

# The Asian Development Bank in Myanmar - some simple facts and thoughts far from inclusive

Pieter Jansen

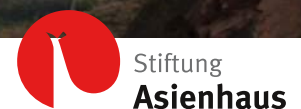


## Asian Development Bank

The Asian Development Bank's (ADB) stated objective is to achieve poverty reduction in Asian developing countries through generating economic growth (Defining poverty as in purely income terms and not as a social influence control factor). As a bank it therefore provides loans and technical assistance to developing and middle-income countries in Asia. The ADB is a public development bank. This means that its capital stock is partly guaranteed through assets reserves brought in by the member countries. The public guarantee allows the Bank to lend money in an easy way from international capital markets, and/or to attract private money for investments. The ADB mobilizes financial resources through co-financing and promotes commercial co-financing. It strongly believes in private sector development in developing countries.

Official Development Assistance of European countries goes to the ADB. Germany has contributed 7.07 billion US-Dollar (USD) in capital subscription as of 31 December 2013. It has contributed and committed 2.43 billion USD to special funds since joining in 1966. The Asian Development Fund is the most significant special fund. It provides concessional lending (loans with low interest, and a long term repayment period) to the least developed countries in Asia.

In 2013, ADB processed a first concessional Asian Development Fund project loan to Myanmar of 60 million USD for the Power Distribution Improvement Project to improve the efficiency of power distribution.



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ADB financed road from Yunnan to Myanmar, 2008 ©Pieter Jansen

## ADB and Myanmar

Myanmar is a member of the Asian Development Bank since 1973. Between 1973 and 1987 Myanmar received loans of 530 million USD and owed the ADB 325 million USD.

In reaction to the crackdown on pro-democracy protestors in 1988 the Bank for more than twenty years did not provide loans to Myanmar. Despite suspension of support to the country for nearly twenty years, ADB's Greater Mekong Sub-region (GMS) Program included Myanmar as a participating member since its inception in 1992. Under the GMS Program, the Bank pumped nearly 14 billion USD into 55 projects involving sub-regional roads, airports and railways, hydropower and infrastructure, and communicable disease control in the five other states of the Mekong River basin, namely Cambodia, Laos, Thailand, Vietnam, and Yunnan Province, China. The overall idea behind the GMS Program is that a regional single market generates more profitable business opportunities for companies than local markets. There is evidence that the GMS Program has been a disaster especially for small traders' craftsmen and women. Goods that used to be made locally were replaced by cheap copies from China.

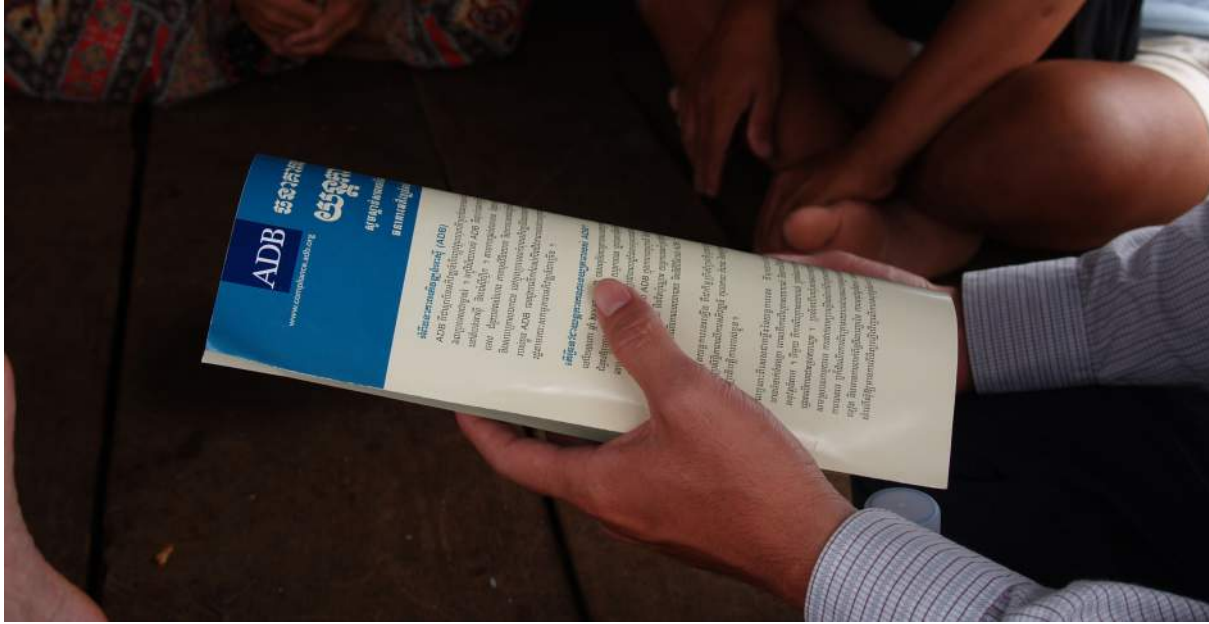
Under the umbrella of GMS, advisory support was directed towards establishing transmission lines needed to transmit power from dams in Myanmar to urban centers in Thailand. The Bank also co-financed the construction of necessary road infrastructure to the Burmese border to make a kind of preliminary connection with Special Economic Zones (SEZ) and harbors inside Myanmar in the making (Dawei, Thilawa, Kyaukpyu) arousing widespread local protest. In 2009 it adopted an energy strategy for the GMS region, including plans for natural gas pipelines and regulations for gas trade and a gas market, including Myanmar as a main producer. During the period in which stories were told about people being forced to grow agro-crops on their own plots or to work on plantations, the agricultural ministers from the six GMS countries were exploring the opportunities in bio-energy. The ADB continued providing support to the Burmese military generals for participating in regional GMS meet-

ings. And finally, ADB provided support for relief and reconstruction through ASEAN as part of the Tripartite Core group after the Cyclone Nargis in 2008.

Elections were held in Myanmar in November 2010, and powers were transferred to a quasi civilian government. In the Bank's (and EU's) view the country finally had returned to civilian law in 2011. However, according to some leading journalists and opinion-makers, the same military elites and business affiliates are in power. The election process itself was undemocratic and unfair. The decades long civil war continued with the breaking of ceasefire agreements in the Northern Kachin State.

## ADB Development Strategy for Myanmar

In 2013 the ADB published the study "Myanmar: Unlocking the Potential", written in the language of development bankers and consultants, with a lot of buzz words like "inclusive development", "integration", and "foreign direct investment" (FDI). The report examines the most important issues that need to be tackled to unlock the potential. These include weak infrastructure, creating modern market and government institutions, human development, stronger regional integration, a clear focus on inclusive growth and environmental protection. The report mentions the need to create a favorable environment for private sector development, as well as a functioning financial sector. For its industrial development it should gain advantage from the low labor costs and therefore it should promote labor-intensive manufacturing with the aim of integrating into global value chains, leverage SEZs and attract FDIs. Furthermore it mentions the comparative advantage the country agricultural sector has with relatively abundant land, water, and labor resources and proximity to the world's fastest-growing markets for food and it mentions tourism as a game changer, whatever that means. Finally, it calls for inclusive economic growth which is built on the pillars of economic growth to create economic opportunities for vulnerable groups, investments in education, health, and basic social services to enhance human resources and the installment of social safety nets.



ADB compliance mechanism in Khmer, 2007  
©Pieter Jansen

## Civil Society concerns

According to civil society groups, the market integration process in the Mekong lacks well-established and effective legal and decision-making frameworks. If indeed the same, for the most part ethnic Burmese military elites and business affiliates in Myanmar, are in power as before and the country furthermore remains (ethnically) divided, there is no guarantee of any kind of game-changer. The majority of income will remain coming from the sale of natural resources and projects will often result in militarization of project areas around dams or mines, environmental harm and a loss of livelihoods. The revenues will fall in the hands of the richest 1 per cent.

The ADB co-finances the construction of necessary infrastructure to connect the SEZs, hydro-dams and agri-business plantations with harbors and cross-boundary markets, and it probably will invest in dams and harbors as well in the near future. SEZs are seen by the ADB as a useful tool for private sector development. But a SEZ basically refers to an enclave within the state that operates under a separate administration from the state with weaker environmental and social protections in place and a lenient tax regime. The ADB has obligatory safeguards in place to prevent the environment and social well-being of people in project areas from potential harm, and/or to compensate them for the inevitable collateral

damage that is accompanying project development. The borrower country is obliged to meet the safeguards requirements. However, it is in the nature of SEZs to cope, minimally, not to say inadequately, with the environmental and social safeguards which borrowers of the ADB are obligated to follow. There are ample examples of these inadequacies to tell from countries as Cambodia and Laos.

## Unlocking the potential for whom?

Before 2010, during the period of sanctions, it looks like if all preparations then were set for the moment to come, that Myanmar would open itself further to foreign investments. On the other hand, it makes equal sense to say that during the episode of boycott, the ADB kept facilitating the existing regional trading relations between Myanmar and its neighboring countries that went on despite the boycott. Countries like Thailand and India circumvented the boycott in an easy way, and Thailand and China became by far the major trading partners of Myanmar. Japan, the country which holds the largest share in the bank, and which has led the ADB since its inception in the mid-1960s, found ways to circumvent the boycott, without losing face, therefore probably using the Bank's GMS Program as one of its diplomatic and political tools.

The EU countries held a common position on Myanmar on the suspension of all non-humanitarian aid or development programs. Therefore, EU members would not be allowed approval in a board meeting in the ADB, in case a project for Myanmar had to be approved. However European donors kept contributing large sums in co-financing for the GMS Program by the way, without criticizing Burmese participation.

Before the ADB and World Bank could make a new step into Myanmar after the boycott, they first asked for a settlement for the existing 952 million USD arrears still to pay. Most old debt dated from the 1980s. Relations were frozen after the crackdown on civil liberties in 1988. But only after the end of the 1990s it was the generals themselves, who had stopped paying their foreign debts. First the country had to sign an agreement with the International Monetary Fund to adhere to conditionality. Japan provided the country with a 952 million USD 'bridging' loan. Then a World Bank credit of 440 million USD and an ADB credit of 512 million USD were given. These amounts match the amount of arrears. A great deal of these loans is meant to repay the Japanese loan. The deal was partly influenced by politics. It does not follow the international set of principles for how to deal with debt of developing countries. Myanmar's foreign debt was modest by most standards. The debt deal opened the gate for aid flows. Some would say that the debt relief was not conditioned on reform of the political system and in fact a support to a military regime, engaged in a civil war.

## Geo-political game-changers?

The GMS Program probably finds its origins in the economic and foreign policies of Japan. In the mid-1980s Japan was in a trade war with the US. The Plaza accorded, afterwards forced Japan to appreciate the Yen. Consequently, it made Japanese products more expensive.

Japanese multinationals looked for ways to circumvent this problem by starting company dependences abroad. To facilitate this move abroad, Japan started to invest in the infrastructure of Mekong countries, and in the creation of economic zones, therefore making use of its influential position in the ADB, this besides direct investments with finance of Japan Bank for International Cooperation and Japan International Cooperation Agency.

The ADB recently faces a growing competition with the emergence of development banks such as the Chinese Asia Infrastructure Development Bank and the BRICS bank (the so-called New Development Bank founded by BRICS states Brazil, Russia, India, China and South Africa). In the eyes of China the United States and Japan fail to live up to promises which allow greater Chinese participation in the World Bank and the ADB and establishes its own banks. In reaction the United States criticizes the new China infrastructure development bank as an effort to undercut the international financial institutions established after World War II. China plans to pledge 50 billion USD in capital in the new bank and tries to collect additional 50 billion USD from other financial institutions and private capital. By comparison, the ADB has about 78 billion USD in capital.

China's investment in Myanmar by far exceeds those of most other countries. It is hard to find trustworthy statistics, however according to the home country reporting by Thailand and China, the estimated amount of investments made in Myanmar in 2012 by these two countries are 326 and 749 million USD. World Bank official FDI statistics mention a total amount of 2243 million USD in 2012.

The 3.6 billion USD Myitsone dam project was suspended in 2011 but other major Chinese investments, including the 17.5 billion USD oil and gas pipelines designed to transport fuel from Myanmar's southern coast to China's southwestern, land-locked Yunnan province. This project was repeatedly sabotaged by the Kachin people.

## Civil war

At exactly the same time that the deals were made between Myanmar and the International Financial Institutions and Japan, the bombing of civilians in Kachin state intensified.

I recently had the opportunity to ask a Shan scholar about her opinion of the current influx of capital for development:

„The government has been asking technical assistance and financial assistance from Japanese government and multilateral banks to bring development into the country. The development here is more about physical development rather than other aspects. They believe that when the development comes the peace will follow. In this critical period, what should come first, the peace process or the development process?”

And also:

„The military government used development projects as a tool to cleanse the ethnic groups because almost all of the natural resources are in the territory of ethnic groups. In the name of security, the military government deployed a troop to guard areas where the mega-development projects were operating. The presence of military at the project sites was the starting point of the conflicts between the military government and ethnic armed groups. Results of these conflicts are human rights violation, torture, rape, forced labor and forced relocation.”

The ADB seems to have amended parts of its strategy after criticism on investment in conflict regions and has recently appointed a conflict adviser.

## Concluding remarks

In the words of a befriended Chinese NGO representative, who went to visit Myanmar in 2011 to do research on Chinese investments in the country, the abundant resources of Myanmar are extremely attractive. This latter comes with certain threats to the development path of Chinese investors as well as to the ADB.

The earlier mentioned ADB country report comes with a list of threats, but does not make a further elaboration of

how to deal with them. The threats listed include resource curse, a high dependence on natural resources extraction and on the agricultural sector, a limited diversification of the economy, the risk of ethnic and religious inequalities, political uncertainty, weak governance and environmental vulnerability, and climate change.

The following recommendations could help the bank to move the bank's strategy in a direction, that is responsive to the threats. More attention has to be paid to the conflict situation and the desire of ethnic groups for more autonomy in development plans, rather than insistence on centrally driven plans, and to the many rights issues in Myanmar. They should rather pay more attention to the conflict situation and to the longing of the ethnic groups for more autonomy in development plans, than to insistence on driven plans. A rights based approach is critical with regard to Myanmar's situation. Furthermore, the concept of Free Prior and Informed Consent should be adopted. Human development should not only be considered as a labor productivity issue. Until now, there is little description of ways or routes on how to achieve social safety nets.

After all: the most relevant question could be: “Should Myanmar convert natural assets into financial assets?”, “Which natural assets should be converted into financial assets?”, “Which natural assets should be preserved for our grandchildren?”

In the words of another friend: One thing that repeatedly fascinates and worries me is the disconnection of the ever expanding idea of growth models rather than prosperity without growth and distribution models.

And finally it could help to listen to what my befriended Chinese person said: “Do care about the interests of Myanmar people in the first place. It is important to figure out how to ensure that Myanmar people are fully informed and can participate in the discussions of projects, and how to avoid the arbitrary administration of the Myanmar government.”

The abundant resources of Myanmar are extremely attractive; beyond that is the local residents' increasing demand for rights to know what is happening to their areas. In other words, many companies are involved in projects that have comprehensive impacts on the local community

and environment, but they fail to establish mutual understanding with the local people. Companies should invest in more projects that can benefit and engage the local people, so that they can fully participate and understand the projects. Only in this way can the barriers be eliminated.

## Interview with Nang Shining, a scholar from Shan State

### **What do the elections in 2015 mean for people in Shan State and what do you expect from the elections?**

Based on my observation and discussion with communities in my hometown, Mong Pan, Shan State, people do not have a clear idea of elections and the consequence of taking part in the elections. During the election campaigns, different political parties went down to different villages in Mong Pan to have a greater number of people to support their political parties. During their campaign process, most of the political leaders did not fully or meaningfully convey the purpose of the election. Instead they tempted the people with "if you support our political party, you will get political benefit from us, you will be free to do everything you like. You can even block the road and do your own businesses". The meaning of democracy has also been misinterpreted. Since the Shan ethnic minority is living under oppression for several decades, they just simply follow depending on who will approach them first. I have discovered that one obvious thing of their expectation is to be free from fear of being oppressed. They do not even advocate for their own rights. I would suggest that the local community must empower themselves to follow the updates of the political situation in their country and to advocate for their social and political rights.

### **How do elections effect foreign investments in Myanmar?**

Based on my personal analysis, the election will be a "driver" that gives the government of Myanmar the legitimacy as an elected government by its citizen.

After the election, a set of laws including the foreign direct investment law were approved. When the government becomes a legal government, and with the existing law on foreign direct investment, it becomes more credible and is much more trusted by foreign investors because of the guarantee by the government.

### **What do you expect the ADB to do in the coming years? How should the ADB treat investment in conflict regions and how should it deal with politics and democracy in Myanmar?**

At this current stage, the majority of Burmese people in remote areas are not aware of the political changes and their basic rights to protect and defend their family, community and natural resources. The ADB should firstly consider providing civic education through providing grants to government and community based organizations (CSOs), facilitate on the good governance and enhance the democracy system in Myanmar before they decide to move forwards on providing some loan on development projects. If the local people are aware of their own rights, they can fully participate in the development projects that come into their area. Otherwise the development projects will turn out as destructive projects at the expense of innocent people.

In the future, I expect the ADB to facilitate working closely with the government, private companies, CSOs and local communities. (for example the concept of the Extractive Industries Transparency Initiative, EITI).



Boulevard in Ruili, Yunnan province in 2008

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