ISSN 0219-3213

2014 #09

Trends in Southeast Asia

ESTABLISHING INFRASTRUCTURE PROJECTS: PRIORITIES FOR MYANMAR'S INDUSTRIAL DEVELOPMENT — PART I: THE ROLE OF THE PRIVATE SECTOR

STUART LARKIN

ISEAS Publishing
INSTITUTE OF SOUTHEAST ASIAN STUDIES

Trends in Southeast Asia

The ***Institute of Southeast Asian Studies (ISEAS)*** *was established in 1968. It is an autonomous regional research centre for scholars and specialists concerned with modern Southeast Asia. The Institute's research is structured under Regional Economic Studies (RES), Regional Social and Cultural Studies (RSCS) and Regional Strategic and Political Studies (RSPS), and through country-based programmes. It also houses the ASEAN Studies Centre (ASC), Singapore's APEC Study Centre, as well as the Nalanda-Sriwijaya Centre (NSC) and its Archaeology Unit.*

2014 #09

Trends in Southeast Asia

ESTABLISHING INFRASTRUCTURE PROJECTS: PRIORITIES FOR MYANMAR'S INDUSTRIAL DEVELOPMENT — PART I: THE ROLE OF THE PRIVATE SECTOR

STUART LARKIN

ISEAS Publishing
INSTITUTE OF SOUTHEAST ASIAN STUDIES

Published by: ISEAS Publishing
Institute of Southeast Asian Studies
30 Heng Mui Keng Terrace
Pasir Panjang, Singapore 119614
publish@iseas.edu.sg http://bookshop.iseas.edu.sg

© 2014 Institute of Southeast Asian Studies, Singapore

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form, or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior permission.

The author is wholly responsible for the views expressed in this book which do not necessarily reflect those of the publisher.

ISEAS Library Cataloguing-in-Publication Data

Larkin, Stuart Paul.
Establishing Infrastructure Projects : Priorities for Myanmar's Industrial Development. Part I, The Role of the Private Sector.
(Trends in Southeast Asia, 0219-3213 ; TRS 9/14)
1. Infrastructure (Economics)—Myanmar—Financing.
2 Industrialization—Myanmar.
3. Investments, Chinese—Myanmar.
I. Title.
II. Series: Trends in Southeast Asia ; TRS 9/14.
DS501 I59T no. 9(2014) 2014

ISBN 978-981-4620-20-8 (soft cover)
ISBN 978-981-4620-21-5 (e-book, PDF)

Typeset by Superskill Graphics Pte Ltd
Printed in Singapore by Mainland Press Pte Ltd

FOREWORD

The economic, political, strategic and cultural dynamism in Southeast Asia has gained added relevance in recent years with the spectacular rise of giant economies in East and South Asia. This has drawn greater attention to the region and to the enhanced role it now plays in international relations and global economics.

The sustained effort made by Southeast Asian nations since 1967 towards a peaceful and gradual integration of their economies has had indubitable success, and perhaps as a consequence of this, most of these countries are undergoing deep political and social changes domestically and are constructing innovative solutions to meet new international challenges. Big Power tensions continue to be played out in the neighbourhood despite the tradition of neutrality exercised by the Association of Southeast Asian Nations (ASEAN).

The **Trends in Southeast Asia** series acts as a platform for serious analyses by selected authors who are experts in their fields. It is aimed at encouraging policy makers and scholars to contemplate the diversity and dynamism of this exciting region.

THE EDITORS

Series Chairman:
Tan Chin Tiong

Series Editors:
Ooi Kee Beng
Terence Chong

Editorial Committee:
Francis E. Hutchinson
Daljit Singh

Establishing Infrastructure Projects: Priorities for Myanmar's Industrial Development
Part I: The Role of the Private Sector

By Stuart Larkin

EXECUTIVE SUMMARY

- The issue of establishing infrastructure projects for Myanmar's industrial development is addressed in two parts. Part I focuses on the role of the private sector, how Myanmar's conglomerates can take the lead on infrastructure development with financing from the new China-led multilateral development banks. Part II focuses on the role of the state. The government needs to work closely with the conglomerates and also adopt measures and policies that will facilitate this model of infrastructure development.
- For broad-based development Myanmar needs to diversify its economy away from dependence on agriculture and resource sectors and target labour intensive manufacturing exports for growth. Infrastructure investment is a top priority in supporting export competitiveness.
- There are a number of constraints on "Western" (including Japan) sources of infrastructure finance: the World Bank's IFC and the ADB are no longer big infrastructure lenders; international banks still have limited infrastructure lending capacity following the 2008 Global Financial Crisis and with Basel III regulatory requirements; the US prohibits dealings with many of Myanmar's conglomerates with big project experience through its Specially Designated Nationals blacklist and is generally slow to lift sanctions; apart from telecommunications, foreign investors struggle in the infrastructure sectors.

- Hitherto, China Development Bank (CDB) has been a source of financing for Myanmar projects, mainly via Chinese state-owned enterprises (SOEs), but it has focused on securing supply of energy and minerals for its industrial sector at home, with infrastructure finance only playing a subsidiary role to these objectives.
- The two new China-led multilateral development banks – New Development Bank (NDB), (the "BRICS bank"), and the Asian Infrastructure Investment Bank (AIIB) – will focus on infrastructure globally (with special attention to the BRICS countries) and regionally, in the Asia Pacific region. They are potentially game-changers, not only in helping to meet the "funding gap" in infrastructure finance which exists globally and regionally, but also in terms of facilitating eventual global leadership in finance for China.
- Chinese thinking is evolving from the "Going Out" strategy to a new strategic vision that sees infrastructure investment, global but particularly regional, as eventually becoming a driver of world growth in place of the tired US consumer. There is the initial demand stimulus from the construction phase of projects and, upon commencement of operations, growing productivity gains to be enjoyed. China can bring to bear a huge scale of new financing.
- The new China-led multi-lateral development banks will lend on commercial terms and without any non-economic conditionality, such as linkage to democracy and human rights, that will make them more attractive sources of funding for many developing countries.
- Myanmar's tycoons and their conglomerates can play a leading role in establishing a pipeline of "shovel-ready" infrastructure projects in time for the MDBs commencement of lending operations. Without such a pipeline visible investors will not invest in the fixed cost of acquiring the necessary expertise capable of evaluating such projects.
- Having the local conglomerates taking the lead on Myanmar's infrastructure development avoids the political pushback China has experienced, partly due to the aggressive role played by its SOEs, and Chinese companies can benefit from the infrastructure being in place without having to directly undertake all the work themselves.

- Myanmar’s tycoons could more actively engage the domestic political class, especially around the 2015 elections which will result in a change in the political configuration, in their quest for the infrastructure concessions that are going to bring more profits.

Establishing Infrastructure Projects: Priorities for Myanmar's Industrial Development
Part I: The Role of the Private Sector

By Stuart Larkin[1]

INTRODUCTION

For sustainable and broad-based development Myanmar needs to diversify its economy away from dependence on agriculture and resource sectors such as oil and gas and mining into manufacturing industry. Currently a least developed country (LDC), Myanmar's domestic market is small so high rates of economic growth are most likely achieved by targeting labour-intensive manufacturing exports. Initially targeting the garments sector, Myanmar can climb up from the lowest rung of the technology ladder as it raises the skills level of the workforce, substituting more sophisticated industries for the rudimentary ones, so raising general living standards according to the "flying geese pattern of development" long associated with the successful Asian model of export-led growth.

However, the popular consulting firm description of Myanmar as Asia's last major frontier market implies that Myanmar is a late-comer to industrialization and that it hence faces much stiffer competition in global markets for manufactured goods than the newly industrialized countries (NICs) ever did in their early stages. Therefore a substantial amount of investment has to be made simply to put Myanmar into the game at all. The two major factors that most critically impact upon an LDC's external competitiveness are the exchange rate and the state of

[1] Stuart Larkin is a Visiting Fellow at the Institute of Southeast Asian Studies. His email is stuart_larkin@iseas.edu.sg.

its infrastructure. Exchange rate depreciation to a competitive level can be managed by a small team of technocrats but a major infrastructure upgrade requires strong leadership organization and huge outlays. There is currently much talk in government circles about the need to help small and medium-sized enterprises (SMEs), particularly with improved access to credit and deregulation. However, what SMEs need most is access to electricity and transport access to markets, i.e. improved road, rail and port facilities. The other infrastructure sectors of water and sanitation and telecommunications are also important to them. Their competitors in other countries have all of these things. SMEs will form the backbone of the manufacturing exports sector but they need to be enabled.

There has been some FDI into the infrastructure sectors, notably telecommunications and an industrial zone near Yangon. But in transport and power, where economic parameters for projects can be difficult to define and where local knowledge is at a premium, progress is slow. However, it is necessary to get critical mass in infrastructure projects. Infrastructure investments entail complex legal and financial arrangements, requiring a lot of expertise. Building up the necessary expertise is costly, and investors will only be willing to incur these fixed costs if there is a sufficient and predictable pipeline of properly structured infrastructure projects they can invest in. Development banks play an important role in reducing these transaction costs.

It is widely accepted that the private sector should play a role in infrastructure development, through so-called public private partnerships (PPPs), to enjoy efficiency gains over and above what the public sector can achieve on its own. With the role FDI can play somewhat limited, there are a number of reasons why Myanmar's local conglomerates, and their tycoons,[2] who are the most obvious candidates for leadership in infrastructure development, have been hitherto side-lined. President Thein Sein has distanced himself from them due to their association with

[2] Many of Myanmar's top tycoons, and the conglomerates they have built up, are well known to the general public in Myanmar, such as U Aik Htun of Shwe Taung, U Htay Myint of Yuzana and U Tun Myint Naing of Asia World groups of companies.

the previous unpopular military regime. Many of the tycoons are on the US Specially Designated Nationals (SDN) blacklist which makes them "unbankable" by the global financial architecture controlled by the US. And the existing multilateral development banks – particularly the World Bank and ADB – are far less oriented to infrastructure funding as in the past. And international banks have a much reduced capability to finance infrastructure as they remain damaged from the Global Financial Crisis, even though it occurred over six years ago. But all is not doom and gloom: Myanmar's economic prospects may be transformed by recent initiatives taken by its large neighbour.

There will be two new China-led multilateral development banks dedicated to infrastructure finance available to work with Myanmar's top conglomerates on the country's infrastructure development. The nurturing of Myanmar's "national champions"[3] who would gain the entrepreneurial, organizational, managerial, technical and capital capabilities to undertake large projects (which SMEs can never do) was one of the few contributions Senior General Than Shwe made to the country's long term economic development. Having worked with domestic sources of financing, (principally the government), the tycoons must now tap international sources of project financing. Referring to them as "cronies", some foreign governments unrealistically hope their own companies can displace them in Myanmar's infrastructure development. Myanmar's top tycoons should now cultivate the political class to assume a leadership role in establishing a pipeline of "shovel-ready" infrastructure projects in time for the commencement of lending operations by the new China-led MDBs. The China-led financing could be politically acceptable to Myanmar because the project promoters will be Myanmar companies rather than Chinese state-owned enterprises (SOEs). The China-led MDBs will earn commercial returns on their lending and Chinese companies will benefit from the existence of

---

[3] National champion is a political concept in which large corporations in strategic sectors are expected not only to seek profit but also to "advance the interests of the nation". This policy has been popular and practiced by many countries, not least by China.

improved infrastructure in Myanmar, and in the wider region, it not being necessary that China directly undertakes all parts of the process.

INFRASTRUCTURE FINANCING

The New China-led Multilateral Development Banks

The world's development finance architecture is at an epoch with the establishment of two new China-led multilateral development banks (MDBs) which will both focus on infrastructure finance: the New Development Bank (NDB) established by the BRICS countries and announced at their 2013 Summit in Durban and the Asian Infrastructure Investment Bank (AIIB) which was launched in Beijing in October 2014. The MDBs originated with the creation of the World Bank in 1944 for post-war reconstruction. As Europe and Japan recovered in the 1950s the World Bank turned to providing financial assistance to the developing world. Then came the regional development banks: InterAmerican Development Bank (IADB) in 1959, African (AfDB) in 1964 and ADB in 1966 followed by the EBRD in 1991. The MDBs are rooted in two aspects of twentieth century geopolitics: the cold war between East and West and the division between the industrial North and the developing South.

From the 1950s to 1990s there were three pillars to the international financial architecture: IMF and MDBs represent the multilateral official pillar; the aid agencies of the industrialized countries the bilateral official pillar; and the commercial banks and investors from industrialized countries made up the private pillar. But today private commercial flows vastly exceed official flows and new channels of development assistance have multiplied as foundations and religious and non-governmental organizations rival official assistance flows in size. And the North-South divide is breaking down as emerging market economies (EMEs) are closing the development gap. Some new power houses in the South need little financial and technical assistance. China assistance to Africa outstrips that of the World Bank. But the G20 have been unable to reform the global financial institutional architecture in accordance with the new distribution of economic power.

Nations are not accorded equal voting power at the IMF and World Bank. Instead, votes are distributed according to the economic strength of a country at the time of the institutions' foundation. The top five shareholders of the World Bank – US, Japan, Germany, UK and France – collectively hold 40 per cent of the voting power (with a combined 10 per cent of the world's population). China and India, each with approximately 20 per cent of the world's population, enjoy 2-3 per cent of the total voting power. These arrangements were justified with the argument that the nations who are habitually lenders and not borrowers should control these institutions. Implicit is the idea that any nation able to transform itself into a major economic power stable enough to make it a habitual lender could expect to benefit from a share reallocation and thereby acquire a stake in global decision making. The BRICS did succeed but the promised reward failed to materialize. When China became the world's second largest economy in 2010 it still only had 3.81 per cent of total voting power in the World Bank and was not in the top five shareholders. Brazil, an economy the size of France or UK only got 1.72 per cent (whereas France and the UK hold 4.29 per cent each). The World Bank operates under a Super Majority system requiring 85 per cent of the votes for major decisions so that the US has a veto with its 16 per cent (and the combined BRICS only hold 13 per cent).[4]

With unpopular and uncompromising lending conditionality, such as privatization, and sometimes amid accusations of favouring Western companies for infrastructure contracts, the MDBs on current trend suffer a weakened mandate and loss of clients. With the industrialized countries facing major long term budget constraints and unable to continue supporting the growth of the MDBs' capital base, (but also unwilling to cede to EMEs a greater role in funding and greater voice), these institutions have hollowed out financial strength and diluted technical

---

[4] Fuller, Dr. Roslyn, INSYTE Group, "Refusing to Share: How the West Created BRICS New Development Bank", *Russia Today*, 21 July 2014; http://www.rt.com-edge/174320-west-brics-new-development-bank/.

capacity.[5] The MDBs' professional staff are a valuable global asset but their technical strength relative to other sources of advice, and even in absolute strength, is waning. Sub-regional development banks are more nimble in disbursing loans and their governance is not dominated by the industrialized countries. In this context the launch of the two new China-led MDBs is unsurprising and to be welcomed.

Each participant country in the NDB will be assigned one vote, and no countries will have veto power. Headquarters will be in Shanghai and the first president will be from India for a five-year term, to be rotated among the BRICS with China last. The inaugural chairman of the Board of Directors will come from Brazil and the inaugural chairman of the Board of Governors will be Russian. The starting capital of US$50 billion will increase to US$100 billion over time. Each BRICS member cannot increase its share of capital without all other four members agreeing. The NDB will allow new members to join but the BRICS capital share cannot fall below 55 per cent. Lending operations are scheduled to begin in 2016. If Turkey, Mexico and Indonesia participate as shareholders, as some have suggested,[6] the range of available expertise would be broader and governance more inclusive (though the share of non-BRICS countries should always be less than 50 per cent). Developed economies could participate also. This would get the bank a higher credit rating and enable it to offer cheaper funds to the market and the minority stakes would still differentiate it from existing MDBs. There are also Contingency Reserve Arrangements (CRA) of US$100 billion, of which China will contribute US$41 billion, Brazil Russia and India US$18 billion each and South Africa US$5 billion to provide liquidity in times of need.[7]

The NDB will focus on infrastructure finance and will be a valuable addition to the existing network of multilateral, regional and national

---

[5] Linn, Johannes F., "Realizing the Potential of the Multilateral Development Banks", *Brookings*, September 2013; http://www.brookings.edu/research/articles/2013/09/multilateral-development-banks-linn.

[6] United Nations, A BRICS Development Bank: A Dream Coming True, United Nations Conference on Trade and Development, Discussion Paper No. 215, March 2014.

[7] Wikipedia. http://en.wikipedia.org/wiki/New_Development_Bank

development banks. And initially it can benefit from the experience and expertise in these other banks. Assuming a capital endowment of US$100 billion of which 20 per cent is paid in, and if lending 50 per cent of project value, after 20 years there could be a total stock of loans of US$350 billion with annual lending of US$34 billion to investment projects totalling US$68 billion annually.[8] There is a trade-off between loan portfolio growth and its quality. The priority is to make profits on loans, reinvest and expand the capital base for greater lending in the future. The NDB will lend to BRICS countries themselves but also to other developing countries. The loan portfolio will be balanced between middle and low income countries and from different regions to benefit from geographical diversification. Some EMEs have got substantial foreign exchange reserves in sovereign wealth funds invested in low yielding developed countries that can be redeployed.

The case for a major step up in infrastructure finance is based on the need for growth, structural change, inclusion, sustainability and resilience. NDB's impact will be considered in terms of its capacity to leverage through its co-financing of projects with MDBs, national and regional development banks, and the private sector, so cooperation rather than competition will be emphasized. But the NDB can provide a valuable platform for BRICS advancing reforms in the international financial architecture that favour EMEs.

The Asian Infrastructure Investment Bank (AIIB) will also concentrate on infrastructure finance but with a regional focus, and operations could commence by the end of the year. AIIB will specialize in financing large-scale economic infrastructure on commercial terms, working alongside existing MDBs like World Bank and ADB who have the expertise to lend a lot more to infrastructure but have moved in a different direction. (Net lending by existing MDBs on commercial terms has been negative in 5 out of the last 10 years including 2011 and 2012.[9] World Bank and ADB

[8] United Nations, op. cit.

[9] Elek, Andrew, The Potential Role of the Asian Infrastructure Investment Bank (AIIB), East Asia Forum, 11th February 2014; http://www.eastasiaforum.org/2014/02/11/the-potential-role-of-the-asian-infrastructure-invesment-bank

are now focusing on concessional lending and knowledge sharing with low income countries). Among other activities, AIIB will help finance infrastructure projects in conjunction with the APEC Master Plan on Connectivity where gains from practical cooperation to improve trade logistics, upgrade transport facilities, and other components for better physical, institutional and people-to-people connectivity are envisaged. For example, AIIB will lend to improve the region's airports and ports. The share of private financing of investment in infrastructure will need to increase but public sector investment will remain essential to attract finance from global capital markets. With the expertise to estimate the potential benefits and risks of specific infrastructure projects, MDBs are created to reduce transaction costs.

Jin Liqun, the former chairman of the board of China's sovereign wealth fund and former ADB vice president, has been charged with establishing AIIB, and he has hired 24 people from Chinese financial institutions such as Bank of China and Citic to form the working group based in Beijing. Plans are to start with US$50 billion from governments and another US$50 billion from financial institutions and private capital.[10] 22 countries, including some wealthy states in the Middle East, have shown interest and ten countries have now agreed in principle to be founding shareholders, including Singapore where AIIB headquarters could be situated. Japan has expressed reluctance to participate and it is thought the US used influence to discourage South Korea from joining for political reasons; India has not yet decided. Potential investors in AIIB want to be assured management of the new bank will be of high quality, preferably selected on a competitive basis, and overseen by independent commercially experienced directors. Sound procedures for project selection, designing financing plans and tendering for project implementation can be based on those developed by existing MDBs.

The AIIB will lend on commercial principles. Subsidising capital costs of some infrastructure can be justified by externalities that are created but these subsidies should be injected by governments of economies

---

[10] *The Economist*, "An Asian Infrastructure Bank: Only Connect", 4 October 2013; http://www.economist.comnode/21587337.

that expect to reap the benefits. Lending will not be conditional on non-economic issues, such as human rights, which Western-backed lenders have sometimes leveraged as instruments of political influence.

Continuation of China's "Going Out" Strategy or a New Strategic Vision

China Development Bank (CDB) already lends more globally than the World Bank and ADB combined, (see Table 1 below), so China's creation of two new multilateral development banks suggests a planned quantum increase in overseas lending which in turn requires a new approach. I examine the role played by CDB and the event of these two new MDBs to explore whether there has been a fundamental shift in the way China now sees the world. In turn, this should influence how Myanmar positions itself for external financing of its infrastructure.

Table 1: Global Development Banks (US$ billion)

Bank	Assets US$ Billion	Total Loans US$ Billion
China Development Bank (2011)	991	876
China Exim Bank (2011)	190.34	143
Asian Development Bank (2011)	113	n/a
World Bank (Incl. IBRD, IDA, IFC (June 2011)	545	327
Inter-American Development Bank	87.22	129
Korea Development Bank (Sept 2011)	132	73
Brazilian Development Bank (2010)	306	208
KFW Bankengruppe (Germany, 2011)	606	153
FMO (Netherlands)	6.56	3.35

Note: World Bank loans IBRD and IDA only
Source: Bloomberg, annual reports (as cited by Henry Sanderson and Michael Forsythe in *China's Superbank: Debt, Oil and Influence*, 2014.)

CDB is one of three policy banks established in 1994, along with the Export-Import Bank of China (Eximbank of China)[11] and the Agricultural Development Bank of China but it is the only Chinese bank besides Peoples' Bank of China (PBOC) to have ministerial rank. Its mission to China's overall economic development strategy is the provision of large scale, long term funding for the construction of infrastructure and industrial projects aimed at breaking strategic bottlenecks in energy, natural resources and transportation created by China's rapid economic growth.[12] CDB's Chairman Chen Yuan[13] built up the bank by making it instrumental in the financing of China's urbanization. CDB pioneered local government investment corporations (LICs) to finance local infrastructure. LICs borrow on behalf of local governments which are not allowed to issue bonds or borrow directly from banks to raise capital.

The "Going Out" strategy of foreign investment by Chinese firms to secure energy and raw materials, build national champions, and acquire advanced technologies was announced at the Sixteenth National Congress of the Chinese Communist Party in November 2002 and this paved the way for Chen Yuan to transform CDB into a global institution.[14] By the late 1990s China's leaders had begun to perceive a widening gap between China's oil demand and domestic supply as a long term strategic problem. China's national oil companies (NOCs) had been investing abroad since

---

[11] Although it shares CDB's mandate to help ease China's energy and natural resource bottlenecks and to help Chinese firms expand overseas, Eximbank is a much smaller institution with assets of RMB792 million in 2009 against CDB's RMB4.5 billion, (Downs, 2011).

[12] According to General Affairs Office of the State Council (Notification from the General Affairs Office of the State Council Regarding the Printing and Publishing of the Structural Plan for China Development Bank).

[13] As the son of Chen Yun who was economic advisor to both Chairman Mao and to Deng Xiaoping and commemorated as one of the "Eight Immortals", or "founding fathers", of the Communist Party of China, (CPC), Chen Yuan is a "princeling". A career banker with ten years as Vice-Chairman of PBOC prior to joining CDB, he is a man of great integrity and is now regarded as the "world's banker". Myanmar could benefit greatly from his friendship.

[14] Downs, Erica, "Inside China Inc: China Development Bank's Cross-Border Energy Deals", 2011, John L. Thornton China Center at Brookings.

the early 1990s but domestic shortages of energy and minerals such as iron ore and copper were apparent. Chen responded by making CDB a key supporter of international expansion for Chinese energy and mining companies. CDB's outstanding foreign currency loans were US$16.5 billion in 2005 and rose to US$97.4 billion in 2009, accounting for 17 per cent of its outstanding loans (China Development Bank Annual Report 2009); in 2010 CDB's outstanding foreign exchange loans were US$141.3 billion (Peoples' Daily Online, 14 February 2011).

CDB helps China's state owned enterprises (SOEs) access energy and natural resources abroad in several ways. First, it provides financing to Chinese firms for foreign energy and mining investments. Second, CDB finances the development of infrastructure to deliver energy and mineral supplies to China. CDB lent the Myanmar government US$2.4 billion to finance construction of the natural gas pipeline to Yunnan Province.[15] Third, CDB provides credit to foreign energy and mining companies, especially those which offer Chinese firms long-term supply contracts, upstream equity positions or equipment manufacturing contracts.

CDB occupies a unique position in China's "Going Out" strategy because it is the only medium to long-term credit bank in China that serves national strategy. CDB sought to leverage its financial resources to secure the energy China needs. The Global Financial Crisis provided CDB with opportunity to substantially expand its portfolio of energy-backed loans. The interests of the CDB, the NOCs and the Chinese government were all served. The support for infrastructure development was necessary for the extraction and delivery of the energy and natural resources that China needs for its ongoing industrialization. However, the aggressive negotiation of terms by China's SOEs – that they should hold the concessions, use their own engineers and sometimes even their own labour – has caused concern among host governments and when combined with fear over China's rapid rise, which is felt particularly acutely in the Asia Pacific region including Myanmar, Chinese FDI initiatives in the region now generate considerable political resistance

[15] Grieder, Tom, "China Provides Loan to Myanmar to Accelerate Shwe Gas Pipeline Project", *Global Insight*, Dec 21 2010.

for which China seeks a solution. The creation of the NDB and AIIB, with their multilateral shareholder structure, offer effective political cover for the necessary step-up in lending. And the new MDBs' focus on infrastructure development differs from CDB's traditional emphasis on securing energy and mineral supplies where infrastructure development is subsidiary. All of this suggests an evolution of Chinese strategic thinking beyond the "Going Out" strategy, perhaps even reflecting a new strategic vision.

There is a huge unmet need for infrastructure development in the region, but also globally, that China with its considerable experience and financing capability is well placed to meet and in a profitable way. China's own corporate sector would also benefit in various ways including from the demand stimulus, and for a scale-up of infrastructure finance China has to work multilaterally to appear less politically threatening. Financing infrastructure in APAC is most beneficial for China, rather than in distant Africa or Latin America, but political resistance to China's rise is more cohesive in this region.

There is a vast unmet demand for productive economic infrastructure in the EMEs of Asia. ADB estimate that US$8 trillion needs to be invested 2010-2020. (The global infrastructure requirement over the next two decades was estimated by OECD in 2011 at US$50 trillion).[16] APEC leaders are committed to improving connectivity in APAC and China needs better links to its neighbours. With its rising labour costs it needs to reorient its supply chains as well as improve the efficiency of resource supply and finished goods delivery to market. In this way China's companies benefit from infrastructure investment in the region and it is more important that they facilitate financing on a much larger scale than obsess about taking the lead themselves on a number of projects in the region that only generate political pushback over fear of China's rise. The new China-led MDBs in this way can be much more effective at promoting China's economic interests.

---

[16] Elek, Andrew, "The Potential Role of the Asian Infrastructure Investment Bank (AIIB)", op. cit.

There is in fact a major global "funding gap" in infrastructure of US$1.0–1.4 trillion annually with current annual spending on infrastructure of US$0.8–0.9 trillion.[17] Government budgets provide around half the funding and national development banks US$570-650 billion annually. Private sources account for US$150–250 billion; ODA and MDBs provide only an estimated US$40–60 billion annually, and South-South flows are estimated to finance US$20 billion or less annually.[18] Financing from national budgets is subject to macroeconomic constraints and the debt levels and budget deficits of the developed counties limit their ability to contribute. The availability of credit from the private sector is constrained by tough regulatory reforms like Basel III. On the regional level the "funding gap" is just as bad. Asian nations need infrastructure investments of US$750 billion per year through 2020 (ADB) whereas ADB and World Bank combined are making infrastructure investments of just US$20 billion a year worldwide.[19] But if you consider the huge amounts of capital tied up in the insurance and pension funds of the developed world that need investments to match long term liabilities and the sovereign wealth funds in the developing world the problem is not primarily one of lack of funds but rather a monumental failure in financial intermediation. It is here that the new China-led MDBs can make themselves felt. And the sheer scale of the challenge is also equal to the size of the market opportunity. If the new China-led MDBs can dramatically increase the availability of infrastructure finance with proprietary funds and also successfully mobilize large scale funding from other sources then global financial leadership is theirs for the taking.

Ronald Man, an economist, at HSBC estimates infrastructure spending at US$11.5 trillion, or US$573 billion annually, between 2010

---

[17] Elek, Andrew, "Boosting infrastructure investment can prove G20's value to the world", *The Conversation*, 21 February 2014; http://theconversation.com/boosting-infrastructure-investment-can-prove-g20s-value-to-the-world-23472.

[18] Ibid.

[19] Gallagher, Paul, "U.S. Suicidal War on New Chinese Infrastructure Bank", *Executive Intelligence Review*, 7 July 2014; http://www.larouchepub.com/other/2014/4127us_v_china_bnk.html.

and 2030: “Every road, railway, port, power station and airport increases growth, speeds up trade or helps business big and small, make a sale or opens up a new market”.[20] Urbanization rates in Asia are still expected to increase. The UN estimates Asia’s urban population to increase by 630 million people by 2030 led mainly by China, India and Indonesia.[21] McKinsey say US$8 trillion needs to be spent over the next decade just to remedy “historical underinvestment” in infrastructure (*China Daily Asia*). A United Nations report in July 2014 notes an additional 2.5 billion people will live in cities by 2050, with nearly 90 per cent of that increase concentrated in Asia and Africa.[22]

And so it is that one can begin to imagine infrastructure investment as the next great driver of global economic growth (after the passing of the US consumer). That a great deal of this new infrastructure investment would occur in the APAC region delivering great profits to the China-led MDBs in its own backyard while delivering broader benefits to its corporate sector at home, and in a way that would provide a “tipping point” of economic power from West to East, is a major part of the appeal of this vision. Under this scenario, financing US budget deficits – which partly result from bloated military spending – with Treasury bond purchases will lose their appeal and China can redeploy ever more capital to regional infrastructure development where benefits are much more closely aligned with the national interest.

However, the current “funding gap” is not the only reason for the shortfall in infrastructure spending: it is also because of the dearth of “bankable” projects. While project development is neglected if financing is perceived as scarce there are also important governance constraints. For example, many governments have ill-defined policies that inhibit private participation because of their vagueness; capital controls may deter investors worried about how to repatriate their cash flow; weak

---

[20] Wilson, Karl, “Funding the Future”, *China Daily Asia*, 28 March 2014; http:www.chinadailyasia.com/asiaweekly/2014-03/28/content_15127714.html.

[21] Ibid.

[22] Yahya, Yasmine, “Singapore Eyes Slice of Pie Worth About $4 trillion”, *Straits Times*, 6 September 2014.

legal and regulatory systems intensify the risk. All host governments need to improve their policy environments and their capacity to prepare commercially viable projects.

LOCAL CONGLOMERATES AS PROJECT PROMOTERS IN MYANMAR

China's Investment in Myanmar and the Political Pushback

Chinese companies account for nearly one third of the nearly US$44 billion of foreign investment in Myanmar approved since 1988, some US$14.19 billion as at 30 September 2013 (or 32 per cent of the total).[23] Approved FDI was only US$20.18 million in 2004 but consistently grew to almost US$2 billion in 2009.[24] And China received approvals for US$7.75 billion between April 2010 and March 2011.[25] Earthrights International (ERI) has identified at least 69 Chinese multinational corporations (MNCs) involved in at least 90 hydropower, oil and natural gas, and mining projects in Myanmar.[26] However, China has concentrated the investment in a small number of large projects. The Myitsone Dam project, the Sino-Myanmar oil and gas pipelines and the Letpadaung Copper Mine project are collectively valued at more than US$8 billion in terms of committed investments.[27]

---

[23] According to figures from the Myanmar Investment Commission (MIC) obtained by Mizzima and cited by Sophie Song in "Myanmar FDI: China Accounts for One Third of Foreign Investment in Myanmar with US$14 billion", *International Business Times*, 29 October 2013; http://www.ibtimes.com/myanmar-fdi-china-accounts-one-third-foreign-investment-myanmar-14-billion-1446282.

[24] Mitchell, Travis, "Chinese Foreign Direct Investment in Myanmar: Remarkable Trends and Multilayered Motivations", Spring 2012.

[25] Sun, Yun, "China's Strategic Misjudgement on Myanmar", *Journal of Current Southeast Asian Affairs*, 2012.

[26] Earthrights International, "China in Burma: The Increasing Investment of Chinese Multinational Corporations in Burma's Hydropower, Oil and Natural Gas, and Mining Sectors", September 2008.

[27] Sun, Yun, "Chinese Investment in Myanmar: What Lies Ahead?", Stimson Issue Brief No. 1, September 2013.

Approximately 54 per cent of China's total commitment in the country has been focused on hydropower dam projects.[28] Examples are the 7,100 MW Tasang Dam on the Salween River, the 1,200 MW Hat Gyi Dam along the Thai border, the 2,400 MW hydropower project on the upper Salween and the 1,420 MW Shweli I, II and III Cascade. Since the 1990s Yunnan Machinery and Equipment Import and Export Company (YMEC) has been involved in more than 25 projects in Myanmar's hydropower sector;[29] the Yunnan Joint Power Development Company also figures prominently, among others. The financing of 790 MW Yeywa Dam in Mandalay Division involved a Citic company and also the Eximbank of China. In Kachin State, some 13,360 MW of new capacity was planned with the construction of seven large dams along the N'Mai Hka, Mali Kha and Ayeyarwady rivers.

Often structured as a build-operate-transfer (BOT), typically a Chinese state-owned enterprise (SOE) would be the project owner, financing the FDI from internal sources and with loans provided by the policy banks – China Development Bank (CDB) and Eximbank of China. It would be a Chinese SOE that undertook EPC (equipment, procurement and construction) and a Chinese SOE that held the off-take agreement which would normally be for 90 per cent of the electricity generated which would be exported to Yunnan province. Local companies could only expect to participate via low margin sub-contracts. These highly favourable terms to the Chinese reflected the absence of alternatives for the Than Shwe regime which was stigmatized by international sanctions. The export of almost all the electricity generated from these projects to Yunnan is particularly unpopular since only 26 per cent of the Myanmar population have access to electricity[30] and even then many users still suffer regular blackouts and brownouts. And privately, local businessmen baulked at the low margins they were earning on the project sub-contracts.

---

[28] Sun, Yun, *Journal of Current Southeast Asian Affairs*, op. cit. (citing Li, 2011).

[29] Earthrights International (ERI), op. cit.

[30] World Economic Forum, "New Energy Architecture: Myanmar", June 2013.

The Chinese also invested extensively in the mining sector. Many of these projects are small scale but ERI found evidence of involvement by 10 Chinese MNCs in six major mining projects in the five years up to 2008.[31] The Chinese are currently involved in two major projects – for copper and nickel. The Tagaung Taung nickel deposit in Mandalay Division is majority controlled by China Nonferrous Metal Mining Co. and represents an investment of US$600 million for 40 million tons of nickel ore.[32] Eximbank of China and CDB provide financial support. The project has successfully operated without controversy, unlike its larger sister at Monywa.

The Monywa copper project, located in Sagaing Division, consists of the Letpadaung, Sabetaung, Sabetaung South and Kyisintaung mines. In 2010 Wanbao Mining took over operations from the Canadian Ivanhoe Mining Co. while the military holding company local partner UMEHL retained its interest. After violent confrontations with local villagers and monks arising from an expansion of the project, an Investigation Commission led by Aung San Suu Kyi recommended in March 2013 that the Chinese investors could continue to operate the mines, albeit under revised terms. The Myanmar government would now receive 51 per cent of the profits and Wanbao and UMEHL would share the remainder; and Wanbao would have to pay annual contributions for corporate social responsibility (CSR), environmental protection and conservation and to local development.

Less controversially, the Chinese have invested in the oil and gas sector. Sixteen Chinese MNCs have been involved in 21 onshore and offshore projects including all three of China's major energy players – Sinopec, China National Petroleum Corporation (CNPC) and China National Offshore Oil Corporation (CNOOC). Offshore gas from the Shwe field was going to be sold to PetroChina and Sinopec had signed a US$1 billion contract for construction of an oil pipeline and CNPC was to build an oil terminal on the Arakan coast. Subsequently, dual gas and

---

[31] ERI, op. cit.

[32] Ibid.

crude oil pipelines opened in 2013 to transport 22 million tons of crude and 12 billion cubic meters of natural gas to Yunnan province each year.[33]

China's investments in Myanmar in the twenty-first century started slowly and then built up to a substantial level. In concentrating on securing supplies of energy and minerals to support China's industrialization drive the FDI was fully consistent with the country's "Going Out" strategy announced in 2002. And CDB and Eximbank Bank of China were active in the background supporting China's SOEs, including its NOCs. All appeared well until President Thein Sein in 2011 unexpectedly suspended the US$3.6 billion Myitsone Dam project with its 2.1 gigawatts of planned power generation capacity. The project's suspension combined with policy uncertainty have sapped Chinese companies' earlier enthusiasm for investing in Myanmar and Chinese FDI approvals in 2012/13 slumped to US$407 million, about a tenth of the US$4.3 billion the year before; between April 2013 and January 2014 Chinese approved investment in Myanmar was only US$46 million.[34]

Thein Sein cited concerns over the environmental impact of the dam which was to be located at the confluence of the two rivers that create the Ayeyarwady, which has emotional significance for Myanmar people as the "lifeblood" of the country. Thein Sein had been Prime Minister for five years under Senior General Than Shwe and he knew the PRC leadership personally quite well but he was more concerned about domestic public opinion that could now be freely expressed in an uncensored media. The military government had never been popular and their dealings with a China that seemed to be relentlessly gaining influence in Myanmar was a source of considerable public disquiet. Thein Sein could also be eager to demonstrate to Washington that he was not Beijing's client as he sought the lifting of international sanctions and, quite understandably, he would want to court Western investment to reduce dependency on China.

---

[33] Earthrights International (ERI), op. cit.

[34] Mahtani, Shibani, "China Rocks Myanmar's Diplomatic Boat", *Wall Street Journal*, 10 May 2014; http://online.wsj.com/news/articles/SB10001424052702304655304579552963238417846.

For Thein Sein, suspension of the Myitsone Dam was a no-brainer but for Beijing they had failed to grasp the nature and pace of the political changes underway in Myanmar.

So what had been a special relationship between Myanmar and China has now cooled off considerably. As Chinese FDI slumped investment from Western countries proved inadequate to make up the shortfall. China has been open to renegotiating project terms – and the outcome to the Monywa enquiry seemed to satisfy them – but there have been no more hydropower deals.[35] The commencement of operations for the dual oil and gas pipelines has gone ahead as planned which is just as well since Beijing regards these as being of "strategic" importance. Beijing has adapted to the new country circumstances and probably believes that Thein Sein, rather than the Union Solidarity Development Party (USDP), is responsible for the policy shifts that have undermined China's substantial interests in the country.[36]

Strong anti-Chinese sentiment in Myanmar at the moment results from the conflation of a number of popular perceptions including widespread illegal Chinese migration into Myanmar, centred particularly on Mandalay; that Chinese imported consumer goods are sub-standard; that their SOEs have achieved a strong economic position in the country, unfairly gained with overly advantageous terms, and that they worked closely with the preceding military government that was unpopular; that Myanmar's resources are being extracted for China's benefit when they should be deployed at home; and that there is a local Chinese business class that lords it over them. In short, many Myanmar people fear China's rapid rise and have a sense that their country is falling under Chinese domination. Local media sensationalises Chinese influence and the government does very little to propagate a more balanced view. These concerns, unless seriously addressed, could have deleterious

---

[35] That no more hydropower deals have been signed may equally reflect the fact that there is more than enough for Myanmar to be getting on with for now, regardless of any Myanmar-China relationship factors.

[36] Sun, Yun, "China Adapts to New Myanmar Reality", *Asia Times*, 23 December 2013, http://atimes.com/atimes/Southeast_Asia/SEA-04-231213.html.

consequences for the economy since China could be a substantial source of development finance for the country when the west is likely to come up short.

An opportunity now exists to resurrect the China-Myanmar relationship to facilitate the introduction of a new financing model that would allow the Chinese to increase their stake in the Myanmar economy in a way that benefits their country and companies while avoiding the political pushback they're currently experiencing, namely the use of Myanmar national project promoters as recipients of project loans from the new China-led multilateral development banks so that large infrastructure projects – and large capital intensive mining and industrial projects – can be developed for the benefit of all concerned.

Project Finance as a New Tool for National Project Promoters

Most of Myanmar's conglomerates have grown rapidly due to preferential access to restricted licensing and lucrative government contracts. Special development projects (SDPs) under military rule, which were usually large construction projects, typically earned a profit margin for the conglomerates of 20 per cent.[37] During this time most of Myanmar's infrastructure development was financed from the state budget, or by an "inflation tax" since monetization of deficits was routine, and while such generous terms to the country's conglomerates may raise issues of "value for money" it was actually part of a broader policy of nurturing "national champions", or "national entrepreneurs" as they came to be known. And the favoured conglomerates emerged rapidly from the sea of SMEs.

With minimal lending capacity from the private banks, most of the conglomerates have relied on their own cash flows to finance growth (although some would have received "sweetheart loans" from Myanmar Economic Bank, the state lender). So these conglomerates would tend to now have low leverage and substantial equity, the ability to employ skilled managers and specialists, and a track record of completing significantly

[37] Once revealed to me by a senior engineer in one of the country's top conglomerates.

sized projects. But while this differentiates them from the country's SMEs they are nonetheless still small by international standards and certainly relative to the size and scope of the infrastructure projects that the country needs to undertake in order to be internationally competitive. Following "opening up", the conglomerates can now remedy this by courting international sources of financing, of which project finance may be the most compelling for its limited risk/high leverage characteristics.

Project finance can be defined as "the raising of finance on a limited recourse basis, for the purposes of developing a large capital intensive infrastructure project, where the borrower is a special purpose vehicle (SPV) and repayment of the financing by the borrower will be dependent on the internally generated cashflows of the project".[38] The advantage for the local conglomerate is that very large amounts of capital can be borrowed but in the event of default there is no claim on their core equity because risks and claims are ring-fenced into the SPV, unlike corporate financing for which the whole conglomerate would be liable. The transition to this form of finance will mark the next major stage in the development of Myanmar's conglomerates, or "national champions".

While some infrastructure projects will be undertaken wholly by the state, private sector participation can help to select cost efficient solutions and also help ensure satisfactory operation during a project's life. Public-private partnerships (PPPs) are a specific form of project finance where a public service is funded and operated through a partnership of government and the private sector, typically structured under a long term concession arrangement. In return, the SPV receives a defined revenue stream over the life of the concession from which the private sector investors extract returns.[39] Foreign companies have a role to play in PPPs for development of the nation's infrastructure, such as in the GSM telecommunications concessions, but in other sectors they may grapple with poorly defined economic parameters and lack local

---

[38] Gardner, David and James Wright, "Project Finance", HSBC, 2014.

[39] Ibid.

knowledge. In any event, domestic private sector development is essential for the nation's overall development – foreign investors can prove to be fickle friends, often deserting a country in its time of greatest need – and local corporates must be given preference and the opportunity to develop. The model should be that the local conglomerates take the lead on infrastructure development, drawing on financial and technical support from international firms as they deem necessary.

The U.S. Treasury Department's Specially Designated Nationals (SDNs) list forbids companies with operations in the USA from having relations with a number of Myanmar's tycoons and conglomerates. This has been accomplished without disclosing the methodology, if any, applied in their selection and without defining a clear process by which those blacklisted can redeem themselves. Combined with other dysfunction in US foreign policy making, this has produced considerable ambiguity – and the sending of mixed signals – that deters US FDI and multilateral engagement. While some with influence in Washington are determined to punish those they perceive to have benefited most from military rule it is not clear how such policies now promote the reform process in Myanmar or further US interests. And the notion that the side-lining of Myanmar's conglomerates is going to create opportunities for foreign companies to undertake the work instead is erroneous because the internal discord within Myanmar that such policies promote only contributes to policy uncertainty through heightened risk of obstruction or policy reversal. FDI opportunities in Myanmar are greatest where risk is minimalized because a strong consensus has been forged domestically on how best to proceed. A revolution has not occurred in Myanmar and external attempts to fracture the political economy developed over a half century of military rule are counter-productive.

But that is not to say that all of Myanmar's well connected tycoons will be capable of undertaking major infrastructure projects in the new era. Such projects are complex and require a firm grasp of technical detail and adept management of multiple stakeholders. Infrastructure projects have three distinct phases: the planning, construction and operational phases. Each phase exhibits different risk and return characteristics and hence requires a different mix of financial instruments. Default and restructuring risks tend to be higher in the early stages.

The tycoons' negotiation skills will be fully tested in structuring (i) the legally and economically self-contained entity (SPV) against which all legal contracts are written, and (ii) the set of contracts dictating the distribution of risks and returns. They will work with bankers looking for sustainable economics with clearly identifiable demand for the project's goods or services, identifiable risk managed with various mitigants, accessible financing and political stability. The tycoons will no doubt take their work home with them pondering identifiable risks including construction phase risks of completion delay, failure of completion of ancillary infrastructure, cost overrun, force majeure; Sponsor credit risk; feedstock supply; sales; operations and maintenance; political (e.g. war and insurgency, regulatory, permitting); cashflow, currency and inflation, interest rates. And that is when they are not thinking about licenses, permits and approvals; financial close delay/failure; changes in law/regulations; breach of contract; integration with network; competing risk; revenue risk; demand risk; pricing risk; expropriation risk; currency inconvertibility and non-transfer risk; sub-sovereignor parastatal risk; force majeure affecting contracting agency; and interface risk. But this will be nothing compared with managing credibility and reputation, ministry power, media relations, corporate social responsibility etc. For Myanmar's tycoons in the new infrastructure game there will be no free lunch.

The Nature of the New Opportunity for Myanmar

While the "Western" (including Japan) multilaterals – World Bank (and IFC), IMF and ADB – are now engaged in Myanmar following the lifting or suspension of most sanctions, their lending programs are still constrained by the "political steer" from Washington which advises caution ahead of the 2015 elections. Should the conduct and outcome of the elections not satisfy Washington, sanctions are unlikely to be re-imposed but the Specially Designated Nationals (SDNs) black list will anyway remain. As discussed, the US SDN List includes the names of many of Myanmar's tycoons and their companies which have the most experience managing large projects. It is a significant constraint on "Western" financing of Myanmar's infrastructure since it exposes

Table 2: Phases of Infrastructure Projects and their Characteristics

Phase	Economic and Contractual Issues	Financial Characteristics	Potential Investors
Planning	10–30 months Ratings from agencies Credit insurance or gov’t guarantees	Leverage can be high (10:1 or more)	Equity sponsors need high level of expertise (Usually construction Cos or gov’ts) Debt investors are mostly banks thru’ syndicated loans
Construction	Monitoring incentives essential	High risk phase Default rates high Project not generate positive cash flow yet	Refinancing difficult at this stage
Operational	Volatility of cash flows due to demand risks	Positive cash flow Risk of default diminishes considerably	Refinancing of debt perhaps into bonds

Source: Author

international companies, particularly banks, to a legal grey area and "unrelated market litigation risk" should they find themselves linked to these local conglomerates.

In addition, global trends established since the Global Financial Crisis are still unfavourable: continuing pressure on bank liquidity has resulted in a smaller universe of international banks with the appetite and balance sheet capacity to fund large infrastructure projects. De facto suspension of the project finance primary syndication market with banks less willing to take large underwriting positions continues to be a factor. Furthermore, for banks that remain in the market, tightened regulatory requirements for the management of bank capital specified under Basel III accords now have to assign a higher percentage of their liquidity to back long tenor commercial debt financing. On top of all this, Western governments and institutions neglected to study Myanmar when under sanctions. This, along with cultural differences, contribute to Western perceptions of higher country risk.

All of the above suggests that Myanmar should look to the two new China-led MDBs for help in meeting their infrastructure finance needs. It is possible that the AIIB could begin lending operations as soon as 2015 and NDB in early 2016. One of the appeals of these two new lending institutions is that they will extend loans without non-economic conditionality, i.e. no strings attached to progress with human rights and democracy. Although MDBs generally take time to build up their loan portfolios these two new institutions will no doubt have a reasonable amount of lending capacity to kick off the launch of operations and it is for this that Myanmar should position itself for.

Another important factor is that the new China-led MDBs will most likely operate a lending model quite different from the CDB-SOE model which is a "national" rather than a "multilateral" one. If the new MDBs were only going to lend to China's SOEs then it is difficult to see why other countries would agree to participate as shareholders. And indeed it would raise a question over the need for the new MDBs at all when it would be far easier to merely beef up CDB's capital, and hence lending, base. Just as the IFC works with private sector clients so the new MDBs will cultivate relationships with private companies in the host countries (including those whose governments are co-shareholders).

The NDB will likely focus its lending, at least initially, on the BRICS countries themselves and Myanmar must position itself to tap into the regional connectivity programs for India and China in order to gain project financing from this source. Overall, the AIIB with its focus on APAC is more likely to be the bigger loan provider. Again connectivity, i.e. transportation (and telecommunications), will be an important theme. Myanmar with its strategic location must promote itself for connectivity between India, China and ASEAN countries. Myanmar's emerging industrial SMEs will require more efficient access to markets in the form of better roads, railways and ports but it is also to facilitate their integration into the existing China-centric Asian supply chains. The SMEs will also of course require electric power and reliable water supply and waste water facilities. Working within the existing master plans drawn up by such institutions as APEC, IFC and ADB, it is necessary that a sense of urgency be generated in Myanmar for the task of establishing a pipeline of "shovel-ready" infrastructure projects to coincide with the commencement of lending operations from these two new MDBs.

Other countries in the region, like Thailand, already have "shovel-ready" projects ready and Myanmar faces competition for China finance. Indonesia has neglected its infrastructure development since the fall of Suharto but with a popular new president recently elected it seems more likely they will get themselves into gear, and they have a very substantial and compelling requirement for new infrastructure. It is important that Myanmar does not miss the boat. On the positive side, in absolute terms Myanmar's initial infrastructure finance requirement is not too onerous, and there would be a major development dividend on investments given the current lack of adequate infrastructure. One businessman close to the top leadership of the Union Solidarity Development Party (USDP) suggests that around US$40–70 billion over five years would be sufficient to make a major contribution to establishing the country's external competitiveness and in bringing about economic take-off.[40]

So Myanmar's tycoons should play a leading role in establishing a pipeline of "shovel-ready" infrastructure projects. However, they also

[40] Interview, Yangon, 30 August 2014.

need to draw on their relationships with government to ensure that they are both on the same page. It would be best if the government concentrates its efforts in improving governance in those areas that most closely relate to facilitating financing such as measures that will reduce risk for foreign financiers. This means working on improving the "enabling environment" as it relates to the provision of project finance and in related background areas. The government should not be shy about requesting technical assistance (TA) from the donors about how to improve the governance environment for infrastructure finance even though the latter have reportedly been dragging their feet over TA even in the uncontroversial area of trade finance.[41] Also, the conglomerates must enjoy good access to all public sector sources of project information and analyses, including from all the MDBs and bilateral donors, to help them identify which projects are "bankable". Should Myanmar project promoters succeed in securing financing from the new China-led MDBs there is a good chance the existing multilaterals will be galvanized into infrastructure project lending, rather than just real estate as at present, and so contribute to an improvement in the overall infrastructure funding environment.

Why Myanmar's Tycoons Could Rise to the Challenge

The availability of project financing from the two new China-led MDBs will present an opportunity for Myanmar's tycoons to amass the scale of fortune that has been seen elsewhere in Southeast Asia and mainland China. Although the complexity of managing large infrastructure projects present enormous challenges to the tycoons the prospects for very substantial financial rewards are present because of two principal factors: (i) the scope for high leverage, and (ii) absence of competition in operations. Large infrastructure projects are the main way that the tycoons can leverage their relationships with the political class, that is, secure the relevant concessions, but they must also cultivate the sources

[41] According to a prominent local banker interviewed in Yangon on 1 September 2014.

of financing. This latter task will be considerably more straightforward with the creation of the MDBs which, because of their foreign co-shareholders, will have to subscribe to a higher degree of professionalism and transparency. That said, being Asia the tycoons will still have to network their way in, both formally and informally (socially).

Myanmar's political elite – working under greater public scrutiny and no longer able to rely on fear to get things done – are now under much more pressure to deliver results. Under these circumstances they will have to place greater weight on a tycoon's ability to deliver the project, i.e. reliability. Loyalty will be less of a consideration than in the past (though discretion will remain important). In their relationships with the political class, the tycoons will have to adapt to a flatter and more dispersed power structure. Certain relationships will remain crucial but power-holders are now subject to shorter office tenures. In short, the tycoons will require greater relationship skills than before in addition to much more demanding capabilities on project execution. These challenges are matched by the prospect of much higher financial rewards.

CONCLUSION

Once Myanmar's tycoons fully take on board the new financing options available with the creation of the two new China-led MDBs they could once again become more engaged with the domestic political class, particularly over the 2015 election period with its prospect of a change in the power configuration. They would have had several years of working on improving the operations of existing businesses, necessary for their continued prosperity under the more competitive economic conditions of the "new Myanmar". But this experience will only serve to sharpen their yearning for doing the really big deals associated with operating infrastructure concessions where a very large scale, and an earnings stream shielded from competition for many years to come, are in prospect.

The private sector should indeed take the lead in Myanmar's overall economic development. After all, Ne Win's socialism was a severe wrong turn for the country, largely responsible for leaving the country where it is now. But the secret source of the prosperous market economy could well be paradoxically a strong state. Talented political leadership and an

established trend of strengthening state capacity, is necessary to utilize the power of private enterprise. This is particularly true in infrastructure development where an effective political class is necessary if the tycoons are going to be able to access the opportunities they seek. At the same time, great political leaders will harness the energy of the tycoons towards realizing the wider development goals of the nation.

BIBLIOGRAPHY

Anderlini, Jamil. "China Expands Plans for World Bank Rival". *Financial Times*, 24 June 2014; http://www.ft.com/intl/cms/s/0/b1012282-fba4-11e3-aa19-00144feab7de.html?siteedition=intl#axzz35d7vQQWB.

Aneja, Atul. "China Invites India to Join Asian Infrastructure Investment Bank". http://www.thehindu.com/todays-paper/tp-national/china-invites-india-to-join-asian-infrastructure-investment-bank/article6161311.ece?css=print.

Bloomberg. "China's US$50 billion Asia Bank Snubs Japan, India". *Bloomberg News*, 12 May 2014; http://www.bloomberg.com/news/print/2014-05-11/china-s-50-billion-asia-bank-snubs-japan-india-in-power-push.atml.

Chen Ran. "Empowerment Through Infrastructure". *Beijing Review*, 24 July 2014; http://www.bjreview.com.cn/world/txt/2014-07/21/content_630382_2.htm.

Chin, Curtis S. "Why the BRICS should have their own development bank". 12 August 2014.

Das, Sanchita Basu, and Catherine Rose James. "Addressing Infrastructure Financing in Asia". *ISEAS Perspective*, 6 May 2013.

Downs, Erica. "Inside China Inc: China Development Bank's Cross-Border Energy Deals". John L. Thornton China Center at Brookings, 2011.

Earthrights International. "China in Burma: The Increasing Investment of Chinese Multinational Corporations in Burma's Hydropower, Oil and Natural Gas, and Mining Sectors", September 2008.

Economist, The. "An Asian Infrastructure Bank: Only Connect". 4 October 2013; http://www.economist.comnode/21587337.

Elek, Andrew. "Accelerating investment in economic infrastructure". *East Asia Forum Quarterly* Vol. 6, No. 2, April–June 2014.

———. "A role for APEC: accelerating investment in economic infrastructure". East Asia Forum, 6 August 2014; http://www.eastasiaforum.org.

———. "Boosting infrastructure investment can prove G20's value to the world". *The Conversation*, 21 February 2014; http://theconversation.com/boosting-infrastructure-investment-can-prove-g20s-value-to-the-world-23472.

———. "The Potential Role of the Asian Infrastructure Investment Bank (AIIB)". East Asia Forum, 11 February 2014; http://www.eastasiaforum.org/2014/02/11/the-potential-role-of-the-asian-infrastructure-invesment-bank.

Fuller, Dr. Roslyn, INSYTE Group. "Refusing to Share: How the West Created BRICS New Development Bank". *Russia Today*, 21 July 2014; http://www.rt.com-edge/174320-west-brics-new-development-bank/.

Gallagher, Paul. "U.S. Suicidal War on New Chinese Infrastructure Bank". *Executive Intelligence Review*, 7 July 2014; http://www.larouchepub.com/other/2014/4127us_v_china_bnk.html.

Gardner, David and James Wright. Project Finance, HSBC, 2014.

Grieder, Tom. "China Provides Loan to Myanmar to Accelerate Shwe Gas Pipeline Project". *Global Insight*, 21 December 2010.

Guangming Daily. "Build Monywa Copper Mine Into a Model Project". 20 September 2013, http://www.burmanet.org/news/2013/09/20/guangming-daily-build-monywa-copper-mine-into-a-model-project-in-myanmar/.

Linn, Johannes F. "Realizing the Potential of the Multilateral Development Banks". *Brookings*, September 2013; http://www.brookings.edu/research/articles/2013/09/multilateral-development-banks-linn.

Mahtani, Shibani. "China Rocks Myanmar's Diplomatic Boat". *Wall Street Journal*, 10 May 2014; http://online.wsj.com/news/articles/SB10001424052702304655304579552963238417846.

Mitchell, Travis. "Chinese Foreign Direct Investment in Myanmar: Remarkable Trends and Multilayered Motivations". Spring 2012.

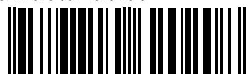
Sanderson, Henry and Michael Forsythe. *China's Superbank: Debt, Oil and Influence*, 2014.
Saran, Samir. "Waking up to the BRICS". *Eurasia Review*, 7 August 2014; http://www.eurasiareview.com/07082014-waking-brics-analysis/?utm_source=Weekly+Journal+Articles+Alert-12+Aug+2014&utm_campaign=Weekly+artic...
Song, Sophie. "Myanmar FDI: China Accounts for One Third of Foreign Investment in Myanmar with US$14 Billion". *International Business Times*, 29 October 2013; http://www.ibtimes.com/myanmar-fdi-china-accounts-one-third-foreign-investment-myanmar-14-billion-1446282.
Sun, Yun. "China Adapts to New Myanmar Reality". *Asia Times*, 23 December 2013, http://atimes.com/atimes/Southeast_Asia/SEA-04-231213.html.
———. "China's Strategic Misjudgement on Myanmar". *Journal of Current Southeast Asian Affairs*, 2012.
———. "Chinese Investment in Myanmar: What Lies Ahead?". Stimson Issue Brief No. 1, September 2013.
Tan Qiuyi. "Singapore expresses intent to join China-led regional bank". Channelnewsasia.com, 29 July 2014; http://www.channelnewsasia.com/news/singapore/singapore-expresses/1286834.html.
United Nations. "A BRICS Development Bank: A Dream Coming True". United Nations Conference on Trade and Development, Discussion Paper No. 215, March 2014.
Wikipedia. http://en.wikipedia.org/wiki/China_Development_Bank.
Wilson, Karl. "Funding the Future", *China Daily Asia*. 28 March 2014; http:www.chinadailyasia.com/asiaweekly/2014-03/28/content_15127714.html.
World Economic Forum. "New Energy Architecture: Myanmar", June 2013.
Wu Zhenglong. "The Benefits of the Asian Infrastructure Investment Bank". *China & US Focus*, 28 July 2014; http://www.chinafocus.com/print/?id=39408.
Yahya, Yasmine. "Singapore Eyes Slice of Pie Worth About $4 trillion". *Straits Times*, 6 September 2014.
Yue Zhang and Charles Perla. "China and the Asian Infrastructure

Investment Bank: Towards a Beijing Concensus?". Aid Data, 24 July 2014; http://aiddata.org/blog/china-and-the-asian-infrastructure-investment-bank-toward-a-beijing-consensus.

Zainal, Mahani and Firdaos Rosli. "Infrastructure Development in ASEAN". In *ASEAN Economic Community Scoreboard: Performance and Perception*, edited by Sanchita Basu Das. Singapore: Institute of Southeast Asian Studies, 2013.

TRS9/14

ISBN 978-981-4620-20-8



ISEAS