A STUDY OF CHINESE CAPITAL FLOWS TO SIX COUNTRIES: **MYANMAR**

Mitigating Governance Risks From Investment in Southeast Asia

CENTER FOR INTERNATIONAL PRIVATE ENTERPRISE

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FORWARD & INTRODUCTION

Forward

CIPE works at the intersection of economic development, democracy and human rights, a unique position from which to address governance challenges posed by high-risk capital flows. In recent years, CIPE and its partners have witnessed an alarming trend: large amounts of capital invested by authoritarian regimes flowing through opaque channels into emerging markets. In these markets where governance is already weak and corruption is already rampant, high risk capital creates political and economic distortions which often do more harm than good in the recipient country. CIPE coined the term corrosive capital to describe state-backed financing that lacks transparency and accountability flowing from authoritarian states into new and fragile democracies.

CIPE's approach to combatting the effects of corrosive capital centers on identifying specific governance gaps in countries where democratic processes are at risk. Then, working with local partners, we design and implement projects that help close these gaps, fostering collaboration and information sharing among civil society, the private sector, and lawmakers. Because the adverse governance impacts in countries that receive this capital are well-documented and the global flows of such capital are growing

exponentially, CIPE is currently expanding both its policy research and programming on corrosive capital.

This report is unique in a number of ways: (1) it presents invaluable local perspectives on how Chinese investments are being documented, perceived, and implemented in countries around the world; (2) it identifies governance gaps which permit capital inflows to exploit or exacerbate weakness in young democracies; and (3) it provides recommendations for local stakeholders to address these gaps and make the most of Chinese investments. This publication is a demonstration of CIPE's commitment to the principles of local ownership, inclusion, learning & innovation, and accountability which are essential for emerging economies to enjoy sustainable and inclusive growth.

The report represents a group effort by CIPE and its partners. The effort grew out of a long-running dialogue on Chinese investment in Southeast Asia. CIPE partners cited a lack of data and consistency in the existing literature on the governance effects of Chinese state-backed debt and investment in emerging Asian markets. This report aims to fill that information gap and illuminate the governance distortions engendered by corrosive capital.

The first step in this effort was a set of deep-dive country-specific assessments. CIPE partnered with five think tanks and three independent researchers based in Southeast Asia to systematically study the issues. In addition, CIPE commissioned the Rhodium Group to collaborate with our partners in the development of a comprehensive dataset to track Chinese direct investments flowing into Southeast Asia.

It is CIPE's hope that this publication equips donors, implementers, policymakers, and advocates with information that makes their work more effective at managing the risks of corrosive capital. By mitigating the risks of corrosive capital, the targeted investments of CIPE's ongoing program can achieve a larger scale and aggregate impact on the resilience of markets and democracies in the face of capital flows from nondemocratic countries.

Andrew Wilson

EXECUTIVE DIRECTOR
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Introduction

Chinese outward investments have increased substantially in recent years, especially after 2013's introduction of its Belt and Road Initiative (BRI). BRI is the most ambitious infrastructure investment effort in recent history. The effect of BRI in Southeast Asia has been a tremendous volume of capital rushing in over a very short period of time. Chinese capital (including foreign direct investment, aid, and commercial loans) offers many benefits. It contributes to economic growth, job opportunities, and better-connected infrastructure networks in local economies. However, a growing volume of evidence indicates that many forms of capital emanating from authoritarian nations have a corrosive effect on democratic institutions and private enterprise in recipient countries.

The genesis of this publication was a CIPE forum in December 2017 at which CIPE's Southeast Asian partners expressed the urgent need to fill the information gap of the impact of corrosive capital on governance distortions. Local researchers and analysts across the region have identified an absence of evidence in the existing body of work on Chinese investment projects and the impact on the local economies and communities. Additionally, researchers and scholars sought greater clarity on specific gaps in governance through which Chinese capital can flow.

This report analyzes the patterns, trends, and characteristics of Chinese investments in Southeast Asia. Against the backdrop of the rising flood of Chinese investment across the region, the report highlights common issues and shared governance risks across countries, and identifies questions requiring further study. The sizable economic interests and political intricacies of China and BRI make this research sensitive in some countries; as result, some information has been redacted from the final report.

Countering corrosive capital requires working closely with local partners in vulnerable countries. In each case, the specific governance gaps which place democratic institutions at risk must be identified. In cooperation with local partners, CIPE can then design and implement local projects to help close those gaps and reinforce democratic institutions by fostering collaboration and information sharing among civil society, the private sector, and lawmakers.

Objectives, Scope & Methodology of the Report

This report aims to answer an important policy question: How can Southeast Asian economies benefit from the Chinese investment while mitigating the associated risks? This report will provide authoritative

and up-to-date data on Chinese regional FDI and loans in chapter 1; the following seven chapters document different forms of Chinese capital flows and identify governance gaps in six countries. Chapter 2 presents the case of Malaysia which highlights issues of opaque procurement practices associated with Chinese mega projects, as well as the need to improve corporate governance of state-owned enterprises to avoid conflict of interest. In chapter 3, Chinese investments are involved in controversial price fixing in the Indonesian extractives industry. Chapter 4 demonstrates the development of evolved oversight mechanisms to screen infrastructure projects in Myanmar. In Chapter 5, Cambodia provides an illustration of what can happen in a small to mid-sized country that becomes overly dependent on Chinese investment. In Chapter 6, the authors raise environmental concerns in Vietnam. Chapter 7 discusses regulatory capture issues in the Philippines using the online gambling industry as an example. Looking into the fast-growing Fintech industry, chapter 8 showcases risky investments and the data abuse problem in Indonesia. In all the case studies, authors examine the macro-level impact of Chinese investment, identify governance gaps, assess its initial impact. They then develop policy recommendations for key stakeholders such as businesses, governments, civil society organizations and international organizations to address these challenges and develop a streamlined, transparent, foreign investment monitoring and management process.

The scope of this report is primarily Foreign Direct Investment (FDI) from the People's Republic of China. During the research process, some authors discovered that domestic controversy centered primarily on Chinese commercial loans funding large infrastructure projects. The capital discussed in this report therefore encompasses all investments from China. Some authors focus on FDI while others place greater emphasis on other official financing such as aid and loans.

CHINESE INVESTMENT IN MYANMAR

KHINE WIN (SANDHI GOVERNANCE INSTITUTE)

Introduction

Bilateral trade between China and Myanmar has been growing since 1988, but Chinese investments in Myanmar only began to demonstrate noteworthy growth in 2004 (Travis, 2012). Chinese investment in Myanmar peaked in 2010 at USD1.52 billion (ASEAN Secretariat, 2018). This sudden surge between 2004 and 2010, and the concurrent concentration of almost all investments in hydropower, oil and gas, and extractives, is unprecedented in Myanmar (Travis, 2012).[1] China is currently Myanmar's second largest investor, after Singapore.

The surge of Chinese investment in Myanmar, and its concentration in extractive industries, has caused ample negative public perception, provoked criticism, and inspired protests, including those launched against the construction of the Myitsone Dam and Letpadaung copper mine. Public perception often views Chinese investments as exploitative of Myanmar's natural resources and internal political divisions. These perceptions significantly damaged bilateral

1 99% based off research by the Beijing-based Global Environmental Institute in 2016.

relations between the two countries during the previous Thein Sein administration, and they constitute one of the factors that led to the National League for Democracy's (NLD) landslide victory in 2015. However, even for the current NLD government, managing public perceptions of the resumption of the Myitsone Dam project and the establishment of the China-Myanmar Economic Corridor (CMEC) is difficult and potentially politically damaging (Zaw, 2019). Therefore, the government is taking a cautious approach in the implementation of new Belt and Road Initiative (BRI) projects and the resumption of existing projects.

However, Chinese investments will continue to play an important role. At the BRI Second Forum in 2019, the governments of China and Myanmar signed a cooperation framework for the CMEC (2019-2030) along with other bilateral agreements. The framework outlines implementation of up to nine Chinese-funded early-harvest mega-projects, including the Muse-Mandalay Railway and the Kyaukphyu SEZ deep-sea port. The Myanmar government signed these agreements in order to achieve the UN's Sustainable Development Goals and the targets set by the Myanmar Sustainable Development Plan (2018-30). Therefore, instead of rejecting Chinese investments outright, it is important to identify and address the underlying governance factors that encourage Myanmar to accept Chinese FDI. This chapter attempts to identify these factors and provide suggestions on promoting responsible foreign direct investments in Myanmar (Table 1, PG. 133-134).

TABLE 1: Major Chinese Greenfield Projects in Myanmar

TARGET	CHINESE INVESTOR	VALUE (USD MILLIONS)	INDUSTRY
Oil and gas pipelines	CNPC	1,225	Energy
Letpadaung copper mine	CNIC (Norinco)	1,000	Basic Materials
Tagaungtaung mining project	China Non-ferrous Metal Mining Co.	800	Basic Materials
JV project	CNOOC	N/A	Energy

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TARGET	CHINESE INVESTOR	VALUE (USD MILLIONS)	INDUSTRY
Hydropower construction	China Southern Power Grid	N/A	Transport, Utilities and Infrastructure
Sinopec Myanmar Petroleum	Sinopec	N/A	Energy
COSCO Shipping Lines	China COSCO	N/A	Transport, Utilities and Infrastructure

SOURCE: The Rhodium Group

Chinese FDI and Its Evolving Patterns

Although China is now the second largest investor in Myanmar on the basis of total approved investment, total Chinese capital stock in Myanmar was minimal until 2004.[2] This situation changed between 2004 and 2010, when total Chinese investment grew from USD 20.18 million to nearly 2 billion, with most of the growth occurring after 2007 (Travis, 2012). By 2010 Myanmar had become the second largest recipient of Chinese outward investments in Southeast Asia.

Between 2006 and 2010, Chinese state-owned multinational companies signed memoranda of understanding and framework agreements with Myanmar's Ministries of Mining, Electricity, and Energy to implement mining, hydropower, and energy projects (ERI, 2008) (Jones, 2017). According to EarthRights International, there were 69 Chinese multinational corporations involved in at least 90 planned or completed hydropower, oil and natural gas, and mining projects in Myanmar as of 2008. Among these projects is the well-known Myitsone Dam project, one of the seven dams in Kachin State (total installed capacity of 13,360 MW) planned

2 Over USD $20369.197 million of approved total investment and represents 25.79 percent of total FDI in Myanmar (DICA, 2019)

for construction under the Ayeyarwady River Hydropower Project. China Power Investment Corporation (CPI) reached an agreement with the Myanmar government in 2006 to implement this gigantic, USD 20 billion project and signed the "Sino-Myanmar Framework Agreement on Hydropower Development Cooperation in Myanmar" in 2009 (Jones, 2017). As mentioned above, the sudden surge of Chinese investment, and its concentration in hydropower, oil, gas, and mining, was unprecedented. According to the Beijing-based Global Environmental Institute, 99 percent of Chinese investment was concentrated in the natural resource-based sectors of hydropower, oil, gas, and mining as of 2011. The Institute also found that most of the investors in these projects were Chinese state-owned enterprises (SOEs) (GEI, 2016).

There are several reasons behind the sudden surge of Chinese investment between 2004 and 2010 (Travis, 2012, GEI, 2016). First, China launched its "Going Out" Policy in 2001. This policy coincided with China's admission to the World Trade Organization, which encouraged Chinese firms to invest overseas in order to meet the country's energy and mineral resource needs and to maintain the momentum of domestic industrialization (China Policy, 2017). Second, Chinese SOEs like CPI were operating at a loss at that time and unable to identify suitable sites for new mega-dam projects while domestic pressure was mounting on issues like environmental degradation and violations of domestic regulations. This led Chinese SOEs to move operations to less-regulated neighboring countries, particularly Laos and Myanmar (Jones 2019). Myanmar is unique as it is not only a resource-rich country, but it also shares a long border with Yunnan, China's least-developed province. Third, since 1988 and particularly after the 2007 Saffron Revolution in Myanmar, international sanctions isolated the ruling military government and forced it to increase reliance on China for military, diplomatic, and economic support. Chinese SOEs, in turn, were very willing to invest in Myanmar, despite its ruling regime and governance conditions, in order to fulfill China's resource needs.

However, this influx of Chinese investment in the years leading up to 2010 met with heated public opposition. The public perceived that China was exploiting Myanmar's valuable natural resources, and anti-Chinese sentiment increased nationwide. There were also concerns that Myitsone Dam could prove harmful to the local environment. China Power Investment prepared a report on the expected impacts of the project, but the report was never publicly released (Fuller, 2011). In general, popular backlash to Chinese investment coincided with a redirection of that investment in 2010, when Chinese investors refocused from the

natural resource sector to infrastructure and manufacturing projects. Despite this shift, Chinese SOEs continue to serve as major project investors or sponsors and often take a "land for equity" approach. Certain projects, like the Muse-Mandalay Railway, have created tension with local ethnic minorities desiring compensation for the land claimed for these projects. In September 2011, protests over the Myitsone Dam culminated in the suspension of this project by the Thein Sein administration (Tha, 2019).

After years on an upward trajectory, Chinese investment suffered a steep decline after peaking in 2010 at USD 1.52 billion, plunging to just USD 52.4 million in 2015. It subsequently recovered to 205.5 million in 2016 and $554.5 million in 2017 (ASEAN Secretariat, 2018). This decline from 2011 on could be due in part to the suspension of the Myitsone Dam project. The suspension mirrored the relationship between China's government and the Thein Sein administration during this period: Myitsone was a hindrance to the China-Myanmar bilateral relationship, and by various accounts it diminished the trust the Chinese government had in Thein Sein. Because of the reforms initiated by the Thein Sein government, Western governments lifted sanctions and re-engaged with Myanmar. This created the impression that his government was pro-Western and that it was trying to keep its distance from China's sphere of influence. During that time, the Chinese government carefully built a relationship with the NLD opposition party. After the NLD won a landslide victory in the 2015 election, Chinese investments gradually increased in 2016 and 2017 (ASEAN Secretariat, 2018). Moreover, as part of the Belt and Road Initiative, a large number of Chinese-funded projects are scheduled to begin under the CMEC cooperation framework. These projects included the USD 8.9 billion proposed Muse-Mandalay Railway project, China Communications Construction Company (CCCC)'s USD 1.6 billion New Yangon City project, and China International Trust and Investment Corporation Group (CITIC)'s USD 1.3 billion Kyaukphyu SEZ project, among others.

Governance Gaps Exacerbated by Chinese FDI

CEASEFIRE CAPITALISM

The sudden surge of Chinese investment in Myanmar occurred during military rule and coincided with an increase in crony capitalism and corruption at all levels of government. During that time, ceasefire agreements were signed with ethnic armed groups in Northeast Myanmar. These agreements allegedly were put in place to appease domestic political opposition

and aimed to ease pressure on the army, which was fighting the Karen National Union (KNU) in Southern Myanmar. Some of the groups involved in these ceasefire agreements are known to be involved in the drug trade. The ceasefires paved the way for what Yizheng Zou and Lee Jones call "ceasefire capitalism," defined as "business deals which focused on natural resource exploitation that enrich military, ethnic armed groups leaders, crony capitalists and foreign investors" (Jones, 2019). The majority of foreign investors involved in these business deals were Chinese, because China shares a long border with Myanmar and the ceasefire groups had close relationships with authorities in Yunnan Province. Additionally, with the increase in bilateral trade and informal Chinese investments in border areas and upper Myanmar, many Chinese migrated to Myanmar and became naturalized citizens, a process facilitated by corruption and weak enforcement of rule of law. The effects of this process are very visible in Mandalay (U Myint, 2019), the capital of pre-colonial Myanmar, where naturalized citizens of Chinese origin have set up businesses, some illicit, with close links to China. The sight of Chinese laborers working at Myanmar construction sites has fostered the perception that Chinese investment is of limited benefit to local employment and economic development. According to Vice-President of the Mandalay Region Chamber of Commerce and Industry Win Htay, "out of 10 top entrepreneurs in Mandalay, seven are Chinese" (AP, 2018).

CRONY CONNECTIONS WITH MILITARY OLIGARCHS

Collusion among Chinese SOEs, powerful military oligarchs, cronies, and armed groups further contributes to a negative perception of Chinese investment in Myanmar. For example, in the Letpadaung mining project, the Chinese SOE China North Industries Corporation (NORINCO) formed a joint venture with military-owned Myanmar Economic Holdings Limited (MEHL) through its subsidiary Wanbao Mining (GEI, 2016). Similarly, the Asia World Company, which is owned by the son of former drug lord Lao Hsiang Han, holds a 5 percent equity in the Myitsone Dam project and is a local partner in many other hydropower projects (Tha, 2019). Other powerful cronies are also partnered with Chinese SOEs to implement hydropower and other projects. The IGE Group, a conglomerate owned by sons of the powerful former SPDC minister U Aung Thaung, was involved in many hydropower projects as well as the Kyaukphyu SEZ project. Moreover, CITIC's subsidiary CITIC Construction Company had an agreement with HTOO group, which is

owned by political crony Tayza. All of the deals mentioned here were bilateral agreements that did not pass through any tender process and were conducted without any semblance of transparency. These joint ventures aggravated local grievances about land confiscation and forced relocation without proper compensation in project areas, which are mostly in ethnic minority regions. A 2019 report by the Myanmar-China Pipeline Watch Committee identified violations of existing laws and environmental safeguards committed before and during construction of oil and gas pipelines related to the above projects. An informal interview with a member of the Letpadaung Commission demonstrated that governance gaps have enabled illegitimate land appropriation. In comparison, the implementers of the Thilawa SEZ project had to follow guidelines and safeguards set by Japanese investors, and so the local community viewed the land compensation processes as fair.

These are but a small sample of cases of Chinese investments corroding the rule of law, human rights, and democratic governance in Myanmar. These cases highlight two specific governance gaps: incomplete ownership laws in Myanmar which allow cronies, foreign governments, and known human rights violators to hold secret equity positions in public enterprises, and weak enforcement of environmental, procurement, labor, and immigration laws.

In summary, the military oligarchy, cronyism, and ceasefire capitalism in Myanmar facilitated the sudden surge of Chinese investments in the natural resource, energy, and construction sectors between 2000 and 2010. The public in Myanmar is aware of governance gaps linked to Chinese investment in the country, and thus holds a negative perception of these investments. Unless they address these governance gaps, Chinese investment projects will continue to pose the risk of corrosive economic and political effects on Myanmar.

Impact on the Local Private Sector

ZERO-DOLLAR TOURISM

As part of an effort to boost tourism, Myanmar started a pilot “visa on arrival” system for Chinese tourists that ran from September 2018 to October 2019. The strategy worked, as 650,000 Chinese visitors came to the country in the first four months of 2019, a 30 percent increase from the same period the year before (Hein, 2019). However, these tourists were largely part of low-budget tour groups owned and operated by Chinese nationals, with most profits and revenue leaving Myanmar and going back to China. These companies are accused of

leading tourists only to Chinese-operated stores and coercing them to purchase cheaply-made goods for inflated prices, while cutting into profits of local tour guides and companies. In addition, the government has allowed WeChat Pay, a digital payment system attached to the popular Chinese messaging app, to have three-month trials in 14 areas popular with tourists (Hein, 2019). Chinese-run tour companies in Myanmar are mostly paid through this platform, skirting taxes and rerouting all funds back into Chinese accounts, with the amount of lost tax revenue still unknown.

The companies in question often argue that they are licensed and follow all proper procedures to operate in Myanmar. Current tourism laws do not provide any enforcement on foreign tour leaders. Increased zero-dollar tourism has been encouraged by these lax policies, as the government has only *requested* that domestic tour companies not follow this practice (Mon, 2018). While the government has threatened to issue violations in certain cases, few concrete actions have been undertaken to combat the growing issue.

UNFAIR ADVANTAGES OF CHINESE MANUFACTURERS

The private sector, generally speaking, welcomes foreign direct investment as local industries grow after years of relative isolation from the global economy. With regard to FDIs from China, some companies from the manufacturing industry voiced concerns about local manufacturers being wiped out when facing Chinese-made goods. The manufacturing industry in China has been heavily subsidized by the state with tax breaks, discounted land, and discounted utilities. Many industries in Myanmar are still in their infancy. If not managed properly, domestic industries might not even have a chance to develop. That said, Chinese companies have been eager to invest in Myanmar, particularly in the mining and textile sectors, where labor is cheaper than in China. However, several Chinese-owned factories have gone on strike and have suffered damage in attacks by workers protesting for pay raises and shorter working hours in recent years (Lo, 2018).

Laying the Foundation for Transparent Chinese Investment in Myanmar

Despite criticism over the lack of transparency in the implementation of CMEC projects, there are clear signs that the current government is taking a cautious approach. It is evident that the Myanmar government is laying the foundation for successful implementation of CMEC projects by enacting rules and regulations to address governance gaps. These steps are creating

an environment that promotes mutual trust and understanding.

First, in furtherance of campaign promises of transparency and accountability, the current government instituted Project Bank Notification 2/2018, outlining a regulatory framework for public private partnerships (PPPs), in November 2018. In addition, the Ministry of Planning and Finance will launch an interactive and publicly accessible online project bank to share information on approved priority projects. In an interview with *Frontier Magazine* Set Aung, the Deputy Minister of the Ministry of Planning and Finance, asserted that the project bank would enhance transparency and competitiveness (Frontier, 2018). Notification 2/2018 also sets guidelines and procedures for developing projects in accordance with strategies and action plans under the Myanmar Sustainable Development Plan (MSDP) and encourages the use of multiple financing mechanisms. The document also establishes a Public Private Partnership Center to monitor PPP projects, as well as setting standards and processes to implement PPPs, review unsolicited proposals, identify sources of funding for projects, evaluate environmental and social impacts, set contractual requirements for PPPs, monitor and supervise PPPs, and transfer state economic enterprises to the private sector. Implementing government agencies (IGAs) must identify strategic projects that will contribute to the MSDP and share this information with the general public, the Office for Development Assistance, and bankable PPPs. This represents a clear and comprehensive regulatory framework for implementing PPPs in Myanmar.

Second, the two governments signed three bilateral agreements in connection with CMEC at the second BRI Forum: the CMEC Cooperation Plan (2019-2030), the Formulation of the Five-Year Development Plan for Economic and Trade Cooperation, and an agreement on Economic and Technical Cooperation. Although terms and conditions of these agreements have not been released, it can be argued that government is taking a gradual, long-term, and holistic approach to China's CMEC Cooperation. The government is strengthening regulatory frameworks, building the capacity of implementing agencies by setting up the PPP Center, and taking into consideration the need for technology transfer, human resource development, solutions to bilateral trade imbalances, resolutions to informal/illegal trade and human trafficking issues, and even the promotion of peace and stability along the China-Myanmar border and within the Rakhine state. The government of Myanmar stated that the May 2019 CMEC MOU had been signed only after China agreed to three

conditions: that Myanmar be allowed to seek financing from international institutions; that Myanmar be allowed to invite international tenders; and that the proposed projects be chosen by Myanmar (Lwin, 2019). Moving forward, legal and regulatory enforcement of these stronger policies will be key and must be monitored by civil society and the local business community.

Conclusion and Recommendations

The confluence of military oligarchy, cronyism, and ceasefire capitalism in Myanmar, along with national and international economic pressures on Chinese businesses, has accelerated the dramatic expansion of Chinese investment in extractive sectors and public works projects. The speed and lack of transparency of these investments has fueled negative public perceptions, which have led to demonstrations against Chinese companies' exploitation of natural resources in Myanmar, the lack of transparent environmental assessments, and inadequate land compensation. The new Myanmar government is taking steps to increase transparency in the funding of public works through the creation of regulations including Project Bank Notification 2/2018. While it is understandable that the negotiation of the early harvest projects of CMEC are ongoing and that details are still being discussed between the Chinese and Myanmar parties, there are still immediate steps the government of Myanmar can take to mitigate the political, social, and environmental risks associated with these projects.

Proper land, social, and environmental assessments should be conducted prior to project implementation. This will raise public awareness of these projects, clarify land acquisition procedures, protect the livelihoods of local people, and put in place measures to prevent environmental degradation. Further actions can be taken in order to better explain to local communities how land acquired under eminent domain for use in public works projects will be compensated for. This public education should be discussed well in advance so that suspicions and anxieties about land confiscation can be reduced.

The Project Bank Notification 2/2018 is a good first step, but it is important that its policies be enforced so that projects will be implemented in accordance with the rules and regulations prescribed by the mandate. The Myanmar government can further increase the transparency of PPP projects and its agreements with China. The PPP Center or the Ministry of Planning and Finance should issue regular press briefings and host project information sessions in order to increase public participation, address misinformation,

and ensure that the projects are being planned and implemented in accordance with national laws and regulations.

Undetermined pricing standards have been exploited in up-charging unknowing project clients. Mandatory price analysis by an expert third party on all large-scale public works projects funded from abroad would ensure transparency in investments, business acquisitions and agreements. The government of Myanmar recently demonstrated its ability and willingness to intercede in problematic Chinese investment. For instance, the Myitsone Dam project was suspended due to increasing environmental concerns over damming the Irrawaddy River. These concerns grew into nationwide protests from nearly every part of society, an unusual occurrence in a country with fractured relations between ethnic groups. The government has remained steadfast in spite of ongoing and increasing pressure from Chinese authorities.

Terms of the Kyaukphyu SEZ deep-seaport project also were renegotiated because of concerns over the high levels of debt the Myanmar government would owe to China. Also, the size of the project was considerably pared down to a level more plausible for near-term usage. After seeing similar issues in Sri Lanka where the government had to lease a deep-water port back to China after falling into default, Myanmar is cautious about the financial viability of any major project while still encouraging foreign investment at appropriate levels.

In short, Myanmar must consider what types of investment best stimulate domestic industrial growth and provide the greatest feasible value-for-money to its people. Chinese capital and technical skills can help meet Myanmar's tremendous infrastructure needs. For the local economy, from tourism to manufacturing, the government must continue improving infrastructure and clearing investment bottlenecks to sustain economic momentum. However, it is also key to mitigate the governance risks associated with this influx of Chinese capital. Myanmar may be able to use the new PPP project bank mechanism to increase transparency and oversight. Meanwhile, the government also needs to recognize that industrial subsidies and pervasive state-led economic planning from China is going to destroy its infant industries at home before it can develop and compete. Policymakers need to ensure that Myanmar is "open for business" while establishing risk mitigation strategies that allow its citizens to reap the benefits of foreign investment.

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CONCLUSION

Investments from China into Southeast Asia have contributed to economic growth and the development of the private sector in the host countries. For example, in Malaysia the solar panel and glass industries have seen leaps in growth due to Chinese investments. Yet there are also cases in Southeast Asia in which the local private sector received marginal benefit from Chinese investments. For instance, in Cambodia, the report showed that Chinese firms have little interaction with local firms and do not contribute much to the capacity and skill development of the local workforce. As a result, the spillover effect of Chinese investments on local SMEs has been limited.

Local firms in host countries seek to benefit more from investments from China. Several authors pointed out that small businesses are concerned about being unfairly outcompeted by Chinese firms, which are supported by state-led industrial policies and cheap credit from the state.

Foreign direct investments from China sometimes goes into high risk and lightly regulated industries, such as mining, online gambling, and payday lending. In the cases of the Philippines and Indonesia, the authors documented that these investments bypass, ignore, or undermine regulations in the host countries. Problems include importing illegal workers, evading taxes, and exploring military networks which are deeply vested in the economy. Southeast Asia's young democracies have suffered from weak rule of law and lax enforcement. Chinese

investments at times exploit and exacerbate these governance gaps.

Chinese-funded megaprojects raise more concerns than traditional FDI due to a lack of transparency and the opacity of the deal-making processes. The deals are made among the ruling elites of China and the host countries without proper scrutiny or oversight. It is widely recognized that the influx of Chinese capital and contractors help to alleviate the massive infrastructure gap in the region. To better utilize these capital inflows, the governments in Southeast Asia need to strengthen their capacity to mitigate the risks identified in this report, such as weak public procurement regulatory regimes, a lack of information on and robust oversight of BRI projects, weak governance of SOEs, and corruption.

Table 1 (PG. 198-199) lists recommendations to help mitigate risks stemming from large Chinese investment inflows:

TABLE 1: Recommendations to Help Mitigate Risk Stemming from Large Chinese Investment Inflows

PROBLEMS	SOLUTIONS
Lack of transparency in public procurement	• Increase transparency of the public sector and public procurement process • Have clear legal regulations on public procurement • Follow public procurement international best practices, such as competitive and public bidding • Replace low-bid procurement practices with Life-Cycle Cost Analysis (LCCA) to promote quality infrastructure project • Empower civil society and interested stakeholders to advocate for greater transparency on public procurement process
Corruption	• Strengthen anti-corruption work through institutional changes • Lawmakers should exercise oversight of loans that the government undertakes • Implement Freedom of Information act • Publicize government loan terms • Disclose ownership of companies which participate in mega infrastructure projects (especially if these companies are owned by government officials, their families, or close associates). • Provide for third party quality control/independent audit mechanism of the mega infrastructure projects • Implement PPP laws to facilitate investments and monitor PPP projects in hopes to increase transparency and accountability

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PROBLEMS	SOLUTIONS
Weak governance of state-owned enterprises	• Demand greater scrutiny of SOEs by lawmakers • Require disclosure of SOEs' annual reports and detailed financial statements as well as disclosure of remuneration of company directors, any financial liabilities potentially borne by the taxpayer and justification of the entities' activities against public policy objectives • Implement mechanisms for SOEs to reduce conflicts of interest among directors
Illegal worker/ migration	• Implement better management systems for foreign workers • Improve the system of working permits and business licenses for foreign investors
Social tension, environmental degradation, land grabbing and force eviction	• Apply multilateral development bank (MDB) standards (such as financial feasibility, environment assessment, social and governance impact analysis) for Belt and Road Initiative loan projects • Promote Corporate Social Responsibility and corporate governance among Chinese firms
Little contribution to local private sector	• Provide a level playing field for local and foreign contractors by requiring foreign firms to abide by the OECD guidelines on export credit assistance • Ensure any local content requirements focusing on promoting technology and knowledge transfer between foreign and local firms

The countries of Southeast Asia should strengthen their regulatory environment to reduce the likelihood of corruption, increase transparency, enhance oversight mechanisms, and improve their public procurement framework. In addition, civil society organizations can play a more significant role as a bridge between foreign investors and local communities to spearhead inclusive dialogue among governments, local civil society, and foreign investors before megaprojects begin so as to ensure that local voices are heard. Civil society and a free press can also help monitor foreign business behavior and promote OECD guidelines for multinational enterprises in agriculture supply chains, the extractive sector, mineral supply chains, and textile and garment supply chains to advocate for more responsible business practices.

Governments can also use regional platforms such as ASEAN to gain stronger negotiation power when advocating for more responsible investments from China.

For China

Chinese civil society is eager to work with foreign counterparts to encourage Chinese firms to engage in more corporate social responsibility and be more responsive to local communities' concerns. Chinese companies could seek Chinese civil society's assistance to try to act more responsibly and inclusively.

The Chinese government could work with Chinese companies abroad to ensure that they are abiding by guidelines released by Chinese business associations. The mining and construction industry associations from China have published guidelines that are on par with international standards. More broadly promoting and sharing these guidelines would help improve business behavior overseas.

Regarding investments with an international development purpose, China should try to employ the standards of AIIB in all its BRI projects to ensure that this new global power is also advancing development goals by acting more responsibly. Greater transparency in business engagements and MOUs between governments would help improve China's image in the region and counter a reputation of colluding with ruling elites.

Lastly, the report highlights research questions requiring further scholarly attention, including:

- Whether Chinese private firms are driven purely by the profit motive or instead act based on the policy guidelines from the state
- Whether SOEs and private firms from China respond differently to local pressure and incentives
- The extent to which China uses its economic leverage to influence host countries' domestic politics or foreign policy

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