In the middle of a perfect storm: political risks of the Belt and Road project at Kyaukphyu, Myanmar

David Morris 1

China’s Belt and Road Initiative infrastructure connectivity and other projects are presented in much of the discourse as a grand strategy to trap developing nations in debt, to exert asymmetric power and construct a new world economic order. The asymmetric relationship between China and Myanmar might therefore be expected to generate a range of political risks for stakeholders. Myanmar itself presents a “perfect storm” of problems, with dysfunctional governance, civil conflict, under-development and growing economic dependence on China. The Kyaukphyu port project and associated Special Economic Zone in Myanmar’s troubled Rakhine state is investigated as a case study of risks on the Belt and Road. While worst case fears China might seize military control of the port appear unlikely, at least in current conditions, empirical observation indicates the complexity on the ground generates an array of other risks - as well as opportunities, should conditions allow. Further, despite challenges and constrained capacity, Myanmar governments have demonstrated agency, including by re-negotiating control and costs of the Kyaukphyu project. The case underlines that conditions are more complicated than simply China’s asymmetric power. A sceptical approach is taken to normative discourses in order to build inductive understanding of how stakeholders and local experts perceive dynamics underway. A political risk approach is deployed to develop a framework to identify, analyse and assess risks for actors in relation to the Kyaukphyu project. The research findings are presented on an interim basis, given current constraints on field interviews due to the current crisis.

Keywords: Political risk, Myanmar, China, Belt and Road Initiative

1 (Corresponding Author) PhD candidate. Corvinus University of Budapest. david@davidmorrisprojects.com

©2021 This is an Open Access paper distributed under the terms of the Creative Commons Attribution-No Derivative Works License (https://creativecommons.org/licenses/by-nc-nd/3.0/) which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited. However, the work may not be altered or transformed.
1. Introduction

Reform Commission, 2015), has generated divergent international narratives. On one hand are Western geopolitical fears of a changing world order in which China is expected to build greater power over a set of asymmetric economic relationships. By contrast, in parts of the developing world, including among elites, optimism is commonly expressed that China offers a new development model and greater integration with the Chinese economy is perceived as bringing opportunities outweighing risks. Stakeholders in Myanmar are torn between both narratives, seeking development but also wary of Chinese power. As a neighbour of China, the risks and opportunities generated for Myanmar represented by the BRI are of critical importance, just as Myanmar offers to China a key supply route in the future development of the BRI but also brings risks to Chinese actors. For international investors, Myanmar presents as a high-risk business environment in which to pursue major infrastructure connectivity projects. Yet the China Myanmar Economic Corridor, and its signature project, the Kyaukphyu deep-water port and Special Economic Zone (SEZ), are an important component of the BRI, despite the contemporary political crisis in Myanmar.

This paper’s key contribution is to seek to understand contemporary stakeholder and expert views on a rapidly evolving set of issues in relation to China-Myanmar relations and the Kyaukphyu deep-water port and SEZ project in particular. To place the research in its broader context, the paper begins with a discussion of the discourse on risks of the Belt and Road and a literature survey of country risks in Myanmar. The paper then introduces the China Myanmar Economic Corridor and the case study of the Kyaukphyu project, drawing from a survey of contemporary media and expert commentary. Those introductory sections are followed by an outline of the methodology applied to a series of research interviews. From the interviews to date, the risk (and opportunity) factors raised by interviewees are identified. A political risk analysis is then conducted including inductive construction of an indicative risk management framework, based on perceptions and observations in the stakeholder and expert interviews. The risk framework is presented on an interim basis because of the current constraints on fieldwork and the limitations on interviewee availability at this time. The research was conducted in the face of serious constraints posed by the twin crises of the Covid-19 pandemic and the February 2021 military takeover, making the field interview process particularly problematical and incomplete. Therefore the conclusions of the research are necessarily tentative and warrant continued review. Nevertheless, with its ongoing perfect storm of problems, Myanmar serves as a critical case of risks on the Belt and Road (for all actors).

2. Risks on the Belt and Road

Destroying over 340 hectares of forestland in Gangwon Province in the northeastern region of the country (Korean Forest Service, 2017), the wildfires on May 6 at Sangju, North Gyeongsang, The discourse on risks of the BRI emerged around the same time that the US adopted its new National Security Strategy in 2017 (US Government, 2017), identifying China as a strategic competitor. A prevailing fear of geopolitical power shift reflected the influence of Mearsheimer’s theory about rising powers, “offensive realism” (Mearsheimer, 2014), in which it
was expected rising China would challenge the US for regional hegemony in Asia, and in time seek global power. In this discourse, the BRI has become a key exhibit of China utilising Nye’s (2011) “hard power” (coercion and economic influence), “soft power” (attraction and persuasion) and “smart power” (agenda-setting), in building dependence of partner countries in pursuit of Chinese interests (Zenn, 2015; Harper, 2017; Brands, 2019; McMaster, 2020). Scholars have identified a range of risks generated by or in the context of the BRI, including potential debt traps, corruption, opaque and inefficient investment allocation, export of authoritarian norms, poor social and environmental outcomes and potential dual use infrastructure capable of future militarization (Feigenbaum, 2017; Hillman, 2019; Kliman et al, 2019; Maliszewska & van der Mensbrugghe, 2019; Russel & Berger, 2019). Some US scholars as well as leaders assert that the BRI demonstrates countries of Asia and the world must make a binary choice, to either submit to Chinese power or to combine to contain China (Alon, 2019).

On closer examination, many scholars have found risk factors in relation to BRI projects often reflect local conditions and local governance and are therefore too diverse to be simply intrinsic to the BRI itself, although to be sure opaque deals between China and partner governments and poor business practices of some Chinese firms generate local scepticism and resentment in many places (Arduino & Gong, 2018; Zhang, Xiao & Liu, 2019). Alarm that China was deliberately setting debt traps for future potential seizure of assets (Chellaney, 2017; Hart & Johnson, 2019) was popularised by the Trump administration, with Vice President Pence giving a landmark speech at the Hudson Institute accusing China of using “debt diplomacy” to expand its influence globally, citing in particular “pressure” to deliver a Sri Lankan port “directly into Chinese hands which may soon become a forward military base for China’s growing blue-water navy” (Pence, 2018). Although the debt trap and militarization narrative in Sri Lanka and elsewhere has been largely debunked – at least to date - by closer study (Kratz, Feng & Wright, 2019; Sautmann, 2019; Weerakoon & Jayasuriya, 2019; Zhang, 2019), the narrative nevertheless remained prevalent at the time of writing, as a common frame for discussion about Myanmar’s Kyauphyu project, examined below.

In South East Asia, a long history of interaction with China tends to generate a more nuanced and multidimensional perspective on that country’s interactions with the world, with Asian scholars demonstrating a higher tolerance for multipolar complexity and experience of deploying strategies of hedging and balancing, utilising a diversity of regional institutions to co-exist with China (Mahbubani, 2020; Po & Primiano, 2021). Indeed, China’s internal contradictions and geographic constraints are well understood in the region, suggesting it is more of a “partial power” (Shambaugh, 2013), which is after all surrounded by strategic rivals (Raby, 2020), compared with the monolithic and expansionist image of China depicted in much of the recent US-led discourse. Nevertheless, China’s rapid military modernisation, including strengthening its maritime capabilities, and militarizing disputed islands in the South China Sea, has raised significant regional and global concerns (Lague & Lim, 2019).

As a consequence of China’s economic transformation in recent decades, it has become the major trading partner of all countries in the region, Myanmar included, and China appears on track to become a more and more important source of finance, aid, technology and hub for
regional and global trade and production chains in future. Even if China does not act as aggressively as former rising powers in security terms, it is expected to wield greater regional and global power through commerce and economic infrastructure (Frankopan, 2015; Maçães, 2019). Neighbours of China are certainly wary of how China will throw its weight around in future, which underlines the need to better understand BRI-related risks as they arise. At the same time, however, the BRI is widely expected to create opportunities for regional and global economic development, to address infrastructure deficits and to improve connectivity for new trade and industry development, particularly across the developing world. On a global level, the World Bank estimates that trade in the BRI economic corridors is currently 30 per cent below potential and foreign direct investment is 70 per cent below potential, with countries of East Asia most likely to benefit from the BRI (Maliszewska & van der Mensbrugghe, 2019). Those nations in the region that have signed up to the BRI and exhibit consolidated economic development and effective governance might be expected to successfully manage the risks and opportunities presented by the BRI. Myanmar, however, presents as a particularly problematical case.

3. Myanmar’s State of Risks

Since independence in 1948, Myanmar has suffered civil conflicts, with enduring ethnic-based struggles for greater autonomy along its periphery, including in earlier times Chinese-backed communist insurgents. The military (Tatmadaw) has traditionally been the only institution through which national power has been effectively exercised, presiding over a long-term isolationist, authoritarian and corrupt regime that failed to develop the economy or stabilise the conflicts in its border regions. The Tatmadaw saw its role as unifying the nation by any means, including brutally suppressing the popular movement for democracy (Paskal, 2002, Popham, 2016, Thant, 2011). In a state of national security anxiety, with not only constant civil conflict but also fear of invasion and foreign interference, historically from China but also from other powers including the West, Myanmar has built a disproportionately large military establishment, intertwined with business interests (Selth, 2020). The 2021 overthrow by the Tatmadaw of the popularly re-elected government led by Aung San Suu Kyi’s National League for Democracy (NLD) appears to have put an end to a short-lived reform period.

Risks abound, the military leadership presiding over weak government institutions and having no fear of consequences from extreme actions including the use of force against its own people. Indeed, even during the so-called reform period the Tatmadaw had stared down wide international condemnation and sanctions for pogroms against Muslim Rohingya communities in Rakhine State, which forced almost one million refugees to flee to Bangladesh, actions that enjoyed wide populist domestic support. Now, since the military takeover of February 2021, Myanmar risks have escalated further, with bitter and re-shaped civil conflicts, new international sanctions and subsequently heightened risk aversion by many foreign investors.

The Chinese government and many Chinese businesses, nonetheless, have a long-term stake in a stable and developing Myanmar on China’s South West border, as an investment destination, trading partner and providing critical geo-economic (and possibly strategic) access to the Indian Ocean. Once a key node of the ancient “Silk Road” between China and India,
Myanmar’s location offers significant potential for transport, trade and energy connectivity, linking both landlocked regions of China and India to the sea and potentially to each other, which could potentially drive significant regional economic transformation, particularly if China-India relations were to stabilise in future (Thant, 2011).

Since independence Myanmar has pursued a non-aligned, independent foreign policy and has sought, where possible, to deploy a balancing strategy between major powers. The previous NLD-led government re-committed to Myanmar’s traditional “Pauk Phaw” fraternal relationship with China while also positioned within the Association of South East Asian Nations (ASEAN) and simultaneously seeking closer relationships with other regional powers including India and Japan (Myo, 2020). Myanmar has in recent years sought diversified investment to overcome its historical development failures and to emulate the more successful investment and export-led development models of some of its neighbours, while nevertheless also sharing features of other neighbours with military dominance and corrupt, crony capitalism (Carroll, Hameiri & Jones, 2020). Myanmar’s rich resources and location make it of particular importance to the giant Chinese economy, including as a significant supplier of rare earths for China’s technology production chains (Kawase, 2021). Further, Chinese actors demonstrate a different approach to risk than Western actors, including investing heavily in personal relationships with leaders, which is a heightened risk in Myanmar’s personalised politics when leaders change (Selth, 2021).

Even before the 2021 military takeover, political risks of doing business in Myanmar were identified in the international investment literature as including debt risk (with a debt/GDP ratio above 40 per cent), an inconsistent policy environment and its persistent domestic, ethno-nationalist conflicts (Deloitte/Shanghai Municipal Commission of Commerce, 2019). Nevertheless, SEZs established in a number of locations with a range of international partners provide support services and facilities to encourage foreign investment. Myanmar has developed a Sustainable Development Plan against which to assess projects and in 2019 the Myanmar Government established a “Project Bank” to streamline evaluation and approval of large infrastructure projects (UOB, 2020). While Western investors have remained averse to Myanmar’s high-risk business environment, Chinese actors (as well as investors from Japan, Singapore and other regional economies) have demonstrated a willingness to pursue a wide range of projects.

China is singled out in the literature as generating particular risks, including because of its perceived asymmetric power and investments in border regions that are perceived as bolstering local elites and armed groups. Generalising claims about all Chinese projects tend however to obscure the actual diversity of projects. For example, the willingness of the China-led Asian Infrastructure Investment Bank to support an energy project in Myanmar was cited in the literature as generating risk of Chinese political influence when that institution was in its establishment phase and being actively resisted by the US, yet such fears proved exaggerated in subsequent years, as the bank has pursued no further projects in Myanmar and indeed the cited energy project was co-funded with the Asian Development Bank and World Bank (Power, 2016).
Security risks abound, including for Chinese as well as Myanmar actors, from the conflicts in Myanmar’s border regions, where many state and privately funded Chinese projects are located. These risks are bound up with China’s long history of providing military aid and exerting influence in such conflict areas, as well as criminal and corrupt practices spilling across porous borders with other countries in the region (Thant, 2011; Brenner & Schulman, 2019; Thant, 2020). For its part, in apparent attempts to address such risks, China has begun reinforcing border walls with Myanmar (Zhao, 2021) and demanding Myanmar authorities provide strengthened security and intelligence on armed insurgent groups in relation to key projects (Corporate Responsibility Center, 2021). Nevertheless, despite civil conflict and the Covid-19 pandemic, Chinese investments and businesses continue in Myanmar’s troubled western region, with the opening in April 2021 of the Kanyin Chaung economic zone on the Rakhine border with Bangladesh (Development Media Group, 2021).

Popular sentiment has also become a significant risk to Chinese investments and projects perceived as socially and environmentally destructive. The most famous case involved widespread protest against the proposed Myitsone Dam, which would have displaced Kachin villagers for a massive power project to supply electricity primarily to China. The project was approved and later suspended by the Myanmar government, in an attempt to demonstrate responsiveness of the military leadership to community anger in the early stage of the previous reform process (Arduino & Gong, 2018). In popular imagination, the project remains emblematic for Myanmar of the risks of engagement with China for large infrastructure projects, which are considered to serve Chinese interests more than Myanmar’s and to be part of a bigger geopolitical game. Former political prisoner Khin Zaw Win, observes that the BRI emerges in a complex environment of multiple state and business actors and motivations, including on one hand China’s geopolitical imperative to avoid US-led containment as well on the other hand the heady mix of racial and ethno-nationalisms of the region, noting Myanmar elites see China as a means to further their personal and institutional ambitions, while civil society sees its role as monitoring and resisting Chinese influence (Khin, 2020).

4. China-Myanmar Economic Corridor

The China-Myanmar Economic Corridor has, since 2017, been incorporated as a key component of the BRI, although some of the economic corridor projects pre-date the BRI itself, involving pipelines, railways, roads, energy and other infrastructure to connect Yunnan Province in South West China to Myanmar and beyond to the Indian Ocean. Within China, the previously underdeveloped South Western regions have been linked to China’s fast train network, including a recent extension to the Myanmar border (Stranglo, 2021). The BRI is envisaged to link fast rail and highways throughout South East Asia to more closely integrate the economies of the region. When fully operational, the China-Myanmar Economic Corridor is expected to save around three weeks for movement of goods from South West China to the Indian Ocean, compared with the traditional sea route, as well as to stimulate Myanmar economic development through integration into regional and global value chains for manufacturing and services. Aung Sang Suu Kyi attended both Belt and Road Forums in Beijing, in 2017 and 2019 indicating support for BRI partnerships to drive Myanmar’s economic development. The Chinese government has regularly
urged faster implementation of Myanmar’s BRI projects (Myers, 2020). During the 2020 visit to Myanmar by Chinese leader Xi Jinping, 33 agreements were signed for projects under the umbrella of the China-Myanmar Economic Corridor but most are yet to proceed.

The Kyaukphyu deep water port and SEZ, discussed below, is one of the signature projects, backed by successive Myanmar governments, but proceeding slowly in the face of the perfect storm of challenges presented by Myanmar’s business environment. Indeed many of the BRI projects in Myanmar were proceeding slowly even before the twin crises since 2020. One reason for delay appears to be that successive Myanmar governments have taken steps to protect – or at least appear to protect - national interests in relation to major Chinese projects. There is a well-established literature on Myanmar’s agency, not only by suspending the Myitsone Dam project in the face of social and environmental risks, but also in its attempts to manage other risks, such as seeking diverse funding from international financial institutions, conducting international tenders, and proactively laying down conditions for signing BRI agreements (Sheng, 2018; Lo, 2019; Nan, 2019).

The question of China’s influence in Myanmar is further complicated by the contemporary crises. China’s Foreign Minister, Wang Yi, was the first international visitor to Myanmar following the NLD’s landslide win at the November 2020 election, pledging support for the new government, for Myanmar’s faltering peace process and urging progress on Myanmar’s BRI projects, including reaching agreement on a feasibility study for a 650-kilometre rail link between Kyaukphyu and Mandalay (Zhou, 2021). However only weeks later, on February 1, 2021, the Tatmadaw seized power, pushing Myanmar into deeper crisis, with arbitrary detention of elected government leaders, deployment of surveillance technologies imported from multiple countries (Ortega, 2021) and deadly attacks on civilians still taking place at the time of writing. The crisis inflamed widespread anti-Chinese sentiment, with widely circulating (but unsubstantiated) rumours of Chinese support for the military and with fires at scores of Chinese factories (Bloomberg & Reuters, 2021). As in the past, sanctions by advanced economies appear unlikely to influence events, other than to enhance the attractiveness of China as an economic partner for Myanmar (Selth, 2020). China itself has consistently opposed sanctions and urged a favourable external environment as more likely to encourage domestic political reconciliation (Ng, 2021), publicly continuing to support a political settlement to resume the democratic transformation process, pursuing engagement with both the military and representatives of the elected, but overthrown, government (Ministry of Foreign Affairs, 2021; Reuters, 2021). Although it is difficult to assess the short-term effects of the crisis on the projects in the China Myanmar Economic Corridor, it would appear likely the military takeover may further compound delays to some BRI projects and may yet result in further renegotiations of terms, although it is too early to assess.

5. Kyaukphyu Port and Special Economic Zone

In 2015 a consortium of six companies led by China’s giant state-owned enterprise CITIC Group (formerly the China International Trust Investment Corporation) won an international tender to build the Kyaukphyu project, including a deep-water port and adjacent industrial park. The
project is anticipated by its proponents to host the development of industries such as oil refining, garment manufacturing and food processing, providing opportunities for economic stabilisation and growth as well as facilitating trade between Yunnan and international markets. CITIC optimistically forecasts creation of more than 100,000 local jobs each year and tax revenues of US$15 billion over its 50-year franchise period (Xinhua, 2020).

Problematically, the project is located in the conflict-plagued Rakhine State. The project has generated fears amongst local Myanmar stakeholders and it is widely discussed in the literature as featuring opaque decision making, unsustainable debt, community dislocation and threatened militarization. Security risks are ever present. Not only is Rakhine State the site of the Tatmadaw’s brutal campaign against the Rohingya population, but the oil and gas pipeline, completed in 2014, and the planned railway linking Kyaukphyu port to Yunnan Province pass through conflict-plagued areas of Northern Shan State as well.

In 2018, the Myanmar government insisted the Kyaukphyu project be scaled back from an unsustainable US$7.3 billion total cost to $1.3 billion, in the first phase, to reduce the risk of its debt to China’s Export-Import Bank, as well as renegotiating the share of the project controlled by CITIC from 85% to 70% and with 30% divided between the Myanmar government and a consortium of local firms (Kliman, et al, 2019). The Management Committee of the project, comprising all partners, agreed a framework agreement to implement international standards for environmental, social and financial sustainability. Despite Chinese statements encouraging faster implementation, little progress however appears to have been made to date apart from installation of a gas-fired power plant by Hong Kong-based V Power.

The site is adjacent to the oil and gas pipelines that since 2013 have provided 160 million barrels of oil and 12 billion cubic metres of gas to China’s Yunnan Province, which, despite their limited capacity, are considered by China as a valuable contingency in case the vulnerable Malacca Strait is ever threatened (Yu, 2021). Once rail and road connections are completed, the new deep-water port will provide an alternative route for trade from South West China, avoiding the current dependence on the Strait of Malacca.

Risks to Myanmar of the Kyaukphyu project are identified in the literature as including eroding sovereignty and strengthening Chinese influence, non-transparency in how the agreements and community relocations have been managed, financial unsustainability, doubtful community benefits, environmental unsustainability, possible corruption and the geopolitical imperative for China to secure access to the Bay of Bengal and Indian Ocean for future potential militarization (Kliman et al., 2019). China meanwhile pleads that it is benevolently seeking mutually beneficial relations with Myanmar in a “Sino-Myanmar Community of Common Destiny”, based on an optimistic vision that the BRI projects will help stabilise and provide development for Myanmar (Jagan, 2020).

While many of the risks of the Kyaukphyu project arise from local conditions, the project’s significance in the international relations literature rests on the geopolitical scenario of growing Chinese influence and feared future militarization of Kyaukphyu. This is consistent with long-running (and debunked) claims over many years that China was establishing military
bases in Myanmar (Selth, 2007). Nevertheless, such fears align with both the new geopolitical narrative about the BRI and also the Chinese recognition that it has constrained power in the maritime zone of the Indo-Pacific, in relation to its rival, the US, which retains the capacity to sever China’s strategic maritime trading routes such as the Malacca Strait (Ghiasy, et al, 2018). Access to ports is understood in conventional security planning as essential for the projection of maritime force. Unlike the US, China does not have a global network of military bases from which to supply its military, with the exception of a solitary base in Djibouti, close to Chinese anti-piracy, peacekeeping and other activities. China therefore relies upon commercial access points to supply its People’s Liberation Army Navy (PLAN) beyond what China describes as the “first island chain”. Indeed, by 2020 Chinese firms operated and, in some cases, owned 94 commercial ports around the world providing such services to the PLAN, leading to their description by both Chinese and US security observers as “dual use” and “strategic strongpoints”, anticipated to have potential for future hard power projection as well as softer intelligence and communications uses (Kardon, 2020).

Nevertheless, as China does not maintain a system of alliances or a network of global military bases, like the US, it appears unlikely to be in a position in the foreseeable future to militarize these port operations without generating major geopolitical confrontation and potential conflict. In most locations, therefore, it is difficult to envisage China seizing control of ports to convert them to military bases, as previous rising powers did in earlier centuries. The problem for Myanmar is conjecture that it could be one of a handful of exceptions. Would Myanmar be in a position to resist if the PLAN militarized Kyaukphyu port in a period of confrontation and crisis in the Indo-Pacific? Gwadar may be another exception, where Pakistan might be expected to cooperate with PLAN militarization of the port. Cambodia may be third exception. Indeed, it is widely believed that Chinese security planners are seeking a strategic strongpoint in Myanmar, on the Bay of Bengal (Kardon, 2020). Just as Hambantota in Sri Lanka has taken hold in the literature as emblematic of the “debt trap” discourse notwithstanding the insubstantial evidence for the claim, Kyaukphyu appears to have the potential to become a prime exhibit of “militarization” risk.

6. Methodology

This Kyaukphyu case study is part of a broader research project on political risks on the Belt and Road, seeking to understand how political risks such as those in relation to the Myanmar project can be identified, analysed and assessed. As political risk research on a rapidly developing case, the research draws on contemporary literature but seeks to be primarily based on current stakeholder and expert perceptions and observations, in order to make an empirically-grounded contribution to the discourse on BRI risks and to inductively develop an indicative risk framework for understanding the identified risks in this case. Given the severe constraints on access to interviews because of the recent crises, the research project remains a work in progress and this paper is a reflection of interim findings.

The plan (developed before the twin crises of Covid-19 and the military takeover) for the interview process was for the researcher to spend significant time in-country, embedded in the
local environmental context, developing a multi-disciplinary and multi-dimensional understanding of the dynamics at play. From the interviews, risks and risk factors were to be identified and framed as they arose from diverse actors and observers, rather than from researcher assumptions or the literature. A representative range of decision makers, stakeholders and experts was identified for three rounds of interviews. The first round of interviews with actors and experts was conducted in Yangon in late 2019, including a key stakeholder and lead actor in Myanmar’s negotiations in relation to Kyaukphyu port and SEZ, with whom the researcher was able to spend more than one day, featuring a site visit to another, operating SEZ. Unfortunately, events prevented any further field visits. When the Covid-19 pandemic interrupted plans for an extended field visit in 2020, a round of online interviews was conducted during the pandemic restrictions, although a number of abrupt interview cancellations followed due to the political crisis. A third set of interviews was later held online, after the military takeover in February 2021 made it certain that another field visit will be impossible in the foreseeable future, but by this time access to internal interviewees had also become highly problematical and most business interviewees declined requests, although a former contractor from the Kyaukphyu project agreed to be interviewed. The sample achieved to date has therefore not matched earlier, pre-crisis, expectations.

Nevertheless, the risks and risk factors, together with the contextual information gathered from the interviews, were assessed and analysed utilising the political risk approach as planned. The political risk approach was selected to understand how local actors and observers assess, analyse and manage risks, rather than to superimpose a theory from international relations. In a period of intense uncertainty, the political risk approach is particularly appropriate – and indeed mirrors the kind of iterative multidisciplinary research and on-the-ground soundings undertaken by governments and businesses – in order to provide a framework for comprehending actors’ agency and to understand strategic options for different scenarios.

A “risk” is defined here as the likelihood of an event or set of problems with negative consequences that can be identified, understood and managed (Fägersten, 2015), acknowledging that there will always be uncertainty about factors that can be perceived subjectively (Kobrin, 1979). The risks discussed in this case cannot be measured quantitatively. Risks will be understood differently by diverse stakeholders, with risk factors arising in complex process dynamics, therefore requiring qualitative political risk analysis (Fitzpatrick, 1983). The case study approach, as deployed here in examining the Kyaukphyu project, is particularly well-suited to qualitative political risk analysis of the BRI, given the deficit of empirical study to date and indeed the deficit of information on projects, as the case study method employs immersion in discussions with actors with in-depth understanding of the complex dynamics at play. A non-normative approach also allows for comprehension that key Chinese actors commonly demonstrate a different approach to risk and longer-term horizons for return on investment, and that elite (at least) Myanmar actors themselves may also have different perceptions of risk than international observers.

Conventional political risk analysis has tended to be based on assumptions that actors are investors from the private sectors (or governments or institutions) of Western democracies, that risks can be assessed at the country or project level, that risks will tend to be higher in non-
democratic environments (Jensen, 2008) and, further, that state capture is a deterrent to investors (Jensen, 2002). The BRI turns these assumptions on their head, with China in recent times taking a leading role in financing for development, with state-owned enterprises and their partners exhibiting a different approach to risk, confident in a state-driven development model to deliver on balance positive economic (at least) outcomes. Yet according to the non-Chinese (and particularly the English language) geopolitical discourse, the Chinese state and its partners are problematised as generating new risks, either of state capture, strengthening illiberal regimes or growing and consolidating Chinese geopolitical power (Hillman, 2019). To undertake a multi-dimensional political risk analysis of multiple actor perspectives, a sceptical approach is therefore taken in relation to normative assumptions, constructing interviews to probe perceptions and perspectives on not only risks, or threats, but also opportunities for actors in a complex, changing environment.

Despite seeking a much larger number of interviews, to date ten semi-structured interviews have been conducted, plus two written interviews, with equally weighted standard questions used to prompt interviewees for their perceptions, observations and understanding about opportunities, risks and threats; the conditions in which each arise; best, actual and worst-case scenarios. After taking detailed fieldnotes of the interviewee perspectives, identified risks and risk factors, analytic induction was deployed to identify key themes and patterns, the dynamic interplay between conditions and risk factors, to identify core risk concepts. Propositions were then framed against three scenarios, in the process of developing a proposed risk framework. The validity and reliability of the data and the appropriateness of the proposed framework will be tested in a further round of online interviews and from peer review, before incorporating this research into a broader doctoral dissertation on BRI risks. The conclusions of this paper are therefore tentative, as the research project is not yet complete.

7. Risk and Opportunity Factors

Interviewees expressed a range of differently weighted perspectives on the issues impacting on the Kyaukphyu project and its stakeholders but identified a broadly consistent set of risks, opportunities and threats. The commonly raised risk (and opportunity) factors are identified below:
Table 1

Risk and Opportunity Factors Identified by Interviewees

<table>
<thead>
<tr>
<th>Economic</th>
<th>Political</th>
</tr>
</thead>
</table>
| - Myanmar suffers from a development gap and so economic development is a priority, but economic projects may fail to comprehensively deliver economic, social or environmental outcomes for most stakeholders  
- It seeks to pragmatically benefit from Chinese investment  
- It lacks diversified economic links and investment, creating potential dependence on China  
- Economic opportunities include infrastructure for trade connectivity, revenue from logistics, new industry development, technology transfer and skills upgrading  
- Debt repayment is challenging and makes comprehensive planning essential to ensure broad economic returns from infrastructure investment, and the absence of such planning also exposes risks to creditors  
- Projects are further delayed by the political crisis and the Covid-19 pandemic | - Dysfunctional, unstable political system constantly at threat from the Tatmadaw  
- Poor governance in Myanmar has been reinforced by Chinese support  
- Decision makers have learned negotiation lessons from the Thilawa SEZ, renegotiation of the Kyaukphyu project and other projects  
- Well implemented projects, if aligned with Myanmar’s Sustainable Development Plan, offer opportunities, but there is little confidence projects will be well implemented  
- Foreign advisers tend to recommend imported Western models, while elites consider BRI offers an adapted set of lessons from the developing world as part of a comprehensive development model  
- Myanmar Government capacity constraints are a major limiting factor, with no capabilities for master planning or standard setting  
- Lack of transparency and stakeholder consultation for major projects  
- Tatmadaw focused only on rent extraction, rather than positive sum outcomes, from foreign investment projects |
<table>
<thead>
<tr>
<th>Social &amp; environmental</th>
<th>Geopolitical</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Conflict, civil instability and ethno-nationalist cleavages fuelled by Tatmadaw</td>
<td>- Myanmar’s challenge to live with China as its giant neighbour without submitting to control</td>
</tr>
<tr>
<td>- Social and environmental costs of poorly implemented projects</td>
<td>- China’s “possessive” approach, as a stable and powerful actor in relation to an unstable and less powerful neighbour</td>
</tr>
<tr>
<td>- Loss of property rights of traditional residents from land seizures, forced relocations and loss of farming and fishing livelihoods</td>
<td>- Tatmadaw’s (and the former democratic government’s) strong ties with Chinese actors</td>
</tr>
<tr>
<td>- Expectations of civil society are unmet</td>
<td>- Kyaukphyu port offers strategic economic and potentially security access for China to the Indian Ocean, contributing to a shifting of the strategic balance</td>
</tr>
<tr>
<td>- Chinese investment projects may become associated with the wedge between the Tatmadaw and the community</td>
<td>- Possible Chinese domination of projects, in conditions of local governance failure</td>
</tr>
<tr>
<td>- Widespread (but not universal) anti-Chinese sentiment, fuelled by social media, generating security threats and opposition to Chinese investment projects</td>
<td>- Imperative to maintain national unity strengthens the hand of the Tatmadaw</td>
</tr>
<tr>
<td>- Concerns about Chinese corporate behaviour and limited benefits for local communities if investors are not required to partner with local firms for industry development</td>
<td>- China has backed insurgents and Chinese actors have fostered corruption in border areas, while China also has good relations with the military and with the democratically elected government</td>
</tr>
<tr>
<td>- Trust in government is absent, so elite interaction with China fails to win community support</td>
<td>- Myanmar has depended on China for support in multilateral organisations</td>
</tr>
<tr>
<td>- Environmental costs of other Chinese projects include illegal resource exploitation, poor waste management and failure to adhere to environmental standards</td>
<td>- China’s uncertain role peace building: stabilising or destabilising?</td>
</tr>
<tr>
<td>- Chinese projects employ mainly Chinese labour</td>
<td>- Strategic opportunity to gain weight from Myanmar’s location and to balance between China and India</td>
</tr>
<tr>
<td>- Rakhine State is particularly poor and wracked by conflict, so a poorly implemented project could worsen social and environmental outcomes, while a well implemented project could provide much-needed development</td>
<td></td>
</tr>
<tr>
<td>- The situation in Rakhine State is opaque because of restricted media and a social media blackout</td>
<td></td>
</tr>
</tbody>
</table>
In the interview process, despite a remarkable consensus on the key risk (and opportunity) factors, academics focused more on the geopolitical factors than other interviewees, while business respondents focused more on economic opportunities, although the small sample does not allow for any definitive distinction to be drawn between the responses. The risk and opportunity factors are grouped in the table above as economic, political, social and environmental and geopolitical, but many were expressed interdependently and should therefore be understood as mutually constitutive.

In economic terms, it was broadly noted that Myanmar faces significant development challenges and elites are expected to continue seeking opportunities from greater integration with Chinese actors and the Chinese economy, while seeking to manage the risk of dependence on China by diversifying economic linkages to other regional and global partners. The latter being extremely difficult in the face of current constraints. There were doubts voiced by some that stakeholders other than elites would reap benefits from investment projects and fears that debt would not be managed sustainably. The twin political and public health crises were expected to slow implementation of investment projects and further hinder economic development.

With Myanmar’s political system in crisis, most interviewees in the later stages of the interview schedule expressed pessimism about the potential for the Tatmadaw to repair its relationship with the society and expected dysfunctional governance to extend to poor governance of major projects, with the Tatmadaw focused on rent extraction rather than distribution of benefits from economic development projects. While Myanmar government agency was noted in its track record of renegotiating Chinese-funded projects, and potential for broader economic and social benefits could be envisaged by some observers, project implementation was not expected to be well governed, making it more likely that outcomes would not benefit most stakeholders. A lack of trust in elite behaviour, a lack of transparency and apparent Chinese-Tatmadaw cooperation was expected to further feed community suspicion and opposition to economic development projects.

Indeed, social and environmental outcomes were expected to be poor, in the context of civil instability and conflict in particular in Rakhine State, with experience to date of forced land seizures, poor environmental standards and lack of community consultation. Further, Chinese projects appear likely to continue to be targeted by ethno-nationalist, anti-Chinese sentiments in sections of the community.

All of these factors influence the salience of this case to international relations, positioning the Kyaukphyu project as controversial, likely to be poorly governed, while of economic and political importance to both the (provisional) Myanmar and Chinese governments. Its particular significance however rests in its strategic location and likely importance to China’s grand plan for how the BRI may reshape geo-economic power, economic integration and feared long-term militarization of the port. It remained unclear to interviewees whether in future dysfunctional Myanmar governance and growing Chinese power may result in Chinese geopolitical control of the Kyaukphyu port and economic corridor. China was expected to play a key role in either building or undermining peace in the troubled border regions. For Myanmar,
the strategic challenge was identified as how to “gain weight” from its location to hedge and balance between its great power neighbours.

8. Political Risk Analysis

In the indicative risk management framework below, the three columns represent three broad scenarios in which the risks raised by interviewees are represented. In the first, “best-case scenario”, risks are successfully managed and mitigated, and opportunities for stakeholders realised as a result of good governance and successful economic development, social, environmental and geopolitical outcomes. No matter how unrealistic it may to expect a nation gripped by multiple crises to be able to achieve a best-case scenario overall, the column is included to reflect interviewee observations of potential opportunities, should future conditions allow. The second column reflects the broad spectrum of risk management challenges in between best and worst-case scenarios, which may manifest subject to the conditions and economic, governance, social, environmental and geopolitical challenges likely to arise when Myanmar recovers from the current crises. In the third, “worst-case scenario”, which may manifest if Myanmar continues to suffer from rolling crises, risk management is considered to have failed and risks in this scenario become threats to actors and to the broader Myanmar community including economic failure, dysfunctional governance, degraded social and environmental outcomes and conflict and/or geopolitical control by an outside power.
Table 2

*Indicative Risk Management Framework for Kyaukphyu Port and SEZ: three scenarios*

<table>
<thead>
<tr>
<th>Opportunities (Best-case scenario)</th>
<th>Risks (To be managed, in the range of scenarios in between best and worst)</th>
<th>Threats (Worst-case scenario)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic development scenario:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Infrastructure and connectivity supports integration into regional and global value chains</td>
<td>- Seek positive sum benefits from integration into regional and global value chains</td>
<td>- Integration into Chinese dominated value chains subjects Myanmar to Chinese economic power</td>
</tr>
<tr>
<td>- Broad distribution of benefits to Myanmar stakeholders</td>
<td>- Seek distribution of benefits beyond elites to include key stakeholders and to address community concerns</td>
<td>- Zero sum benefits from the project only for Chinese actors</td>
</tr>
<tr>
<td>- Return on investment to Myanmar government and businesses</td>
<td>- Ensure financial sustainability including debt management</td>
<td>- Debt trap</td>
</tr>
<tr>
<td>- Balanced by diversification of Myanmar’s international economic integration</td>
<td>- Pursue diversified international projects</td>
<td>- Dependence on China</td>
</tr>
<tr>
<td>Good governance:</td>
<td>Governance reform challenges:</td>
<td>Dysfunctional governance:</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>- Robustly implemented democratic reform process</td>
<td>- Resumption of democratic reform process</td>
<td>- Continued failure of democratic reform process</td>
</tr>
<tr>
<td>- Project implementation aligned with national development goals, supporting industry development, revenues, technology transfer</td>
<td>- Refocus from elite rent extraction to project</td>
<td>- Project implemented (or perceived?) aligned only with Chinese state and actor interests, failing to support Myanmar industry development, deliver local revenues or technology transfer</td>
</tr>
<tr>
<td>- Government capability to renegotiate terms and set conditions</td>
<td>- implementation in pursuit of national development goals, supporting industry development, ensuring revenues, technology transfer</td>
<td>- Reduced capabilities or interest in negotiation or setting conditions</td>
</tr>
<tr>
<td>- Transparency and inclusion to pursue all stakeholder needs</td>
<td>- Address capacity constraints to improve capabilities for negotiation, setting conditions</td>
<td>- Corruption and lack of transparency alienates Myanmar stakeholders</td>
</tr>
<tr>
<td></td>
<td>- Improve transparency and inclusion to reduce corruption and address stakeholder suspicion</td>
<td></td>
</tr>
<tr>
<td>Social and environmental leadership</td>
<td>Social and environmental challenges</td>
<td>Social and environmental failure</td>
</tr>
<tr>
<td>------------------------------------</td>
<td>-----------------------------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>- Employment and upgraded skills in local labour force</td>
<td>- Ensure local labour is trained and utilised as well as Chinese workers</td>
<td>- Only Chinese labour utilised and local communities alienated</td>
</tr>
<tr>
<td>- Sustainable environmental practices integrated into all operations and new industry development</td>
<td>- Ensure minimum sustainable environmental practices</td>
<td>- Poor environmental practices further drive local alienation</td>
</tr>
<tr>
<td>- Leaping poor practices in competing South East Asian markets</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
In the best-case scenario a future Myanmar government is envisaged demonstrating capable and stable governance, balancing its relations with major powers including China, and delivering measurable and sustainable outcomes from the Kyaukphyu project for economic and social development in Rakhine State with broader spill over benefits for Myanmar as a whole. This scenario is assessed to be high consequence (with likely net positive impacts, at least according to business interviewees and some academic interviewees) but is tentatively assessed (at least for the foreseeable future) as low likelihood given the capability constraints on Myanmar’s governance and the evident lack of commitment from the Tatmadaw towards reform.

The feared worst-case scenario would include Chinese militarization and control of Kyaukphyu, which is considered to arise as a threat in conditions of regional or global confrontation or conflict. This scenario is assessed to be high consequence (with self-explanatory negative impacts if it occurs against the wishes of Myanmar society) but is tentatively assessed (at least for the foreseeable future) as low likelihood given the current constraints on China’s geopolitical hard power capabilities and Myanmar’s demonstrated agency and control to date, even amidst dysfunctional governance. Nevertheless, if risks are assessed across the life of a project, they may be assessed as becoming at least medium likelihood if the worsening geopolitical environment descends into regional confrontation and conflict and if China reassesses its stated policy of non-interference, or is in a position to exert influence to achieve militarization with a compliant Myanmar government.

In practice, the opportunities, risks and threats will manifest over time in degrees along a continuum between these best and worst-case scenarios. There is significant scope for innovation and creative risk management by actors, in particular in the reconstruction of decision making following the twin crises of Covid-19 and the military takeover. Myanmar governments may exert more power than observers expect, as indeed its previous governments have demonstrated to date, but Chinese smart power in agenda-setting and its growing hard power to coerce or simply fund outcomes is expected to grow. Risk management strategies for future decision makers must therefore be flexible enough to respond to movement along the opportunity-risk-threat continuum.

Given the lack of transparency around the project, it was difficult for interviewees to make observations about the economic risks of the Kyaukphyu port and SEZ. As noted above, business and indeed some academic interviewees envisaged high consequence transformational economic opportunities from this and other comparable projects (on the heavily contingent condition that they are well governed, which is considered low likelihood), while some academic interviewees tended to be suspicious that only elites would benefit in all likely scenarios. Myanmar has demonstrated capability and willingness to renegotiate and proactively shape conditions for this and other projects with Chinese partners, but a countervailing culture lacking planning capacity, transparency and widespread corruption point to economic risk factors, such as return on investment and potential for debt blow-out remaining at least medium consequence/medium likelihood. Myanmar can be observed to be actively diversifying its economic cooperation, with Kyaukphyu balanced by Thilawa and other SEZs, with Chinese investors balanced by Japanese and other investors. However, since the military takeover
Myanmar is even more likely to be shunned by foreign (especially Western) investors and China is likely to grow its share of investment in Myanmar. Risks of economic dependence therefore are at least medium consequence/medium likelihood.

Whether governance capabilities for project management, including new industry development from the deep-water port and SEZ, will be aligned with Myanmar’s national development goals and will provide the conditions for positive economic, social and environmental outcomes is high consequence for the local Rakhine and national population suffering conflict and under-development, but achievement of such outcomes is perceived to depend upon governance capability for planning, standard setting, transparency, accountability and enforcement, which are poor, suggesting low likelihood of success. The gulf between the practices of government and business elites that engage with China and the evident popular distrust and fear of China, which generate community anger and resentment in relation to controversial economic development projects, raise important questions about how the Kyaukphyu project will be perceived. As demonstrated by the public campaign against the Myitsone Dam, a combination of environmental concerns and opposition to how China was expected to disproportionately benefit, the gap between the public and elites constitutes a high consequence/high likelihood risk to (and from) major China-backed projects. In the case of the Myitsone Dam, the former military government responded by suspending the project, at a significant cost to the Chinese firms involved, while pursuing the project may indeed have come at significant social and environmental cost to local communities. Closing the gap between elite and community perceptions, through greater transparency and inclusion, to build support for the Kyaukphyu project would significantly reduce risks to project proponents. Of course, it may however be as some community stakeholders believe, that greater transparency would only reveal economic, political, social and environmental costs that might outweigh gains.

Chinese actors’ longstanding involvement in Myanmar’s conflict zones and China’s capability to exert influence to either build or undermine peace is high consequence/high likelihood and one of the key factors of uncertainty in the future security situation. The role of China in peace making in the Rakhine state warrants further research to assess its likely contribution to the success, or failure, of the Kyaukphyu project over time. Armed resistance groups in Rakhine are considered to support Chinese development projects but the civil conflict nonetheless makes this a high-risk investment environment. Further, the situation on the ground remains opaque because of the lack of media access and a state-wide social media blackout.

9. Conclusion

The research findings underline that the case of Kyaukphyu port and SEZ in crisis-ridden Myanmar exhibits multiple risks, some from the international relations dynamics and many political, economic, social and environmental risks that are internally generated but nevertheless manifest in China-Myanmar interaction. These risks arise for a diverse range of stakeholders, within Myanmar and also for Chinese stakeholders in relation to implementation of Belt and Road projects. As the Kyaukphyu project exhibits such a wide set of risks but has so little factual public information available to researchers, it will likely continue to be a critical case for understanding risks of the BRI. This paper finds – as an interim conclusion in ongoing research
that stakeholders and experts with a deep engagement in the complexity of the issues can
discern mutually constitutive risks and opportunities from the Kyaukphyu project. International
and local actors engaged in the BRI in Myanmar, even in a state of crisis, seek to develop
strategies to manage risks as well as to maximise opportunities for new industry development
and broader benefits from regional and global economic integration.

Bigger questions of geopolitical balance and major power strategy loom large over the
discourse, including the threat of militarization of BRI assets in a worst-case scenario that may
arise in conditions of regional or global conflict. Nevertheless, the balance of risk in the China-
Myanmar Economic Corridor may not be as simple as a question of asymmetric Chinese power,
as may be inferred from some of the international relations literature. Applying a normatively
sceptical political risk approach finds that diverse actors believe they are demonstrating agency
and capacity to push back against China, while simultaneously pragmatically seeking to gain
from engagement with China. There is therefore a paradox in the popular fear in Myanmar (and
indeed elsewhere) that rising China will exert asymmetric influence, when Myanmar
demonstrates that even in a crisis and in a dysfunctional governance environment states and
actors can retain agency. This points towards the need for more case study research to
understand the complexity of business environments along the Belt and Road.
References


233 | Journal of Contemporary Eastern Asia, Vol. 20, No.2


UOB. (2020). The Belt and Road Initiative in ASEAN: Myanmar. United Overseas Bank Hong Kong/Hong Kong University of Science and Technology Institute for Emerging Market Studies. Retrieved from https://www.researchgate.net/publication/348233766_The_Belt_and_Road_Initiative_in_Myanmar


Zhang, C., Xiao, C., & Liu, H. (2019). Spatial big data analysis of political risks along the Belt and Road. Sustainability. DOI: 10.3390/su11082216


Appendix

Interviews (in date order, note identifying details have been removed)

1. Anon. Leading actor in negotiating Kyaukphyu SEZ partnership. Yangon, November 4, 2019 (plus accompanied on site visit to Thilawa Special Economic Zone, November 6, 2019)

2. Anon. Department of International Relations, a Myanmar University. Yangon, November 4, 2019


4. Anon. Department of International Relations, a Myanmar University. Yangon, November 4, 2019

5. Anon. Department of International Relations, a Myanmar University. Via Zoom, November 5, 2020

6. Anon. Department of International Relations, a Myanmar University. Via Zoom, November 10, 2020

7. Anon. Department of International Relations, a Myanmar University. Via Zoom, November 18, 2020


Creative Commons Attribution-No Derivative Works License (https://creativecommons.org/licenses/by-nc-nd/3.0/)