by the government before and according to the ICJ, farmers did not hear of the plans before construction work actually began.<sup>44</sup>

In 2016, a large area of around 4,000 acres was demarcated for resettlement.<sup>45</sup> The most common problem was that around half of Kyaukphyu's rural population does not have an official document proving their land rights although they have in many cases lived and worked on the land for generations.<sup>46</sup> Just as in 2014, the resettlement plans were also not published in the official gazette as required by law.<sup>47</sup> While no land has yet been taken away in this round of acquisition, it left the farmers in a permanent fear that this might happen at any time.<sup>48</sup>

In the last few years, the development of the Shwe gas fields and the subsequent influx of foreigners have led to a stark increase in prices for food and housing because foreigners were able to pay a lot more than the local standard.<sup>49</sup>

Similarly, fishermen have been deprived of their livelihood without any proper compensation. With the Shwe Gas terminal, large fishing grounds have been polluted, their fish populations have been depleted and the access for ordinary fishermen has in many cases been restricted. This is now feared to happen again with the construction of the deep-sea port.<sup>50</sup>

In environmental terms, water pollution and destruction of mangrove forests are the two major concerns. The mangrove forest around Kyaukphyu is the second-largest in Myanmar. Due to increased agriculture and fisheries, mangrove forests are depleted by a rate of 2.2% per year throughout Myanmar.<sup>51</sup> So far, the mangroves are not only important in their role as a habitat but also as preventive measure against storms and floods.<sup>52</sup> During the construction of the oil and gas pipelines, mangrove forests were cut down and this is feared to be inevitable for the SEZ, too.<sup>53</sup>

The concern over water pollution has recently risen to the top of the agenda of civil society activists as Kyaukphyu's waters were polluted in what they assume was a minor oil spill. CSO activists have reported unknown substances in the water and have shown patches of colored water in the rivers. While thorough testing will take a while, preliminary results strongly point towards oil. Activists pre-

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<sup>44</sup> ICJ (2017): Special Economic Zones in Myanmar and the State Duty to Protect Human Rights, p. 51-57, <http://www.icj.org/wp-content/uploads/2017/02/Myanmar-SEZ-assessment-Publications-Reports-Thematic-reports-2017-ENG.pdf>, 6.7.2018.

<sup>45</sup> Interview with civil society activist C, Kyaukphyu, 10.09.2018.

<sup>46</sup> ICJ 2017: 48

<sup>47</sup> ICJ 2017: 57

<sup>48</sup> Interview with civil society activist C, Kyaukphyu, 10.09.2018.

<sup>49</sup> Interview with civil society activist C, Kyaukphyu, 10.09.2018; see also: Oxfam (2017): Responsible Investment in Myanmar. Lessons from experiences of SEZ developments: p. 18, [https://myanmar.oxfam.org/sites/myanmar.oxfam.org/files/file\\_attachments/dp-responsible-investment-myanmar-sez-250117-en.pdf](https://myanmar.oxfam.org/sites/myanmar.oxfam.org/files/file_attachments/dp-responsible-investment-myanmar-sez-250117-en.pdf), 9.8.2018.

<sup>50</sup> Arakan Oil Watch (2012): Danger Zone, p. 7.

<sup>51</sup> Estoque, Ronald / Myint, Soe / et al. (2018): Assessing environmental impacts and change in Myanmar's mangrove ecosystem service value due to deforestation (2000-2014), doi: 10.1111/gcb.14409.

<sup>52</sup> May Ei Nandar Soe / Daw Aye Aye Thant / Dr. Kyaw Zaya Htun (2018): Prediction of Storm Surge and Risk Assessment of Rakhine Coastal Region, American Scientific Research Journal for Engineering, Technology, and Sciences, 41:1, pp. 162-180.

<sup>53</sup> <https://www.nytimes.com/2017/05/13/opinion/sunday/villagers-in-myanmar-describe-the-destructive-power-of-chinas-building-frenzy.html>, 10.8.2018; see also Arakan Oil Watch 2012: p. 9, <http://www.burmalibrary.org/docs14/Danger-Zone-en-red.pdf>, 6.8.2018.

sume that the spill stems from cleaning activities after which wastewater was discharged without being treated.<sup>54</sup> The source of the spill has not yet been determined conclusively. But regardless of where the pollution originated exactly, this shows the strong environmental risks of the oil project which has to be handled with great care.

## 4. National Level: A Chinese Debt Trap?

### 4.1. Financing Kyaukphyu

While the last chapter analyzed local-level concerns, the most pressing issue on a national level during recent months has been Kyaukphyu's costs and Myanmar's debt sustainability. In early June 2018, Sean Turnell, Economic Advisor to State Councilor Aung San Suu Kyi, publicly claimed that the project could plunge Myanmar into a debt trap. In a Financial Times article, he states that the Kyaukphyu SEZ comes at "excessive financial cost and, with this, poses great risks for Myanmar."<sup>55</sup>

In particular, he was daunted by the fate of Sri Lanka's Hambantota port. Just as in Myanmar, the port was built by a Chinese consortium which provided the bulk of the investment. When the Sri Lankan government had increasing difficulties in paying back those debts, a debt-for-equity deal was carved out to relieve Sri Lanka of some of the Chinese debt. In exchange for US\$1.1 billion of debt relief, China acquired a 70 percent stake in the port for a period of 99 years.<sup>56</sup> This effectively gave China control over the ports' operations which is located at a similarly strategic location as Kyaukphyu.

Scared off by the Hambantota case, Myanmar insisted on renegotiating the Kyaukphyu projects with China. Originally, US\$7.5 billion were planned to be spent for the port and another US\$2 billion would have to be spent on developing the SEZ which totals to US\$9.5 billion. However, the project was scaled down in August 2018. Instead of US\$9 billion, the total cost was reduced to US\$3 billion and the sovereign debt guarantee from Myanmar was removed.<sup>57</sup> Thus, the Myanmar government aims to prevent that if loans cannot be repaid, it will have to cede sovereignty over the port to China. Furthermore, the Myanmar government ensured that the project will be developed in phases. Only if one phase has been developed successfully and the consequent phase has been proven to be economically viable, the next phase will indeed commence.

While this should be counted as a significant step for Myanmar as it adverts falling into a Chinese debt trap, it does by far not guarantee that Kyaukphyu will benefit Myanmar in the long run. It shows that the Myanmar government has now delivered a strategy for not failing; there is still no strategy for succeeding.

This is because focusing only on the absolute costs of the projects is too shortsighted. Not only are Sri Lanka and Myanmar in completely different situations regarding their public finances. The reason

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<sup>54</sup> Interview with CSO activists, 10.09.2018.

<sup>55</sup> Financial Times Europe (4.6.2018): Myanmar reviews Beijing-backed port.

<sup>56</sup> <https://www.nytimes.com/2017/12/12/world/asia/sri-lanka-china-port.html>, 14.08.2018.

<sup>57</sup> <https://www.bangkokpost.com/business/news/1512470/green-light-for-kyaukphyu>, 13.08.2018

Hambantota failed was also not only rooted in its loans but mostly in its economic underperformance.

## 4.2. Comparing Kyaukphyu and Hambantota

While the Sri Lankan Hambantota port and Myanmar's Kyaukphyu projects seem to be similar on the surface, there are striking differences in financial terms. Even under the original agreement on Kyaukphyu, Myanmar's share of US\$2.85 billion would have caused a debt-to-GDP ratio of under 20%.<sup>58</sup> In comparison, Sri Lanka was in a much graver situation. Its debt-to-GDP ratio stands at 76%, rendering it one of the highest ratios in all emerging markets.<sup>59</sup>

Judged by International Monetary Fund (IMF) standards, Myanmar's debt would still have been within reasonable bounds.<sup>60</sup> Also, the EU set its boundary for the maximum sustainable debt to gross domestic product (GDP) ratio to 60% which is exceeded by financially stable countries like Germany, France or Belgium.<sup>61</sup> This assessment is also supported by the Center for Global Development. They assessed all BRI countries in terms of their individual risk of falling into excessive debt to China. Myanmar, the authors conclude, is "at a low risk of debt distress" because its public debt to GDP ratio is below 25 percent (Center for Global Development 2018: 8).

However, this is not to say that there were no financial dangers to Myanmar. It is important to not only consider the amount of debt but also the terms of the loans. Least Developed Countries have access to concessional loans from the World Bank Group. China, however, is not bound by any regulations and offers loans with far higher interest rates. Assessing the conditions of Chinese loans, however, proves difficult as these are often not public. For the Hambantota port, it became known that in the first phase, Sri Lanka took on a loan at an interest rate of 6.3% which is more than double the usual rates of most development banks.<sup>62</sup> While the full conditions of the projects are not publicly available, it does point to the fact that despite its rhetoric, China does tend to attach high interest rates to its loans.

In terms of the amount of debt, Myanmar is in reasonably good shape, according to Scott Morris from the Center of Global Development. However, the conditions attached to the loans are not publicly available which gives rise to concern.

"One uncertainty about Chinese loans is the lending terms — specifically the degree to which concessionality is in line with the terms of World Bank and ADB loans. Harder term loans can be very challenging fiscally for a lower income country, and the lack of transparency in China's lending makes it difficult to assess this."<sup>63</sup>

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<sup>58</sup> <https://www.cia.gov/library/publications/the-world-factbook/geos/bm.html>, 12.7.2018. Own calculations.

<sup>59</sup> [https://www.cia.gov/library/publications/the-world-factbook/geos/print\\_ce.html](https://www.cia.gov/library/publications/the-world-factbook/geos/print_ce.html), 14.07.2018.

<sup>60</sup> IMF (2018): Myanmar, Country Report No. 18/90, p. 11.

<sup>61</sup> <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2186rank.html#ce>, 13.7.2018.

<sup>62</sup> Hillman, Jonathan (2018): Game of Loans: How China Bought Hambantota, CSIS Briefs, p. 3, [https://csis-prod.s3.amazonaws.com/s3fs-public/publication/180717\\_Hillman\\_GameofLoans.pdf?bjj0dzdfO5jaedmhoC2Eq7pC6cknyvEz](https://csis-prod.s3.amazonaws.com/s3fs-public/publication/180717_Hillman_GameofLoans.pdf?bjj0dzdfO5jaedmhoC2Eq7pC6cknyvEz), 25.8.2018.

<sup>63</sup> Interview with Scott Morris, 12.7.2018.

Even though Myanmar was in far less debt distress than Sri Lanka, scaling down the projects has definitely been an important step in the right direction as unnecessary costs should be avoided. At the same time, Chinese lending terms remain a reason for concern and might turn out to be a major hindrance in paying back loans. However, in removing the state guarantee for these loans, Myanmar has taken a significant step and most likely avoided having to cede the port to China as Sri Lanka did.

Instead of only looking at the financial side, however, one should also ask why the Sri Lankan government was not able to pay back the loans in the first place. The next chapter will thus show that even more important than the amount of the loans is the economic viability of a given project.

### 4.3. It's Not Only About Money: Why Hambantota Failed

While on the financial side, many characteristics differed between Hambantota and Kyaukphyu, they show striking similarities concerning their structural set-up. During the Sri Lankan civil war, the country was under sanctions from the USA and European Union EU and faced difficulty accessing credits. China was there to help. It provided diplomatic support at the United Nations, supplied military aid and also gave development loans such as for the Hambantota port. This continued after the civil war and in 2017, China had spent US\$15 billion in Sri Lanka. Compared with a meager US\$1 billion spent by the World Bank since 1956, Sri Lanka had notably turned to China.<sup>64</sup> In general, Sri Lanka thus resembles Myanmar's overdependence on China in terms of economic cooperation.

Ceding the Hambantota port to China was for some only the last step of engaging China. It was seen as ceding a crucial part of its independence to China and fears have arisen that China might use the port for military purposes.<sup>65</sup> Despite guarantees to use the port only for commercial purposes<sup>66</sup>, the question remains why China invests such a large sum of money into a port that incurs heavy losses and whose development had been rejected by various other actors before.

In 2004, the deadly tsunami hit the fishing village of Hambantota which was badly damaged and in dire need of assistance. However, the reason why the Sri Lankan government wanted to invest specifically in Hambantota seems to have been less economic but rather personal – Hambantota is the hometown of the then Prime Minister Mahinda Rajapaksa. After unsuccessfully asking a Japanese consortium to develop the port, a Chinese group of firms did not seem to be scared away by the dim economic outlooks of such a project and finally signed the deal.<sup>67</sup>

It turned out, however, to be more of a ghost-port than an economic driver of the region. Although huge resources have since been invested in a port, a highway and an airport, the Hambantota port served hardly any traffic. For different years, figures of between 14 to 180 ships per year are given.<sup>68</sup> The port thus stayed far behind its capacity and – unsurprisingly – could not generate as much revenue as was originally planned. This failure to attract traffic is mainly due to domestic competition in Sri Lanka. As the port of Colombo – just 240 kilometers away from Hambantota – still serves as the

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<sup>64</sup> <https://edition.cnn.com/2018/02/03/asia/china-sri-lanka-string-of-pearls-intl/index.html>, 14.7.2018.

<sup>65</sup> <https://thediplomat.com/2017/12/sri-lanka-formally-hands-over-hambantota-port-to-chinese-firms-on-99-year-lease/>, 14.7.2018.

<sup>66</sup> <https://thewire.in/diplomacy/hambantota-china-sri-lanka-ports>, 29.8.2018.

<sup>67</sup> <https://www.silkroadbriefing.com/news/2018/04/23/chinas-belt-road-initiative-blamed-sri-lankas-hambantota-port-problems-real-story-rather-different/>, 13.08.2018.

<sup>68</sup> Hillman 2018: 2; <https://thewire.in/diplomacy/hambantota-china-sri-lanka-ports>, 29.8.2018.

main transiting hub in Sri Lanka, there is hardly any reason for shipping companies to land in Hambantota. After all, there were no possibilities to make business in Hambantota. “Without an accompanying industrial zone or other local businesses to drive demand, Hambantota’s deep-sea port struggled to attract ships and cargo volumes.”<sup>69</sup> Therefore, the failure of the Hambantota port cannot only be attributed to Chinese predatory lending policy but at least as much to Sri Lanka’s failed development planning. The unfavorable starting conditions were exacerbated by the fact that after a change in power, the new prime minister did not want to extend support for a brainchild project of the former prime minister. He consequently delayed infrastructure projects around the port which further deterred businesses from investing in Hambantota.<sup>70</sup>

Therefore, instead of using revenue from the port to pay off existing debt to China, operating the Hambantota port and the adjacent infrastructure consumed large amounts of money without generating any considerable revenue. This, in turn, forced Sri Lanka to take on more debt from China which amounted to over US\$8 billion and resulted in the debt-for-equity swap that has drawn so much criticism.<sup>71</sup>

#### 4.4. Conclusion: Which Lessons Does Hambantota Bear for Kyaukphyu?

The Sri Lankan example is thus a very instructive one, albeit for a different reason than is usually conveyed in Myanmar’s media and public discussion. Undoubtedly, the amount of debt that Myanmar takes on from China is important. Unnecessary overspending must be avoided, and the debt should be as low as possible. In that regard, reducing the costs as has been agreed following fears of Myanmar falling into a debt trap, is a step in the right direction. However, as Myanmar is in a rather comfortable situation concerning its debts, two other factors are a lot more important than the amount of the debt.

Firstly, the terms of the loan should not exceed usual multilateral institutions’ lending practices of 2-3%. Although the sovereign debt guarantee has been removed and the project will be developed in phases, exceeding interest rates have shown to be a cause of concern in many Chinese projects.<sup>72</sup>

Secondly, apart from the financial point of view, it is also crucial that the investment benefits Myanmar to generate revenue which can be used both to support people’s living standards and to pay back debts to China. If Kyaukphyu does not develop any revenue-generating activities, benefits would accrue only to China, as it would have established a way to bypass the Strait of Malacca. In Sri Lanka, the government had planned to first build the Hambantota port which should then generate revenue in its vicinity.<sup>73</sup> This approach has evidently failed and should be reversed in Kyaukphyu. In-

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<sup>69</sup> <https://www.forbes.com/sites/wadeshepard/2016/10/28/sold-sri-lankas-hambantota-port-and-the-worlds-emptiest-airport-go-to-the-chinese/#3072c5624456>, 15.7.2018.

<sup>70</sup> <https://www.silkroadbriefing.com/news/2018/04/23/chinas-belt-road-initiative-blamed-sri-lankas-hambantota-port-problems-real-story-rather-different/>, 13.08.2018.

<sup>71</sup> <https://www.forbes.com/sites/wadeshepard/2016/10/28/sold-sri-lankas-hambantota-port-and-the-worlds-emptiest-airport-go-to-the-chinese/#3072c5624456>, 15.7.2018.

<sup>72</sup> For Pakistan, see <https://foreignpolicy.com/2018/08/16/pakistans-economic-turmoil-threatens-chinas-ambitions-cpec/>, 27.8.2018; for Sri Lanka, see chapter 4, for Laos, see <http://www.atimes.com/article/laos-track-china-debt-trap/>, 27.8.2018; for a general overview see Center for Global Development 2018.

<sup>73</sup> <http://www.investsrilanka.com/news/story/4202/Govts-new-Hambantota-Port-deal-with-China-will-deliver-economic-transformation-Malik>, 29.8.2018.

stead of building infrastructure and hoping for investment to appear, economic structures must be built up before or at the same time in order for the whole project to succeed.

The following chapter will thus look at opportunities and challenges for Kyaukphyu to build up economic structures.

## 5. What makes a Successful SEZ?

The previous chapter has shown that financing is one important factor but even more importantly, the project has to be planned and managed in a way that it generates revenue with which to pay back the loans. This chapter will now list factors have been shown to be decisive in SEZ developments worldwide.

In the World Bank's Ease of Doing Business index, Myanmar ranks 171th out of 190 states in total. In Southeast Asia, only Bangladesh and Timor-Leste received a lower ranking.<sup>74</sup> SEZs can thus potentially be a way of expanding Myanmar's infrastructure, attracting foreign capital and businesses and creating regional growth centers that can then spill over to the rest of the country.

SEZ are generally installed in order to provide for a more favorable business environment, to ease regulations for firms and to grant tax breaks in a specific area. Through these measures, SEZs are supposed to serve as windows to the global trade world and facilitate the integration of developing countries into trade networks. A prospering SEZ will thus, in theory, create jobs, infrastructure and general development. However, as with most major investment projects, they also carry great risks of destruction of livelihoods, environmental hazards and degradation of livelihoods. Also, their benefits have often been slow to materialize. The record of SEZs all over the world is mixed but there are general lessons that can be learnt.

Starting its analysis in the 1960s, an ADB study finds that many SEZs perform badly and not as originally intended.<sup>75</sup> Although Chinese, Taiwanese or Korean SEZs are often mentioned as shining examples of the potential of SEZs, the ADB study suggests that especially since the turn of the 21<sup>st</sup> century, no SEZ has reached the same measure of success.<sup>76</sup> This is mainly due to a lack of realistic planning.

“More often than not, expectations with regard to SEZs are often inflated, objectives are overstated, and strategic planning remains inadequate—resulting in stagnant development, unsustainable growth, or low returns on investment.”<sup>77</sup>

Learning from various good and bad examples, the ADB has proposed various suggestions to create a successful SEZ.<sup>78</sup> These can be broken down to the following two factors:

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<sup>74</sup> <http://www.doingbusiness.org/rankings>, 17.7.2018.

<sup>75</sup> ADB (2015): Asian Economic Integration Report 2015: How Can Special Economic Zones Catalyze Economic Development?, p. 95f., <https://www.adb.org/sites/default/files/publication/177205/asian-economic-integration-report-2015.pdf>, 18.7.2018.

<sup>76</sup> ADB 2015: 105.

<sup>77</sup> ADB 2015: 105.

<sup>78</sup> ADB 2015: 105-108.

1. **Legal framework:** An SEZ requires establishing a robust, transparent and accountable legal framework that grants a lot of autonomy to the SEZ but also holds it accountable.
2. **Local integration:** It also requires a business rationale that is anchored in local conditions. Hence, the SEZ must be integrated into the local economy and must not function as an enclave. As the SEZ grows, linkages should be established with businesses outside the SEZ. This includes integration in electricity grids and other support infrastructure. Integration is particularly feasible if the SEZ is located both at the coast and with connections to urban centers with large consumer and labor markets.

These findings are mirrored by two large-scale World Bank studies. In a first account, Thomas Farole argues that “successful zones (most of them in Asia) used the zones to leverage an existing capacity and comparative advantage in factor-cost-based manufacturing to facilitate a transition away from inward-looking development policies to export-led growth.”<sup>79</sup> Even for developed countries, SEZs in areas which are severely lacking behind in economic terms have not shown to create benefits for the overall economy. Similarly, in another study which analyzed SEZs’ performance, the World Bank argues that the most important factors are the proximity to major cities as well as the integration of the SEZ into national economic structures.<sup>80</sup> While classical SEZ incentives such as tax breaks, special ownership schemes, independent zone regulation or bureaucratic ease also play a role in SEZs’ development, they are not as crucial as the above factors.

One area these reports are missing, however, is social and ecological sustainability. Large-scale investments usually bring ramifications in the form of destruction of ecosystems and resettlement of landowners with them. In the following, this report will give an overview of how the two prerequisites mentioned above can be met and what the major risks in this regard are. As the ICJ has already provided a comprehensive overview of the legal framework in the SEZ, this report will focus on the local integration.

## 6. Making Kyaukphyu Work

### 6.1. Legal Framework

According to the ICJ who published the most in-depth legal study of the Kyaukphyu SEZ, the Myanmar SEZ framework is in some parts inconsistent and breaches international law and standards.<sup>81</sup> The overarching law organizing the development of a SEZ is the 2014 Special Economic Zone Law. It supersedes the 2016 Investment Law which otherwise regulates foreign investments in Myanmar. However, instead of providing a clear guiding framework of how to invest in the SEZ, the legal framework is uncertain regarding the “functions, duties and accountabilities of government and business actors” which leads to a “confused and disordered situation.”<sup>82</sup>

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<sup>79</sup> Farole, Thomas (2011): Special Economic Zones in Africa: Comparing Performance and Learning from Global Experience, The World Bank, p. 242.

<sup>80</sup> World Bank (2017): Special Economic Zones: An Operational Review of Their Impacts, p. 92-94.

<sup>81</sup> ICJ 2017.

<sup>82</sup> ICJ 2017: 23.

The SEZ Management Committee has so far played a far greater role than was prescribed to it by law and acted in a legal grey area.<sup>83</sup> The factual responsibilities of the Kyaukphyu One Stop Service Center (OSSC) – an institution within a SEZ designed to speed up organizational processes for investors – by far exceed the scope of responsibility which OSSCs were given by the 2014 SEZ Law. Also in environmental matters, the SEZ rules give a lot more power into the hands of the OSSC than is covered for by the SEZ Law.<sup>84</sup> In terms of land use, Myanmar has more than fifty laws which are on many ways conflicting and not reconciled by the SEZ laws.<sup>85</sup> Also, in the case of involuntary resettlements, the Ministry of Home Affairs, companies and the SEZ Management committee were given no detailed duties or ways to coordinate which leads to a situation where displaced people lack access to grievance mechanisms and companies are faced with uncertainty in which way they might have to account for resettlement costs in the future.<sup>86</sup>

According to the ICJ, the start of the land acquisition process contradicts the UN Basic Principles and Guidelines on Development-Based Evictions and Displacement because, according to the ICJ, the government has neither given due information nor is the situation so exceptional that no other means are possible.<sup>87</sup> Furthermore, the lack of information and participation, lack of sufficient compensation and destruction of livelihoods breaches various regulations, in particular the UN International Covenant on Economic, Social and Cultural Rights.<sup>88</sup>

While these conflicting laws and regulations might make life easier for investors at first, in the future this might be a breeding ground for conflicts as decisions taken today might be challenged and ultimately revoked tomorrow.

## 6.2. Local Integration

In theory, developing an SEZ could work towards decentralizing Myanmar and creating a new growth center besides Yangon and Mandalay. The most obvious obstacle to promoting economic development in Rakhine State, however, is the killing and mass expulsion of Rohingya from Rakhine State and the subsequent political crisis which also affects Rakhine economically.

China has claimed that its economic investment in Rakhine will help solve the conflicts between different ethnic and religious groups.<sup>89</sup> While the state does suffer from serious underdevelopment and the Investigation Commission led by Kofi Annan did recommend creating economic opportunities for all people in Rakhine, economic underdevelopment is not at the heart of the conflict. As is mirrored in the Kofi Annan Commission's report, economic development is one of many – albeit important – issues that need to be resolved. Improvements of the economic conditions of both Rakhine and Rohingya people can alleviate some of the hardships and relieve some of the tensions. However, economic development should not be seen as the sole solution to the conflict. Rather, questions of citi-

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<sup>83</sup> ICJ 2017: 24.

<sup>84</sup> ICJ 2017: 41.

<sup>85</sup> ICJ 2017: 33.

<sup>86</sup> ICJ 2017: 23.

<sup>87</sup> ICJ 2017: 72.

<sup>88</sup> ICJ 2017: 8-17, 71f.

<sup>89</sup> Joy, Adrienne (2018): Understanding China's Response to the Rakhine Crisis, United States Institute of Peace, Special Report No. 419.; see also <http://www.mizzima.com/business-opinion/can-china-myanmar-economic-corridor-overcome-hurdles-progress>, 6.9.2018.

zenship, restrictions of movement and intercommunal tensions are at the core of the conflict and have to be resolved in order to find peace. A successful SEZ could thus be one piece in a puzzle of efforts to mitigate conflict in Rakhine.<sup>90</sup>

In order to understand the economic prospects and viability of the Kyaukphyu SEZ, this chapter will analyze local integration in two different aspects: In terms of physical integration, it will look at transport links and in terms of economic integration, it will look at the possibility of establishing a textile and garment manufacturing sector in Kyaukphyu.

### 6.2.1. Transport

#### *Ports*

In the Kyaukphyu SEZ Development Plan, it was predicted that Yangon's port would reach its capacity limit in 2016. This would have created the need for a new, well-equipped port – preferably Kyaukphyu.<sup>91</sup> However, this only looks at the Yangon port separately and does not take into account developments at the Thilawa SEZ, about 30 km south of the city. So far, the Thilawa SEZ is far more developed than Kyaukphyu, has greater capacities and is in close proximity to Myanmar's economic center Yangon. Thus, trade between Thilawa and Yangon can easily be connected which is not the case for Kyaukphyu.



**Kyaukphyu's oil terminal is planned to be upgraded to a deep-sea port which can handle general cargo. This would enable China to avoid the Strait of Malacca and instead gain direct access to the Indian Ocean. (Photo: Felix Sternagel / hbs)**

The Japan International Cooperation Agency (JICA) has conducted a preparatory survey about the combined development prospects of the Yangon and Thilawa ports. It has found that while the Yan-

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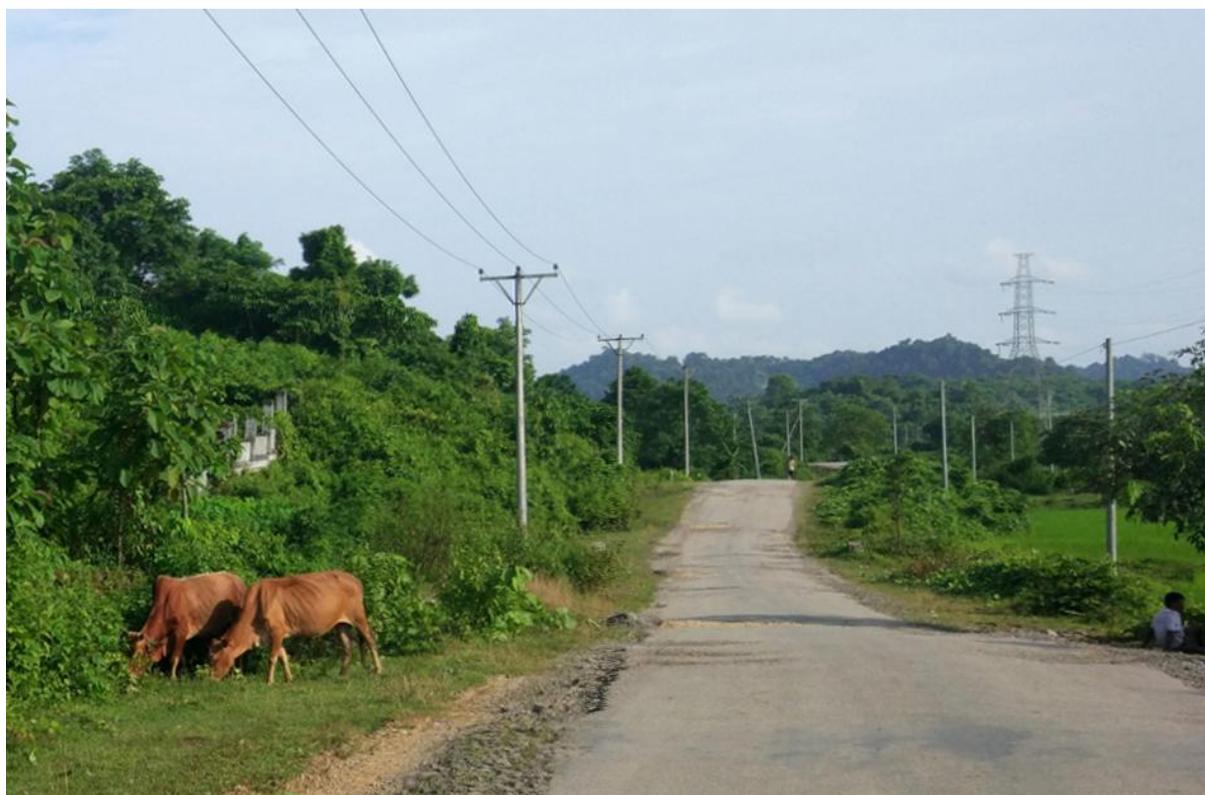
<sup>90</sup> <http://www.newmandala.org/better-political-economy-rohingya-crisis/>, 6.9.2018.

<sup>91</sup> Kyaukphyu SEZ Development Plan: 26.

gon port has a relatively small potential for expansion, from 528,000 TEU<sup>92</sup> in 2015 to 725,000 TEU in 2020, the Thilawa port can grow from only 203,000 TEU in 2015 to 815,000 TEU in 2020, a rise of more than 400%.<sup>93</sup> As JICA regards the distance between Thilawa and Yangon as the greatest growth obstacle for Thilawa,<sup>94</sup> road links are consecutively upgraded.<sup>95</sup> Between Kyaukphyu and Yangon, however, the distance is much greater and the roads are by far not as good. Therefore, it can thus not be assumed that Kyaukphyu will automatically attract freight that cannot be handled by the Yangon port because this will much more likely divert to the Thilawa port.

Instead, economic structures will have to be built around Kyaukphyu so that the port is independent of Yangon's industries and attracts cargo that is not bound for Yangon. From a purely economic perspective, it would be a desirable goal to diversify Myanmar's economy and create an additional economic center to Yangon. Kyaukphyu might in theory be one way to do that. However, it will not attract freight out of nowhere but needs proper land infrastructure as well as economic activity on its own.

### **Roads**



**Kyaukphyu's main and only highway. (Photo: Felix Sternagel / hbs)**

Kyaukphyu's connections with other economic centers are restricted by the Arakan Hills, a chain of mountains separating Rakhine from Central Burma. One highway leads through the mountains, con-

<sup>92</sup> Twenty-foot equivalent unit (TEU) is a measurement unit for containers. It is loosely based on the volume of a standard twenty foot long container.

<sup>93</sup> JICA (2015): Preparatory Survey on Yangon Port in Thilawa Area and Logistics Depot Development in the Republic of the Union of Myanmar, Final Report, p. 26.

<sup>94</sup> JICA 2015: 6f.

<sup>95</sup> Myanmar Times (27.8.2018, p. 2): Dawbon Bridge linking four townships in Yangon opens.

necting Kyaukphyu to Mandalay. However, road links are in desperate need of being upgraded in order to facilitate trade to and from the SEZ. While this need is being recognized by different stakeholders, on a national scale, Kyaukphyu has not played a major role. The National Transport Development Master Plan (NTDMP) identifies ten major road corridors for increasing trade in Myanmar. None of them leads to Kyaukphyu.<sup>96</sup> This may well have to do with struggling international influences in the country – the NTDMP was developed in cooperation with the Japanese development agency JICA which has no interest in furthering China’s aims in Kyaukphyu. But the fact remains that Kyaukphyu has so far not been in the focus of infrastructural development and thus needs significant upgrading of its transport infrastructure.

Furthermore, the planned industrial park and the planned deep-sea port in Kyaukphyu are separated sites. While there is a road connecting some part of the distance between them, it is in a very bad condition. The connection between the SEZ and the deep-sea port would have to be almost created from scratch. It would also have to include a bridge linking Ramree Island (hosting the town of Kyaukphyu and the proposed industrial park) with Maday Island (hosting the proposed deep-sea port).



**Figure 1: The proposed SEZ and the proposed deep-sea port are separated through a narrow strait over which a bridge will have to be built. Also, the street from the proposed SEZ to the proposed deep-sea port will have to be heavily upgraded. (© OpenStreetMap Contributors, own alterations)**

While road links are necessary to enable trade, they need to be constructed in an economically and socially sustainable way as recently highlighted by the World Wildlife Fund (WWF). Recognizing the opportunities that come with greater connectivity, WWF at the same time cautions not to disrespect ecologically sensitive areas and livelihoods:

<sup>96</sup> World Bank (2016): Myanmar Diagnostic trade Integration Study: Opening for Business, documents.worldbank.org/curated/en/899541467002864601/pdf/AUS13904-v1-REVISED-PUBLIC-World-Bank-report-DTIS-June-30.pdf, 31.8.2018.

“There is a risk that the benefits of BRI road projects could be undermined by substantial social, environmental and economic costs, if roads are constructed in ways that fragment ecosystems, endanger wildlife, or contribute to deforestation, landslides, flooding and pollution. Through better road planning and design, there is a great opportunity for the benefits of the BRI to become much more far reaching.”<sup>97</sup>

Although this analysis was not directly linked to Kyaukphyu, some of the six road corridors analyzed by the WWF will be used to connect Kyaukphyu with Yangon. In all corridors, around 32% of Myanmar’s total protected areas were affected.<sup>98</sup> Thus, careless planning might endanger up to one third of crucial biodiversity areas. In particular, roads and railways can lead to increased landslides and flooding, water pollution, wildlife mortality and ecosystem degradation.<sup>99</sup> To avoid these risks, specific assessments of each road’s and railway’s impact have to be carried out before any work commences. Not only can infrastructure be rerouted to spare habitats and livelihoods. WWF further suggests creating buffer zones of natural vegetation around a road and re-vegetating slopes. This can reactivate the natural water flow regulation thus help avoid floods, landslides and erosions. Also, creating wildlife and habitat corridors enables animals to cross roads safely in order to reach their food and water sources.<sup>100</sup>

### **Railways**

The second and ostensibly preferable mode of lands transportation is using railways. A major part of China’s plans are the railways connecting Kyaukphyu port with China’s southern province of Yunnan. It was originally planned under the military government in 2011 but was canceled due to public opposition in 2014. In exchange for financing the railway, China would have been granted a 50-year concession to operate on it.<sup>101</sup> The Myanmar government conceded that too many people saw the project as overly disadvantageous to them which prompted the government to stop the railway.<sup>102</sup>

While the project was officially dead, Chinese investors already declared in 2014, that they would not give up the project so easily and had a strong will to pursue the railway in the future.<sup>103</sup> Debbie Chan noted that secret negotiations were still continuing under the Thein Sein government. And although the NLD government was skeptical towards Chinese investments at first, they became increasingly interested into the railway project.<sup>104</sup> Thus, after a few years, the railway project was indeed picked up again. In March 2018, the Myanmar government signed an MoU to conduct feasibility studies for a railroad connecting Mandalay, Tigyang and Muse and a highway connecting Kyauk-

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<sup>97</sup> WWF (2018): Greening China’s Belt & Road Initiative in Myanmar: Rapid Assessment of Opportunities & Risks for Myanmar’s Natural Capital from China’s Belt & Road Initiative, p. 15, [http://d2ouvy59p0dg6k.cloudfront.net/downloads/BRI\\_Final\\_Digital\\_090118.pdf](http://d2ouvy59p0dg6k.cloudfront.net/downloads/BRI_Final_Digital_090118.pdf), 24.7.2018.

<sup>98</sup> WWF 2018: 15.

<sup>99</sup> WWF 2018: 19-29.

<sup>100</sup> WWF 2018: 34.

<sup>101</sup> <https://qz.com/240436/chinas-cancelled-burma-railway-is-its-latest-derailment-in-southeast-asia/>, 26.07.2018.

<sup>102</sup> <https://www.bangkokpost.com/news/transport/421758/chinese-railway-project-in-myanmar-cancelled-official-says>, 26.7.2018.

<sup>103</sup> <https://www.voanews.com/a/china-backed-railway-expansion-stalls-in-myanmar/1969392.html>, 26.7.2018

<sup>104</sup> Interview with Debbie Chan, 10.07.2018.

phyu and Naypyitaw.<sup>105</sup> At the Belt and Road Summit in Hong Kong, the minister of the Office of the Union Government said that a railway connecting Yunnan's city of Ruili with Mandalay would commence soon. These projects strongly resemble the original railways plans that China was pursuing before the Thein Sein government had shut them down. With the MoU about the China-Myanmar Economic Corridor signed, the railway connecting Kunming and Kyaukphyu will be the "backbone of the CMEC," Frontier reports.<sup>106</sup> Thus, China has successfully pushed for the re-launch of these railway tracks which are crucial to securing access to the Indian Ocean.

As shown before, if the Kyaukphyu SEZ is supposed to be beneficial for Myanmar, it needs better connectivity to other economic centers. The need for better infrastructure, including railways, is recognized by various civil society activists in Kyaukphyu.<sup>107</sup> While the railway is crucial for China to access the Indian Ocean, it is also of great importance for Myanmar in order to create more connections between its regions and stimulate trade. The question is, however, in how far Chinese and Myanmar developers will build these projects in a socially and environmentally sustainable way. The construction of the oil and gas pipelines, along which the railway is supposed to be built, set an example of how local residents were only temporarily employed and not sufficiently compensated for the loss of livelihood. All along the oil and gas pipelines, from Kyaukphyu to China, a 30-meter wide strip of land was permanently confiscated.<sup>108</sup> Debby Chan argues that although the farmers whose land was taken away were given jobs in the construction of the pipeline, this was only temporary work whereas the loss of livelihoods is permanent.<sup>109</sup> In addition to minimizing resettlements, the WWF's assessment of green road building should also be adapted to constructing railways whenever possible.

Apart from merely transporting goods from Kyaukphyu to China and back, a railway can also connect people. However, civil society activists on the ground complained that the original plan for the railway did not include a railway stop between Kyaukphyu and China.<sup>110</sup> In a similar way, a Chinese-backed railway project in Laos recently drew a lot of criticism because it replaced many villages, imported laborers and will most likely be too expensive for ordinary Laotians to use in the end.<sup>111</sup> These concerns have to be taken into consideration when planning and constructing the railway.

In terms of transport integration, Kyaukphyu thus has a long way to go. The inadequate road and missing rail links to major economic hubs like Mandalay and Yangon are obvious. However, improving and creating these links has to take place considering the social and ecological side effects these projects can have. Also, the SEZ Development Plan's prediction that Kyaukphyu will attract shipments that Yangon will not be able to process is highly questionable. The Thilawa SEZ close to Yangon will most likely absorb a lot of traffic aimed at Yangon's industrial zones. Kyaukphyu, on the other hand, is too far away from Yangon to attract any significant shares of that traffic. Thus, Kyaukphyu

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<sup>105</sup> <https://www.mmtimes.com/news/china-myanmar-high-speed-railway-quietly-back-track.html>, 2.8.2018.

<sup>106</sup> <https://frontiermyanmar.net/en/the-grand-plan-for-the-china-myanmar-economic-corridor>, 3.10.2018.

<sup>107</sup> Interview with civil society activists A, B, C, Kyaukphyu, 10.09.2018.

<sup>108</sup> Myanmar China Pipeline Watch Committee (2013): In Search Of Social Justice Along The Myanmar-China Oil and Gas Pipeline, p. 25-28, <http://www.mata-nrg.org/wp-content/uploads/2016/07/In-Search-of-Social-Justice-along-Myanmar-China-Pipeline-English-Version-18012016.pdf>, 15.08.2018.

<sup>109</sup> Interview with Debby Chan, 10.07.2018.

<sup>110</sup> Interview with civil society activist A, Kyaukphyu, 10.09.2018.

<sup>111</sup> <https://www.bangkokpost.com/news/special-reports/1507722/the-great-rail-dilemma>, 25.09.2018.

needs to attract business on its own. One such activity could be the garment sector whose creation is emphasized in the SEZ Development Plan.

### 6.2.2. Possible Manufacturing in the SEZ: The Textile and Garment Sector

The SEZ Development Plan predicted that the ports for Myanmar's textile centers are nearly saturated and upcoming demand will therefore be redirected to the Kyaukphyu SEZ.<sup>112</sup> Setting up a textile and garment sector would have various advantages. Since little equipment is needed and the sector is highly mobile, it is relatively easy to set up and thus has a higher chance of being set up in Kyaukphyu than more complicated industries. The garment sector also provides job opportunities for people with little qualifications as a lot of labor is needed for comparatively simple tasks. As many people in Kyaukphyu lack a formal education, the garment sector can thus provide an inroad for them to gain an income without first having to undergo complicated and costly education programs. Lastly, the textile sector is a sector that historically employs many women. A study published by Oxfam pointed out that in Kyaukphyu, women are particularly endangered to lose their livelihoods because they largely work as food and fish vendors – a profession that will become unsustainable once the fields and fishing grounds have disappeared due to the SEZ.<sup>113</sup> Also, many young women migrate to Yangon in search for work in the garment industry. A second center could potentially allow many of them to work closer to home and stay more integrated in their home communities.

Garment factories need clustering in order to return sizeable revenue. As of now, however, a garment sector in Kyaukphyu would have to be built up from scratch. While 472 of the 518 members of the Myanmar Garment Manufacturers Association (MGMA) are located in Yangon, further clusters exist only in Bago (20 factories), Patheingyi (nine factories) and Mandalay (eight factories).<sup>114</sup> Thus, the greater Yangon area – to which the Bago and Patheingyi clusters can also be counted – is a lot more likely to attract further investments than Kyaukphyu is at the moment.<sup>115</sup> As the Yangon port is also in close proximity to the Thilawa SEZ, garment exporters can easily use the SEZ south of Yangon to ship its products into the world.

Potentially, Kyaukphyu could try to connect with the small cluster in Mandalay. However, Mandalay mainly produces traditional clothes for the domestic market and does not produce textiles for export.<sup>116</sup> Exporting garments would, however, be the main purpose of creating a textile and garment sector in the SEZ which is why Kyaukphyu would not profit extensively from its proximity to Mandalay.

The MGMA predicted a strong increase in the garment sector export volumes until 2024. This rise should be facilitated alongside technological innovation, large-scale training of workers and sustainable social guidelines in fields such as wages, child labor and human rights. However, original expectations to raise the export volume from just under US\$1 billion in 2012 to up to US\$10 billion until 2024<sup>117</sup> might be overblown. In 2018, after one half of this period has gone by, exports are projected

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<sup>112</sup> Kyaukphyu SEZ Development Plan: 40.

<sup>113</sup> Oxfam 2017.

<sup>114</sup> <http://www.myanmargarments.org/wp-content/uploads/2018/10/MGMA-Member-List-upto-30-Sept-2018.pdf>, 9.10.2018.

<sup>115</sup> ODI 2017: 60-63.

<sup>116</sup> <http://www.myanmargarments.org/events-news/factory-zones/>, 31.8.2018.

<sup>117</sup> MGMA (2015): Myanmar Garment Industry: 10-Year Strategy 2015-2024, p. 9.

to reach the same export volume as in 2017: US\$2.7 billion.<sup>118</sup> While this shows an increase from 2012, exports are by far not en route to reach US\$10 billion in 2024. Also, while SEZs are mentioned in the MGMA's 10-Year-Strategy, no development plan for any specific SEZ is stated.<sup>119</sup>

Although investments from other countries than China are encouraged,<sup>120</sup> investments from Western countries seem rather unlikely at this point. The European Chamber of Commerce in Myanmar does not highlight Kyaukphyu as a viable place of investment in its Manufacturing Guide 2018.<sup>121</sup> Moreover, especially retailers selling directly to end users in the West run a certain reputational risk when producing in Myanmar; this could even more be higher if they produced in Rakhine State. While currently, there are no general trade sanctions in place, these firms potentially risk being pictured as facilitators of the atrocities against the Rohingya. Moreover, this reputational risk could soon evolve into a very tangible one as the EU has debated removing Myanmar from the duty-free access to its markets under the "Everything but Arms" scheme.<sup>122</sup> While this is not specific to Kyaukphyu but applies to all of Myanmar, a move like this could shut down the European export market for garment manufacturers. In this volatile situation, chances are small that Myanmar, and especially any location in Rakhine State, will become a major garment hub for Western firms any time in the near future.

Along with its growing political role and its special role in Kyaukphyu, China would be the natural partner for setting up a textile and garment industry in Kyaukphyu. International isolation or sanctions may hit Chinese investors indirectly,<sup>123</sup> but the Chinese market itself may be more relevant for them. In China, wages are on the rise and it increasingly outsources the lower ends of its textile and garment production to other countries in Southeast Asia. In China, however, textile factories have often been found to heavily pollute waters.<sup>124</sup> This is especially a risk in the textile sector in which the environmentally dangerous tasks like dyeing, bleaching or washing are carried out.<sup>125</sup> With backing from China's central government, fines for the textile industry have strongly increased and some firms have been temporarily shut down.<sup>126</sup> This increasing clamp-down – coupled with rising wages in China – has caused firms to outsource the environmentally critical production steps to neighboring countries.<sup>127</sup> When textile firms establish a base in Kyaukphyu, these experiences should be tak-

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<sup>118</sup> <http://www.myanmargarments.org/events-news/export-data/>, 9.10.2018.

<sup>119</sup> MGMA (2015): Myanmar Garment Industry: 10-Year Strategy 2015-2024.

<sup>120</sup> <https://www.mmtimes.com/news/belt-and-road-project-tenders-open-non-chinese-commerce-minister.html>, 17.10.2018.

<sup>121</sup> EuroCham Myanmar (2017): Manufacturing Guide 2018: p. 22.

<sup>122</sup> <https://www.reuters.com/article/us-myanmar-rohingya-eu-exclusive/exclusive-eu-considers-trade-sanctions-on-myanmar-over-rohingya-crisis-idUSKCN1MD28E>, 08.10.2018.

<sup>123</sup> <https://frontiermyanmar.net/en/eu-trade-privileges-move-alarms-garment-sector>, 09.10.2018.

<sup>124</sup> <https://www.oxfam.org.au/2011/01/dyeing-rivers-environmental-concerns-for-chinas-garment-sector/>, 07.8.2018.

<sup>125</sup> In the textile sector, raw materials like cotton or wool are used to produce fabrics. In a next step, garment factories cut and sew these fabrics in order to produce final products like shirts or trousers.

<sup>126</sup> <https://www.bizvibe.com/blog/china-fights-textile-industry-pollution/>, <https://www.npr.org/sections/parallels/2017/10/23/559009961/china-shuts-down-tens-of-thousands-of-factories-in-unprecedented-pollution-crack?t=1533616899092>, 07.08.2018,

[en.ndrc.gov.cn/newsrelease/201612/P020161207645765233498.pdf](https://www.ndrc.gov.cn/newsrelease/201612/P020161207645765233498.pdf), 29.08.2018.

<sup>127</sup> [http://asiaresearch.daiwacm.com/eg/cgi-bin/files/China\\_Textile\\_Sector\\_130506.pdf](http://asiaresearch.daiwacm.com/eg/cgi-bin/files/China_Textile_Sector_130506.pdf), 07.08.2018, <https://www.textiletoday.com.bd/china-building-tech-intensive-textile-industry-leaving-low-value-business/>, 08.08.2018.

en into account. The Myanmar government has urged China to respect local laws and concerns<sup>128</sup> but it also has to ensure that proper environmental and social safeguards are put in place.

The textile and garment sector would be an example of a promising industry in Kyaukphegy as it is easy to establish, does not need excessive training and could open possibilities especially for women. However, it would have to be carefully managed and set up in a way that mitigates environmental risks. Also, it would require concentrated efforts to establish this sector in Kyaukphegy from scratch as the overwhelming majority is concentrated around Yangon.

## 7. Anti-Chinese Bias in Myanmar

After Myanmar had started its transition from a military to a civilian government, the Chinese state-run newspaper Global Times called on Chinese firms to engage in dialogue with Myanmar's civil society and private firms. "Chinese enterprises are used to dealing more with Myanmar [sic] authorities instead of its private firms and nongovernmental institutions and thus urgently need to learn the real needs and desires of the locals."<sup>129</sup>

In the public debate, however, proponents of Chinese investments have increasingly tried to counter the protests against the projects and portray them as an anti-Chinese bias. For example, the International Growth Center has published research showing that in the Myanmar society, there is a bias against Chinese investors compared to those of other countries.<sup>130</sup> To counter this sentiment, the Chinese state-run Global Times repeatedly places open editorials into renowned Myanmar newspapers which praise China's role as an engine of growth and reliable partner for cooperation with Myanmar.<sup>131</sup>

This gives the impression as if there are only benefits arising from Chinese investment but anti-Chinese bias in the Myanmar population provides an obstacle to achieving these benefits. This might show some part of the truth but not the whole truth. There might well be a simmering anti-Chinese sentiment in the general population, especially against large-scale Chinese investors. This, however, should be attributed more to experiences in the past than to a general anti-Chinese bias. While Western firms are by far no saints in terms of infrastructure development in the world, it is worth pointing out the impact of some Chinese-financed projects that fuel negative popular perceptions in Myanmar.

In the Letpadaung mine (Sagaing Region), people were protesting against bad working conditions imposed by the Chinese owners and destruction of various cultural sites. At different points in time, police violently dispersed the protests and killed protesters. An investigation commission headed by

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<sup>128</sup> <https://www.irrawaddy.com/news/burma/nld-urges-china-respect-local-laws-concerns-beijing-trip.html>, 17.10.2018.

<sup>129</sup> <http://www.globaltimes.cn/content/899383.shtml>, 10.08.2018.

<sup>130</sup> Ying Yao / Youyi Zhang 2018: Public perception of Chinese investment in Myanmar and its political consequences: A survey experimental approach, International Growth Centre, Policy Brief 53421.

<sup>131</sup> For example, see Hu Weijia: Relaunching Myitsone Hydropower Dam Could Win Investor Confidence in Myanmar, Mizzima Weekly, June 28, 2018, p. 22; Peng Nian: Can China-Myanmar Economic Corridor Overcome Hurdles to Progress?, in Mizzima Weekly, August 2, 2018, p. 24f.; Khine Win: Why Myanmar is Concerned about Chinese Investment, Mizzima Weekly, August 9, 2018, p. 32f.

Aung San Suu Kyi later concluded that “local government authorities, acting on behalf of the joint venture companies, used fraudulent means to coerce villagers to sign contracts against their will, and then refused to allow villagers and monks to exercise their constitutional right to peaceful assembly and protest.”<sup>132</sup>

While the Letpadaung Mine is still operational despite widespread criticism, the construction of the Myitsone Dam in Kachin State was stopped in 2011 after people had protested the destruction of their villages, sacred sites and livelihoods as well as ecological impacts such as decrease in water fertility as well as fish population and increased flooding.<sup>133</sup> Most importantly, the dam would destroy an important pilgrimage site which is regularly frequented by Buddhists from all over Myanmar. One episode of the Myitsone Dam project highlights the lack of communication and understanding between the China Power Investment Corporation (CPI) which was building the dam and the Myanmar people. Asked about why there is so much public opposition to the dam, CPI’s head of public relations could only answer that CPI has increased the quality of life for local people which is why they “are, in fact, not against this project. They just misunderstand it because they don’t know the reality, and because of rumors and wrong information.”<sup>134</sup> Providing electricity free of charge is certainly done in good intention but it does not weigh out the fact that the Myitsone Dam would have significantly harmed an important pilgrimage site which is by many regarded as the birthplace of the Burmese population.<sup>135</sup> The answer of the CPI official should thus rather be turned around: Chinese investors often just misunderstand the situation because they don’t know the reality on the ground.

Lastly, the oil and gas pipelines also were subject to protests after villagers had been displaced and left without livelihood and sufficient compensation.<sup>136</sup> In Kyaukphyu, bad experiences with replacements, lack of compensation and the lack of work opportunities is the main reason people are skeptical about the new projects.<sup>137</sup>

This is not to say that Chinese concerns about an anti-Chinese bias are false. But it stems from a local population’s fear of the adverse impacts that some Chinese projects undoubtedly had in the past. Thus, the best way to counter the anti-China sentiment is to implement projects that take due consideration to local concerns in terms of environment and livelihoods.

## 8. Conclusion: Kyaukphyu’s Way Forward

In Kyaukphyu, at the site of the prospective SEZ, opinion is divided. While urban residents are optimistic that the industrial park will bring much needed jobs, rural people also see this possibility but they are a lot more skeptical and fear that their land will be taken away without any proper compensation in the form of new jobs. Bearing in mind previous megaprojects, there is a general fear that

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<sup>132</sup> [http://www.burmalibrary.org/docs15/Letpadaung-Lawyers\\_report-en-red.pdf](http://www.burmalibrary.org/docs15/Letpadaung-Lawyers_report-en-red.pdf), 10.08.2018.

<sup>133</sup> [https://web.archive.org/web/20100106124049/http://www.irrawaddy.org/article.php?art\\_id=10064](https://web.archive.org/web/20100106124049/http://www.irrawaddy.org/article.php?art_id=10064), <https://web.archive.org/web/20110926101948/http://www.mmtimes.com/2011/news/593/news59302.html>, 10.08.2018.

<sup>134</sup> <https://www.irrawaddy.com/in-person/interview/thein-sein-violated-official-contract.html>, 29.08.2018.

<sup>135</sup> <https://www.chinadialogue.net/article/show/single/en/6969-Anti-Chinese-sentiment-on-rise-in-Myanmar>, 29.08.2018.

<sup>136</sup> Interview with Debbie Chan, 10.07.2018; see also ICJ 2017: 49.

<sup>137</sup> Interview with civil society activists A, B, C, Kyaukphyu, 10.09.2018.

projects like in Kyaukphyu will eventually not benefit the local population. If land is taken away without sufficient compensation, if waters are polluted, if trainings are not provided and jobs are not suitable for local people, then the Kyaukphyu SEZ will heavily harm local residents.

For similar reasons, Malaysia has recently canceled a railway and a pipeline project financed by China.<sup>138</sup> The projects were too costly for Malaysia and instead of bringing benefits to locals, the Malaysian prime minister feared that China's great economic power might lead to a "new version of colonialism."<sup>139</sup> Realistically, however, it seems highly unlikely for Myanmar to do the same because it cannot risk deteriorating relations with China. China has shown to be an indispensable actor in the peace process and Myanmar's only major ally in the Rakhine crisis. As Western countries have heavily criticized Myanmar for the atrocities against Rohingya, China is now the decisive force that protects Myanmar in the UN Security Council and thus averts investigation by the ICC. It is thus politically close to impossible to cancel all projects in Kyaukphyu because this would not only harm Chinese economic interests but also result in a significant loss of face for China.

At the same time, China has strong political and strategic interests to successfully establish the deep-sea port and the railway. These two projects will serve as its direct access to the Indian Ocean, circumventing the Strait of Malacca. Thus, it is fairly certain that these elements will be realized because they are in China's interest. The industrial zone, however, plays only a minor role in China's strategic plans while it could provide many jobs for Myanmar. As China might thus not push as decisively for this project as it does for the railway and the port, the industrial park's future seems more open.

### 8.1. Quietly Abandoning the Industrial Park?

With recent news, Kyaukphyu residents brought up the possibility that the railway and the port in Kyaukphyu will be completed whereas the industrial park will not be further pursued.<sup>140</sup> Two recent developments render this a realistic possibility. Firstly, the Myanmar and China governments agreed a step-by-step model: At first, the port will be developed in different phases. Only if it proves successful and the financial viability of the industrial park is proven as well, the industrial zone will be developed. Thus, it is legally and politically possible to first build the port and then delay the construction of the industrial park.

Secondly, China seems to have shifted its focus within Myanmar. It is now concentrating on promoting economic zones in the China-Myanmar border area whereas specific plans for an industrial park in Kyaukphyu remain absent. Although Myanmar and China are reportedly close to a first major deal for Kyaukphyu, this seems to concern only the port, not the industrial park.<sup>141</sup> Also, the two gov-

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<sup>138</sup> <https://www.dw.com/en/malysias-mahathir-dumps-chinese-projects-amid-new-colonialism-fear/a-45160594>, 25.09.2018.

<sup>139</sup> Myanmar Times, 21.08.2018, p. 17.

<sup>140</sup> Interview with civil society activist C, 10.09.2018. This strongly corresponds with Oxfam's (2017) prediction that Kyaukphyu was at a crossroads. Either, Kyaukphyu could become a transit hub for oil and gas trade or it could become a fully-fledged economic center. At the time of writing, Oxfam concluded that Kyaukphyu was far more likely to become a transit hub for oil and gas. See also:

<https://www.irrawaddy.com/opinion/editorial/burma-stand-chinas-one-belt-one-road.html>, 06.09.2018.

<sup>141</sup> <https://www.mmtimes.com/news/myanmar-successfully-renegotiates-debt-ownership-terms-kyaukphyu.html>, 04.10.2018.

ernments signed an MoU on the China-Myanmar Economic Corridor which emphasizes infrastructure links between the two countries. Here, however, the main focus seems to lie on infrastructure like the Kunming-Kyaukphyu railway and on economic activities directly at the Myanmar-China border. At the Myanmar side of the border, many businesses are already run by Chinese businesspeople, cross-border trade flourishes, roads are being upgraded and new economic zones are constructed.<sup>142</sup> The three China-Myanmar Border Economic Zones are progressing a lot faster than the industrial zone in Kyaukphyu. Their MoUs were signed in 2017, the Myanmar government approved the three zones in mid-2018 and one zone is supposed to be completed at the end of 2018.<sup>143</sup>

Only building the port but quietly abandoning the industrial park would mitigate some of the risks connected to SEZ development, such as displacements, loss of livelihoods or environmental damage. Also, this solution would not have Myanmar invest huge amounts of money in projects that do not return significant revenue. However, it would also leave Kyaukphyu in the position it is now and would not spur development. Kyaukphyu would forego a possibility to create jobs in the region that would allow young people to stay and create a living.

## 8.2. Using the Increased Attention on Kyaukphyu

Young people are leaving Kyaukphyu because they do not find jobs and farmers have barely enough cattle to get by. Among our interviewees, there is – despite some reservations – consensus that something needs to change in Kyaukphyu. However, SEZs have shown not to be a universal remedy which kick-starts development. They have drawn a lot of criticism because in many places, they stayed below expectations. However, SEZs are also not inherently flawed. Instead of debating whether SEZs are theoretically a good model, emphasis should thus be on finding ways to shape investments in Kyaukphyu in a way that benefits both local residents and Myanmar as a whole.

Evidence from SEZs worldwide shows that they need to be integrated into the national or local economy to succeed. Thus, the port and railway alone will not spur any significant development in Kyaukphyu. Instead, Myanmar has to develop a concept that establishes suitable industries in the industrial park and creates road and rail transport links to Mandalay, Yangon and China. This has to be done, however, in a socially and environmentally sustainable way. While some work has been done by NGOs,<sup>144</sup> all these issues have to be factored into a Strategic Environmental Assessment (SEA) that analyzes plans for the SEZ and its concurrent infrastructure development. The Advisory Commission on Rakhine State, headed by Kofi Annan, also demanded that Kyaukphyu needs an SEA which assesses the positive and negative effects of a possible SEZ in Kyaukphyu.<sup>145</sup> For a long time, the Myanmar government signaled it will not engage in such a process<sup>146</sup> but recently stated that

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<sup>142</sup> <https://frontiermyanmar.net/en/the-grand-plan-for-the-china-myanmar-economic-corridor>, 03.10.2018.

<sup>143</sup> <https://www.irrawaddy.com/business/govt-approves-sites-3-new-economic-zones-along-china-border.html>, 08.10.2018.

<sup>144</sup> Most notably ICJ 2017 and WWF 2018.

<sup>145</sup> [http://www.rakhinecommission.org/app/uploads/2017/08/FinalReport\\_Eng.pdf](http://www.rakhinecommission.org/app/uploads/2017/08/FinalReport_Eng.pdf), p. 24, 15.10.2018.

<sup>146</sup> <https://www.mmtimes.com/news/myanmar-trim-kyaukphyu-cost-drops-annans-strategic-review-suggestion.html>, 06.09.2018.

various assessments will be carried out “at the earliest time possible.”<sup>147</sup> In these assessments, the following questions will have to be asked:

Which types of businesses are planned to invest in the SEZ? How will these businesses be connected with the Myanmar economy? What impact will the SEZ have on different livelihoods and on the environment in and around the SEZ area? Similarly, what impact will the transport links to and from the SEZ have on different livelihoods and on the environment? How can different risks be mitigated? How can displacements be reduced to a minimum? How can compensations be shaped that they not only provide monetary benefits but also ensure jobs and a new livelihood? How can social structures be preserved? In terms of social inclusion, the SEA must also ask: How can Muslims be involved in the process and ultimately benefit from the SEZ? How can women be involved in the process and ultimately benefit from the SEZ? And most importantly, as it concerns all social groups: How can trainings and education be provided in order to improve unskilled workers’ qualification and thus create livelihood opportunities for everyone?

In all of this, the crucial factor is local participation. Large-scale Chinese-financed projects like the Letpadaung Mine and the Myitsone Dam showed a thorough lack of understanding of local concerns against these projects. Unfortunately, the first relocations in the Kyaukphyu project bear striking resemblances. This has led to a certain anti-Chinese bias in Myanmar and a subsequent strong scrutiny of Chinese projects. However, rather than complaining about unjustified prejudice, Chinese companies and the Myanmar government should invest in increased dialog with communities in order to understand their concerns and work on joint solutions.

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<sup>147</sup> <https://www.mmtimes.com/news/myanmar-successfully-renegotiates-debt-ownership-terms-kyaukphyu.html>, 10.10.2018.