

3/2014

13.03.2014

Chinese investments in Myanmar

The Sino-Myanmar oil and gas pipeline project could become a chess piece

by Ying Hongwei

Chinese Voices on Chinese-Burmese relations

The new Sino-Myanmar oil and gas pipelines are crucial for the Chinese energy security. It is seen as an alternative to the Strait of Malacca. Nevertheless, Ying Hongwei does not see the real advantage of this expensive infrastructure project. He thinks this is an excuse for massive investments in Myanmar. He asks: Are the pipelines, going through an area of military conflicts more secure than the ships? Is the project socially liable? And who profits most from the project? If it is not properly handled, this pipeline may become a chess piece for Myanmar to contain China's development.

On July 28 2013, in the southwest of the Bay of Bengal, Myanmar, the flames of several huge offshore drilling platforms were abnormally eye-catching. At this moment, representatives from the four countries namely, China, Myanmar, Korea and India were together rotating the valve to inject the gas from the Bay of Bengal to enter into the Sino-Myanmar oil and gas pipelines at the first distribution station - Kyaukpyu station. Several hours later, the Myanmar Vice President U Nyan Tun Aung and the Chinese Ambassador to Myanmar Mr. Yang Houlan were together opening the control valve in the Mandalay oil and gas pipeline control center, and they ignited the flare in the Namkham metering station. The highly promoted "idea of the Sino-Myanmar oil and gas pipeline" has now, finally been realized.

[Comment by the publisher: The starting of the gas pipeline in July 2013 was planned to be followed by the starting of the parallel crude oil pipeline. It was postponed to early 2014, but due to environmental problems and protests from the Chinese public opposition it probably won't be completed in time.]

At the same time, a Burmese NGO released a land rights report showing that over 18 cities and towns will be affected by the oil and gas pipeline project, which are located in Rakhine State, Magway, Mandalay and Shan State, the last stop is Muse opposite the Chinese city of Ruili in Yunnan.

The pipelines are not only constructed under difficult geographical and social circumstances, but it is also unclear whether the pipelines will, under the current complex domestic situation in Myanmar, run smoothly in the future.

The pipeline construction faced various obstacles

According to the Chinese official statement, the Sino-Myanmar oil and gas pipeline is the fourth-largest and important energy import pipeline, after import by shipping, by the Sino-Kazakhstan oil pipeline, by the Central Asian gas pipeline, and by the Sino-Russia crude oil pipeline. After the plan was finalized, the Chinese counterpart has attached great importance to the construction of the pipeline, and hope for early completion. However, things were not as simple as first imagined, the construction process had faced various obstacles.

First of all, the project does not benefit the Myanmar people. The pipelines had to be built in very difficult areas. There was no infrastructure, the pipelines had to cross the sea, mountains, the Shan Plateau and many major rivers. Also, construction did not stop at the highly protected national religious heritage of the Mandalay Popa Mountain Buddhist area.

With its superb technology and the spirit of hard-work the Chinese builders have overcome

many unimaginable difficulties in the past three years, and have created a miraculous construction. On February 13, 2012, construction workers completed construction in the Mandalay Popa Mountain Buddhist tourist area. This is Myanmar's national religious heritage, and has the highest level of environmental protection of religious and cultural tourism National Scenic Areas.

However, the good news was not recognized by the local communities. On March 1, 2012, over 100 Burmese protested in front of the Chinese Embassy in Thailand, demanding that President Thein Sein halts the Sino-Myanmar oil and gas pipeline construction project. The leader of a local organization called "Shwe Gas Movement" (SGM) said: "This project does not share the benefits and interests with the local people, they just lose their property and livelihoods. Meanwhile, the project lacks transparency, financial accountability, and corporate responsibility. Our actions do not only target China, but all participating companies and stakeholders." The campaigns were held simultaneously in front of the Burmese, Indian, Korean, and Chinese Embassies in Thailand. "

Secondly, the political change in Myanmar created new forces in the domestic public space which interfered with the oil and gas pipeline project. In March 2011, the Burmese military government transformed to become a new civil government, the new President U Thein Sein has taken many new initiatives, particularly in the media's freedom of speech and street protests. Under the "pressure of public opinion", President U Thein Sein did not only halt the Chinese invested Myitsone dam, but also called for a re-evaluation of Chinese investment in the Letpadaung copper mining project.

These moves have undoubtedly put enormous pressure on the construction of the Sino-Myanmar oil and gas pipeline. Previously, these three projects had been seen as the "The three key Chinese investment projects in Myanmar", which were used to test a change in the relationship between the new government of Myanmar and China.

Chinese concessions

The Chinese government and companies had timely noticed these new situations and took prompt measures to deal with it. At the government level, senior officials have continually visited Myanmar to coordinate the investment, and invite the key Burmese politicians to visit China. Also, companies made efforts to initiate public charity works and to influence the Myanmar view of China in the media.

According to the previous agreement, the already operating natural gas pipeline was planned to transfer 12 billion cubic meters per year. The oil pipeline's output capacity is planned to be 22 million tons per year.

The Myanmar government could now bargain for better conditions: they will receive up to 2 million tons of crude oil and 20% of the total amount of natural gas output annually. These terms are much better than the previously negotiated terms: to receive USD 13 million transit fees annually. On July 28, the Vice President of Myanmar U Nyan Tun participated in the opening ceremony of the natural gas and announced the pipelines as a mutual win-win project for the four countries involved, which "will also improve Myanmar's economy, industrialization and electrification, (will be) important for the long-term development of Myanmar."

Gas and oil are very important for the Myanmar economic development. Since 2000, Myanmar is the largest natural gas exporting country in the Asia Pacific region. Also, the planned crude oil refinery plant will help to produce export products. The government has expressed its hopes, that the pipelines will push forward Myanmar's growth in the next 20 years and help the country to overcome its backward status quo and poverty.

Chinese pseudo argument for the Myanmar investment

Nevertheless, the significance of the Sino-Myanmar oil and gas pipeline is arguable. , The representative from the China National Petroleum Corporation (CNPC) publicly

announced this project as strategically necessary: "Upon the completion of the pipeline, the crude oil imported from the Middle East and natural gas from Myanmar will no longer pass through the Strait of Malacca. This is strategically significant for China's energy diversification and energy security."

Until now, the Strait of Malacca has been significantly important for China's crude oil supplies. China's hunger for energy is highly dependent on crude oil from the Middle East. Approximately, 80% of China's Middle East imported crude oil is passing through the Straits of Malacca.

Hence, some scholars have stressed that China needs to urgently establish its own oil reserves, because if the Strait of Malacca is controlled by others, then China's energy transport will be incapacitated.

In order to overcome this "Malacca dilemma", Chinese think tanks have come up with alternatives for the Strait of Malacca. A tunnel at Kra Isthmus in Southern Thailand or the building of a pipeline to pass through India in cooperation with Malaysia, were only some of the ideas. But most of the projects were too difficult to implement, due to geographical, geological, geopolitical or financial reasons.

The pipeline across Myanmar was approved in a time when the Myanmar's military government was very isolated among the international community.

After completion, the pipeline will help China to shorten the transport of crude oil from the Middle East and Africa by up to 1,200 kilometers. It will reduce transportation costs in comparison to the pass through the Strait of Malacca, and will solve 10 % of the energy capability.

However, in the eyes of some scholars, the so-called "Malacca Dilemma" is actually a pseudo-argument. First of all, no one would dare to openly block Chinese vessels, unless they want to have war with China. In this case, China's powerful army could reasonably attack for protecting its own interests. Secondly, if they really want to block the Chinese vessels, they

can also do it in the Indian Ocean and the Gulf of Aden in advance, why would they wait until the Strait of Malacca?

In China, scholars and policy-makers mainly criticize the Sino-Myanmar oil and gas pipelines because of the high construction costs and the potential diplomatic risks. Mr Zha Daojiong, energy security expert from Peking University, said in an interview with the Financial Times: "In theory, if any hostile forces want to disturb your oil tanker's transportation, why they have to only stare at Malacca? Perhaps only because the project in Myanmar causes some controversy, so in response to the criticism Chinese officials emphasize this strategic element."

Additionally, the Sino-Myanmar pipeline project seems to generate more problems than the "Malacca Dilemma".

Nowadays, the Myanmar domestic military conflicts have sustained more than two years. Over 50 kilometers of the oil and gas pipelines are in the war zone, the safety situation in Myanmar seems even worse compared with the situation of Straits of Malacca. We can even imagine, that the Myanmar farmers that live along the pipeline can use their hoes to easily break the oil and gas pipelines. As the pipeline is within Myanmar's sovereignty, China cannot and has no means to control their behavior.

Myanmar's own complicated assessment of the true situation

China is not the only customer Myanmar has to rely on. Notably, since 1998, Myanmar has become the natural gas exporting country, and since the year 2000, Myanmar has become the largest natural gas exporting country in the Asia Pacific region.

Secondly, one has to mention, that the pipelines are not only financed by China. They are operated by the "Southeast Asia Pipeline Company", which is an investment holding company with a consortium of six companies from China, Myanmar, India, and South Korea. Nevertheless, the Chinese companies hold more than 50% of the shares. But the Myanmar government gains are not to be

underestimated.

Thirdly, Myanmar's affected communities do not benefit from the pipelines. On the one hand, the Myanmar government, apart from the shareholder's annual dividends, will additionally gain a large amount of taxation, land rental, transit fees, technical training funds, and other revenues. Since this project has employed a large proportion of local staff in Myanmar to run the oil and gas pipelines, it will also train a large number of technical professionals in the energy industry.

However, these gains and benefits are difficult to directly channel to ordinary citizens, especially to those affected communities along the pipeline, whose land have been expropriated and damaged by this project. They complained that the compensation was too little and the livelihoods and surrounding environment have been destroyed. In fact, the Southeast Asia Pipeline Company has invested over USD 20 million in livelihood security, which has helped build 43 schools, two kindergartens, three hospitals, 21 health care centers, a reservoir in Ma Day Island, and electricity transmission lines in Rakhine State. But because the company was not able to implement these projects in the community, they only provided the money to the Myanmar government for realization; hence their work has not been widely recognized by the local people.

Consequently, the local people's unrests and protests have delayed the project's progress and increased the original investment of USD 2.54 billion to over USD 5 billion.

Responsibilities were not fairly distributed

The shareholder of the pipeline gave all responsibilities for land acquisition, resettlement, and compensations to the Myanmar authorities. But the local governments have not fully used the money for compensation and social welfare. Villagers from the afflicted areas told a reporter, that they had not received any compensation. After the news caught up with the story, the local government gradually began to pay compensation.

The pipelines heat up the conflicts

A more worrisome issue in Myanmar is the domestic armed conflict. In the past two years, the armed conflicts between Myanmar government troops and the ethnic armed Kachin Independence Army (KIA) in northern Myanmar have escalated. The byproducts of war have been continually increasing, such as personnel casualties, refugees, forced displacement, economic depression, electricity interruptions and transportation, and so on. On September 23, 2011, the Myanmar government's troops attacked the KIA's territory in Shan State in the name of protecting the safety of the Sino-Myanmar oil and gas pipeline construction.

The construction of the pipelines does not only inflame the conflict between the Myanmar's army and the KIA but the conflict also endangers the pipeline, as the Sino-Myanmar oil and gas pipelines are passing through this region for at least 50 kilometers. If the disputes surrounding the pipeline continue, the Myanmar people do not fully recognize and support this project, and then the future of this pipeline will surely have a lot of troubles.

Protests also on the Chinese side

Not long ago, there were also protests in China. During the process of the Sino-Myanmar oil and gas pipeline project, the China National Petroleum Corporation 10 million ton oil refinery project in Kunming and auxiliary projects from the Sino-Myanmar oil and gas pipelines, Kunming citizens have also been protesting through collective street demonstrations. Some scholars have pointed out: "No matter if in Myanmar or in China, the Chinese companies are accustomed to deal with the authorities at top levels, ignoring the serious challenges that civil societies and communities are facing. If the project cannot operate follow the schedule, CNPC will face severe debt burden and economic losses."

Outlook

The pipelines projects may become a chess piece for Myanmar to contain China's development. However, after the transition

from the military junta to a democratic government, the largest conflict in Myanmar is ethnic conflict. Facing the large divergence between the Government of Myanmar and the ethnic groups on economic interests, plus the religious and cultural differences and conflicts, China's long-standing diplomatic claim of "Non-interference of domestic affairs" will inevitably face challenges.

In a nutshell, the Sino-Myanmar oil and gas pipelines are a very controversial project because of the Chinese prospects and its implementation. In addition, the projects future is very uncertain due to the military conflict.

Annotations:

This version is a shortened version of the original article „The prospects of the Sino-Myanmar oil and gas pipeline“ (Zhongmian youqi guandao qianjing weibu), Ying Hongwei, Phoenix Weekly No 25, Vol 482, September 2013, pp. 44-46.

Ying Hongwei is a freelance journalist living in China.

