

## On the Yunnan-Rakhine Corridor

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While Myanmar's Rakhine State has attracted the world's attention due to the Rohingya crisis, the unique role Rakhine plays in China's Belt and Road Initiative ('BRI') is less known. Contrary to popular perception, Myanmar's comparative advantages in China's BRI blueprint do not come from its natural resources or labour, but rather from its geopolitical location as China's potential gateway to the Indian Ocean. Rakhine State, which dominates Myanmar's west coast facing the Andaman Sea, has become the host of China's two largest investment projects in the country: the Sino-Myanmar oil and gas pipelines, and the Kyaukphyu deep-sea port. Both projects carry special strategic importance for China's national agenda. The security challenges that emerged from the Rohingya crisis have augmented China's security interests associated with Rakhine.

### 1. Myanmar in China's Belt and Road Initiative

China formally introduced the concept to develop a China-Myanmar Economic Corridor ('CMEC') in November 2017. The concept is based on an upside-down Y-shaped design, first connecting China's Yunnan province with Mandalay in central Myanmar, then stretching southward to Yangon and southwest to Myanmar's Rakhine State. Following the China-Pakistan Economic Corridor, CMEC is the second economic corridor China is developing with one single country under the BRI, suggesting its strategic importance in Beijing's overall design.

After the initial proposal was made in November of 2017, a memorandum of understanding ('MoU') on the development of CMEC was signed in September 2018. Two rounds of the CMEC Forum were subsequently hosted in Guangxi province in September 2018 and Yunnan province in February 2019. In December 2018, the Myanmar government established a Steering Committee for Implementation of the BRI in Myanmar. In April 2019, during the second Belt and Road Forum in Beijing, State Counsellor Aung San Suu Kyi signed two MoUs and one agreement letter with China under the CMEC framework.<sup>1</sup> But formal actions were not taken until January 2020, when Chinese President XI Jinping inked the ownership agreement over the Kyaukphyu deep-sea port, hence removing the last hurdle to the commencement of the actual project.<sup>2</sup>

The Chinese investment figure in Myanmar has not been particularly high since the announcement of CMEC. In fiscal year 2017-18, during which CMEC was first proposed, approved investment from China reached USD 1.395 billion. However, in the following 12 months, while some expected to see major investment flows, the Chinese foreign direct investment dropped to USD 600 million.<sup>3</sup> During the period from October 2018 to April 2019, China had the largest number of projects approved – 72 in total – bringing the average size of Chinese projects down to USD 4 million each.

To make sense of such lukewarm volumes, it is first important to understand the complementarity of the Chinese and Burmese economies. Myanmar enjoys rich natural resources and abundant labour resources, two priority areas in China's BRI. The first is usually pursued through the 'resources for infrastructure' scheme, where Chinese banks provide loans for infrastructure projects backed by the recipient countries' natural resources to procure Chinese services and products to build such projects. The second is carried out in the name of 'international industrial capacity co-operation', where Chinese companies shift their labour-intensive industries to countries with cheaper human resources, especially in Southeast Asia and Africa.<sup>4</sup>

Ostensibly, Myanmar fits well with the two priorities of China. The country is abundant in natural resources, especially hydropower, natural gas, and minerals. Well-known Chinese investment projects include the suspended Myitsone hydropower project, the Shwe gas and Sino-Myanmar oil and gas pipelines, as well as the Wangbao Letpadaung copper mine project. In recent years, the Chinese have also demonstrated some interest in lower-cost labour in Myanmar, featured by the rising number of textile and clothing factories founded by the Chinese in Yangon and Mandalay.

Nevertheless, Chinese enthusiasm in these two areas has not been particularly strong. Many factors have contributed to this, the most important being the Burmese society's vigilance against Chinese development or exploitation of Burmese nat-

(<https://www.legal-tools.org/doc/8t2fdw/>).

<sup>3</sup> Myanmar Directorate of Investment and Company Administration, "Data and Statistics: Foreign Investment by Country" (see <https://www.dica.gov.mm/en/taxonomy/term/38>).

<sup>4</sup> "Industrial Capacity Cooperation along B&R Brings Win-Win Results", *Xinhua News*, 13 May 2017 (<https://www.legal-tools.org/doc/uc2m40/>).

<sup>1</sup> "Myanmar Signs 3 Agreements at Belt & Road Forum", *Belt & Road News*, 27 April 2019 (<https://www.legal-tools.org/doc/k52swx/>).

<sup>2</sup> "Xinhua Headlines: Kyaukpyu Port to Become Model Project in China-Myanmar BRI Cooperation", *Xinhua News*, 18 January 2020

ural resources and labour. In the Burmese view, the mismatch between China's overwhelming capacity and ambition in their country and Myanmar's limited capacity and moderate goals to host and manage the Chinese, jeopardizes Myanmar's national security through Chinese actors' land grabbing and a future potential debt trap. Therefore, Chinese ambitions have been constantly thwarted in Myanmar.

## 2. Location, Location, Location

While Myanmar's natural resources and labour have not generated major bilateral collaboration, the one unique and irreplaceable advantage of Myanmar lies in its location. Traditionally, Myanmar is regarded as the link that sits at the juncture between Southeast Asia and South Asia. If China could develop Myanmar into its regional hub, the country could serve as the centre of the network to connect China's land-transport infrastructure to the two wings. That would require China to develop its transportation network first from north to south into Myanmar, then spread out to mainland Southeast Asia in the east and to South Asia in the west.

Myanmar's special geopolitical significance for China also lies in its access to the Indian Ocean. Situated at the eastern border of the Andaman Sea, Myanmar offers China the most direct access to the Indian Ocean. Only two countries could give China that access: Myanmar and Pakistan. Despite a more reliable relationship and political loyalty, Pakistan suffers from domestic instability, making it a less desirable partner for China's Indian Ocean endeavour. Myanmar remains the better choice, although China will have to deal with mountainous terrain and ethnic tension if it wishes to access the Indian Ocean through the regions of Shan, Mandalay, Chin and Rakhine.

To carry out that grand scheme, China has to first build the access network from Yunnan to the city of Mandalay, where the CMEC will divide into two directions: southeast to Yangon and southwest to Rakhine. The prioritization of this first Yunnan-Mandalay stage is manifest in China's vigorous push for the Ruili-Mandalay railway. The second stage – the two independent branches towards Yangon and Rakhine – poses different challenges. The route from Mandalay to Yangon will go through Bamar-dominant regions in lower Myanmar, while China has traditionally enjoyed stronger influence in northern Myanmar which is populated by ethnic minorities such as the Shan, Kachin, Chin and Rakhine. The ethnic minorities have welcomed a deeper Chinese presence through assets on the ground in their territories in order to enhance Chinese political support for the groups and increase their economic opportunities. In comparison to Yunnan-Mandalay-Yangon, the Yunnan-Mandalay-Rakhine route is seen as a more direct shortcut to the Indian Ocean and politically more dependable.

Rakhine, in terms of foreign competition, is also far less crowded. Since political reform and economic opening up in 2011, Myanmar became at one point a 'battle ground' for foreign investors. Among the three special economic zones ('SEZs') that the Thein Sein government (2011-16) tried to establish, the Yangon Thilawa SEZ was assigned to Japanese companies, and the Dawei SEZ to Thai investors. These two assignments also consolidated the Chinese determination to 'win over' the Kyaukphyu SEZ in Rakhine because China could not afford the humiliation of losing all three main zones to foreign powers.<sup>5</sup> In recent years, Asian countries – including Japan, South Ko-

<sup>5</sup> Interviews in Kunming, Yunnan, China, July 2015.

rea, Thailand, Singapore and Vietnam – have all shown keen interest in investing in the country. But foreign investment has been scarce in Rakhine, primarily due to the instability associated with the Rohingya crisis and the related sanctions against Myanmar.

The Chinese are less deterred by the Rohingya crisis. This is first because China observes its non-interference principle and does not subject itself to the constraints of Western sanctions on Myanmar, which it considers a direct interference in Myanmar's internal affairs. More importantly, the Chinese have traditionally maintained peaceful relations with the local communities in Rakhine, not the least because of the oil and gas pipelines that have been on the ground since 2010. The implicit ties with and influence that China exerts on the Rakhine ethnic organizations through its sway over the bigger ethnic armed groups in north-eastern Myanmar, such as the United Wa State Army and its *de facto* political alliance with the Arakan Army<sup>6</sup> are additional significant reasons to keep peaceful relations. Thirdly, Chinese investment projects in Rakhine are primarily located south of the three townships where the Rohingya crisis has been most severe. Although China is generally subject to the political instability within Rakhine, the physical security of its assets has not come under immediate threat. Last but not least, China has maintained a positive relationship with Bangladesh and Myanmar, which offers it a unique advantage and multiple venues in dealing with the Rakhine situation and the Rohingya issue.

## 3. The Start of China's Rakhine Endeavour: The Sino-Myanmar Oil and Gas Pipelines

China's endeavour in Rakhine State began under Myanmar's military government, with the sole purpose of utilizing the geopolitical location of Rakhine. The original goal was to use the shorter route to build oil and gas pipelines to reduce China's strategic vulnerability and dependence on the Strait of Malacca for its oil and LNG shipments from the Middle East. Although the 'Malacca Dilemma' has since been challenged – the pipelines are no less vulnerable to attacks in the event of an armed conflict than ships in the Strait of Malacca – the pipelines are nevertheless cheered as a key measure to alleviate energy shortage and insecurity in China's Southwest.<sup>7</sup>

The Sino-Myanmar oil and gas pipeline project was agreed between China National Petroleum Company ('CNPC') and Myanmar's Ministry of Energy in December 2009 during XI Jinping's visit to Myanmar, with a total investment of USD 2.54 billion. Construction commenced in the summer of 2010; the gas pipeline was completed in May 2013 and has been operational since. The oil pipeline finally came online in 2017, two years after its completion due to disagreement over fees and tolls. Labelled China's 'fourth-largest energy transportation route' – following the Central Asian pipelines, maritime transport, and the Sino-Russia pipelines – the project is considered of national strategic importance as it diversifies China's energy transport system.

Judging by their operation, the oil and gas pipelines have

<sup>6</sup> See NAKANISHI Yoshihiro and Antonio Angotti, "The Arakan Army: Violence in Rakhine State in Myanmar", Policy Brief Series No. 107 (2020), Torkel Opsahl Academic EPublisher, Brussels, 2020 (<http://www.toaep.org/pbs-pdf/107-nakanishi-angotti/>).

<sup>7</sup> "Oil Piped from Myanmar to China Hits 3.9 Million Tonnes in 2017", *Xinhua News*, 26 January 2018 (<https://www.legal-tools.org/doc/9d-j1ww/>).

been a success. By the end of 2019, the gas pipeline has been in smooth operation for 2,260 days, with a total of 24.6 billion cubic meters of LNG transported to China and 4 billion cubic meters transferred to Myanmar. The oil pipeline has been in operation for 1,177 days, with a total of 25 million tons of crude oil being transported to China.<sup>8</sup>

Originally, the Chinese planned for ‘Five Lines of Connections’ between Yunnan and Rakhine. Accompanying the oil and gas pipelines, China also designed a highway, railway, and high-speed cable. The development of Sittwe into the origin of the oil and gas pipelines showcased to China the potential of Rakhine to become China’s outpost on the Indian Ocean, and the oil and gas pipelines paved the first layer of ground with relative success. However, the political changes in Myanmar since the Thein Sein government first delayed, then eliminated hope for the other three lines, for the time being; the MoU to build the Sino-Myanmar railway was cancelled in 2014 as the two sides could not agree on the terms of financing. The highway and the cable were apparently no longer appropriate to fit the political conditions.

#### 4. China’s Crown Jewel in Rakhine: The Kyaukphyu Special Economic Zone

Among all standing Chinese projects in Myanmar, none is more significant than the Kyaukphyu SEZ. Located on the west coast of Rakhine State, plans for the Kyaukphyu SEZ include three components: a deep-sea port, an industrial park, and a housing development project. The Myanmar government opened the bid to investors in the autumn of 2014 and selected the China International Trust Investment Corporation (‘CITIC’)-led consortium for the development of the deep-sea port and the industrial park in late December 2015. The land-use plan for the zone was approved around the same time. The total investment from China for the zone is calculated at USD 10 billion. CITIC plans to follow a DBFOT business model for Kyaukphyu, meaning that the CITIC Group is responsible for the projects’ design, building, financing, operation and transfer.

Since CITIC won the bid in 2015, the Kyaukphyu SEZ has been criticized as one of the last-minute deals that the Thein Sein government approved and granted before stepping down. People questioned whether the deal was approved in a hasty manner to appease China without sufficient public discussion and debate. Two concerns underscored the controversy associated with the Chinese plan. The first was that the size of the Kyaukphyu SEZ was exceedingly and unnecessarily large. If the Myanmar government could not provide its share of the financing, it would most likely have to resort to Chinese loans. In that scheme, if Myanmar were to assume 50% of the stake of Kyaukphyu, the required investment could amount to USD 5 billion, about 7.5% of the country’s annual gross domestic product (USD 67 billion in 2016). The core of the issue lied in the gap between China’s overwhelming ambition and capacity, and Myanmar’s more moderate aspirations and means. The Burmese questioned why Myanmar should borrow money from China to support an ambitious Chinese project designed primarily to serve China’s political and economic agenda.

A deeper concern in Myanmar centres on the risk that China could turn Kyaukphyu into a naval or dual-use facility on the

Bay of Bengal, as a part of China’s Indian Ocean strategy. Myanmar, especially its Defence Services, is hypersensitive about the sovereignty, territorial integrity, and national security of the country. The 2008 Constitution clearly states that “no foreign troops shall be permitted to be deployed in the territory of the Union”.<sup>9</sup> China’s track-record in the Indian Ocean on dual-use ports is not exemplary. It is widely believed in the region that the Gwadar Port in Pakistan has already offered military utilities to the Chinese People’s Liberation Army. In the case of Sri Lanka’s Hambantota Port, in which China owns a 70% stake, a requirement by the Sri Lanka government was specifically signed in 2017 to prohibit China from using the port for military purposes.

Bogged down in Myanmar’s concerns about being caught in a debt trap and the national security implications of the Kyaukphyu Port, the negotiations lasted for a long, excruciating four years and eventually led to the downsizing of CITIC’s investment from USD 7.2 billion to USD 1.3 billion (and from the original 10 berths to 2 berths).<sup>10</sup> The Burmese rationale is that the downsized version is only for the first stage and that the rest will be built after its profitability has been proven. The Chinese have expressed scepticism about these assurances. From their calculation, a port in Kyaukphyu can only turn profitable with economy of scale, and the notion that it could be profitable with only two berths is not credible.

The Chinese feel particularly betrayed by the fact that the Burmese government turned to the United States government for technical assistance on the downsizing of the port.<sup>11</sup> Potential American involvement in the assessment of CMEC projects is another factor that negatively affects Chinese interests. For the Chinese, Myanmar is already not an easy place to invest due to the complicated image of China on the ground. To have another layer of foreign judgment with pre-existing bias against the BRI is unlikely to make it easier.

The fact that China went ahead with the project despite Burmese second thoughts and the renegotiation underscores the importance of the Kyaukphyu Port for China. China would rather choose to continue with a smaller project than not having the project at all. There is an emotional factor at play, as Chinese actors believe that China has to ‘win’ the Kyaukphyu SEZ, especially the deep-sea port, because the most consequential partner of Myanmar cannot be seen to be left empty-handed with no SEZ. More importantly, the Chinese understand that Kyaukphyu will open doors for the transportation network between Rakhine and Yunnan or between the Indian Ocean and China. Once the deep-sea port is operational, ground transport lines will become inevitable if Myanmar wants to boost shipment and revenue.

#### 5. Rakhine: The Security Dimension

The Rohingya refugee crisis presented an acute challenge to Myanmar’s government, as well as to China as the primary investor in Rakhine State. China does have concerns associated with instability in Rakhine, linked to the physical safety of the Chinese infrastructure projects, China’s own challenges in deal-

<sup>9</sup> Constitution of the Republic of the Union of Myanmar, 29 May 2008 (<https://www.legal-tools.org/doc/ea9567/>).

<sup>10</sup> “Xinhua Headlines: Kyaukpyu Port to Become Model Project in China-Myanmar BRI Cooperation”, *Xinhua News*, 18 January 2020 (<https://www.legal-tools.org/doc/8t2fdw/>).

<sup>11</sup> Ben Kesling and Jon Emont, “U.S. Goes on the Offensive Against China’s Empire-Building Funding Plan”, *Wall Street Journal*, 9 April 2019.

<sup>8</sup> “Sino-Myanmar Oil and Gas Pipelines Achieving High-Quality Cooperation”, [中缅油气管道实现高质量合作], *People’s Daily*, 17 January 2020 (<https://www.legal-tools.org/doc/4tosx7/>).

ing with Muslim minorities, Rohingya refugees in China, and the spread of radical Islam from Rakhine into China.

China had previously maintained a neutral stance on the Rohingya issue, based largely on the fact that the Rohingya crisis did not directly affect China's interests or border security. That categorically differentiates the Rohingya crisis from the ongoing ethnic conflicts along the China-Myanmar border, including in northern Kachin and eastern Shan States, which remain China's primary security concerns in Myanmar.

This neutrality gradually evolved into a pro-government position since the 2017 Rohingya refugee crisis. China has defended Myanmar's position in international fora, including the United Nations, calling for understanding of Myanmar's efforts to promote 'social stability'. While there have been some Chinese statements about the unacceptability of violence, Beijing's attention is primarily focused on finding a solution to the issue rather than assigning blame. In the aftermath of the 2017 crisis, China declined to use the term 'Rohingya refugees', speaking instead of "displaced people from Rakhine due to violence"<sup>12</sup> in order to avoid any appearance that China accepts the term 'Rohingya', cognizant of the situation of the Rohingya who have fled to China. By standing with Myanmar, China has successfully proven that a 'friend in need is a friend indeed' during challenging times. China's popularity in Myanmar – previously dampened by China's perceived exploitative investments and support for ethnic armed groups in northern Myanmar's civil wars – has subsequently soared. Western actors who have single-mindedly called for externalization of accountability for alleged crimes committed against Rohingyas in northern Rakhine have contributed significantly to the strengthening of ties between China and Myanmar, culminating with the signing of the key agreement on the Kyaukphyu deep-sea port in January 2020.<sup>13</sup>

China's security concerns are centred on energy security and access to the Indian Ocean. China's infrastructure projects so far are located further south in Rakhine State, removed from the northern townships that border Bangladesh where the 2016-17 violence flared up. While the Rohingya crisis no doubt affects the area's overall investment environment and security situation, the immediate threat of attacks on Chinese projects is relatively low.

The Chinese government has recorded at least 10,000 Rohingya Muslims living in the city of Ruili on the China-Myanmar border.<sup>14</sup> Many of them have come to China as businessmen but have overstayed their legal status (usually the three-month permit for border residents). Most of the Rohingyas caught in China are deported back to Myanmar by truck across the border, but

they invariably return illegally. Chinese authorities have been concerned about the Islamic congregation which the Rohingyas have formed in Ruili, worrying that they will start an expanding Rohingya settlement, with migration into China. China does not necessarily share the resentment and discrimination against Muslims or Rohingyas that we have seen among some radical Buddhist monks in Myanmar, but there is some sensitivity to the spread of Islam along the Chinese border. China is particularly concerned with the risk of radical Islam spreading to China from Myanmar and its convergence with China's own radicalized Muslims. This is an area where China and Myanmar's intelligence services have co-operated in recent years. China has been keen to gain information on possible linkages between Rohingya organizations and Islamic militants in the region.

## 6. Conclusion

Rakhine represents a key strategic outpost for China. Various complications on the ground have not changed this fact. Since early infrastructure projects began during the Thein Sein government, Chinese investment has continually faced challenges of competition, anti-BRI perceptions, and differences between Myanmar and Chinese ambitions and capacities. These obstacles have made China significantly scale down its planned investments in Rakhine State. However, the strategic utility of a gateway to the Indian Ocean and a bridge linking South, East, and Southeast Asia still motivates China to muddle through in its emphasis on Rakhine as a cornerstone of the China-Myanmar Economic Corridor, reinforcing the importance of Rakhine and Myanmar as a whole to China's rise.

Chinese strategic ambitions in Rakhine nevertheless make China vulnerable to developments on the ground in the State, involving sensitive national security issues for Beijing. While the existing infrastructure projects are located considerably to the south of the townships most affected by the Rohingya crisis, future overland projects as well as displaced persons may confront China more directly with the crisis and its consequences. Such engagement with an armed conflict in Myanmar may foster positive results through mediation, or it may enflame tension as China doubles down on its support for Naypyidaw on the issue. The intersection of the Rohingya crisis and China's strategic and economic interests in Rakhine remains uncertain as China charts its course.

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<sup>12</sup> Foreign Ministry Spokesperson GENG Shuang's Regular Press Conference, 24 November 2017 (<https://www.legal-tools.org/doc/69msdd/>).

<sup>13</sup> See above note 2.

<sup>14</sup> Private conversations with local observers, Yunnan, November 2017.