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Freeing the "Rice Bowl of Asia": How Changing Patterns of Interdependence are Driving Political Change in Myanmar

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Wedged between Southeast Asia, China, and the Indian subcontinent, Myanmar occupies a strategically important space which will ensure its relevance to some of the 21st century's most significant questions, including those surrounding trade routes, energy security, and the competing geopolitical ambitions of Asia's great powers. Exciting and important changes are underway in Myanmar. After decades of isolation under military governments, the country is taking convincing steps toward democratization. The junta relinquished much of its power in 2010.[1] In 2011, the unpopular Myitsone hydroelectric project was suspended, suggesting a new sensitivity to public opinion.[2] Beginning that year, a nominally civilian government led by Thein Sein (a former *Tatmadaw* general) embarked on a series of major political and economic reforms. These culminated in the relatively open 2015 elections, in which the opposition National League for Democracy (NLD)—the party of Nobel Prize winner Aung San Suu Kyi—won overwhelming majorities of both houses of parliament. [3] In March 2016, parliament elected Htin Kyaw as the country's first civilian president in half a century.[4]

What explains Myanmar's relatively rapid transition from authoritarian pariah to fragile democracy? Perhaps international pressure forced the hand of the regime; then again, the West imposed sanctions on Myanmar for years before the military's grip on power began to loosen. Lee Jones argues that the junta simply liberalized when its objectives were achieved.[5]

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[1] www.bbc.com/news/world/asia-16546688

[2] Ibid.

[3] www.theguardian.com/world/2015/nov/23/final-myanmar-results-show-aung-san-suu-kyis-party-won-77-of-seats

[4] http://www.bbc.com/news/world-asia-35808921

[5] Jones, Lee. (2014). "Explaining Myanmar's regime transition: the periphery is central." *Democratization* 21:5, 780.

But Myanmar's first moves to democratization were also due to the constraints posed by changing patterns of economic interdependence. Myanmar long survived from the sale of primary commodities to the Chinese market. This dulled the sharp pain of the punitive measures imposed by the United States and its allies.

Analysis of the composition of the country's GDP and export revenues is illuminating: Myanmar's first shaky steps to liberalization took place against the backdrop of an economy dependent on the trade and investment dollars of a very small number of global partners. In 2013, ten countries (dominated by China) accounted for 98.9% of FDI.[6] Fully three-quarters of 2012 exports went to Thailand, India, and China, and most of the rest went to Japan and South Korea.[7] To these markets Myanmar sold a variety of primary commodities, of which natural gas was the most prevalent, accounting for 43% of export revenues in 2012.[8]

Poorly diversified and dependent on a few key markets, Myanmar in the early 2010s was growing fast but remained vulnerable to shifts in global demand. Such a shift came in late 2014, when natural gas prices entered a dramatic and sustained decline.[9] The Henry Hub spot price for natural gas fell from $4.34/million btu in November 2014 to $2.60/million btu in April 2015; by the end of 2015 it had fallen below $2/million btu.[10] This market movement had a devastating effect on Myanmar's terms of trade. Prices continued to decline into 2016, wreaking havoc on a public administration financed by resource rents,[11] and new offshore projects were suspended.

The decline in global energy prices and the corresponding decline in export revenues and foreign investment from China and Thailand (the two traditional international buyers of Burmese natural gas) has forced businesses and the government in Napyitaw to court new partners. This has shifted patterns of dependence, with the state becoming less reliant on China and a small number of Southeast Asian allies. While Chinese investment still accounted for 21% of all new FDI in Myanmar between 2014 and 2017, Beijing's share of *accumulated* FDI has declined from 29% to 26.5%. This is a dramatic drop, as that share includes the value of FDI projects begun decades ago, not just that of new investment.

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[6] ASEAN Investment Report 2015: Infrastructure Investment and Connectivity. (2015). Jakarta: ASEAN Secretariat / UNCTAD. Accessed 1 February 2017 at http://www.miti.gov.my/miti/resources/ASEAN_Investment_Report_2015.pdf?mid=432.

[7] Sri Lanka Export Development Board (February 2014). Country Report on Myanmar. Accessed 20 February 2017 at http://www.srilankabusiness.com/pdf/myanmarmarketprofile.pdf

[8] Ibid.

[9] United States Energy Information Administration (2017). Henry Hub Natural Gas Spot Prices. Accessed on 27 January 2017 at https://www.eia.gov/dnav/ng/hist/rngwhhdW.htm

[10] Ibid.

[11] http://www.mmtimes.com/index.php/business/24359-natural-gas-export-earnings-slump.html

Singapore has emerged as a major foreign investor in recent years. In September 2014, the city state was the source of just 13% of all accumulated foreign investment in Myanmar; by February 2017, that share had risen to 23%.[12] In contrast, China's share of total FDI has shrunk from 29% to 26%. Put differently, 44% of all new foreign investment in Myanmar since 2014 has come from Singapore.[13] This is doubly significant, as it reflects not only increased Singaporean investment, but may also indicate a growth of investment from the West. Many multi-nationals use their Singaporean offices, whose staff may be more with Burmese business practices and laws, as conduits through which to channel money to Myanmar.[14] Myanmar has become steadily less reliant on Chinese capital in recent years, and the removal of the last American sanctions in November 2016 will accelerate this trend.

This newly distributed interdependence reflects Myanmar's journey away from authoritarianism, but it also helped to all make that journey possible. As noted in *Foreign Policy*, "China was Myanmar's main backer and largest investor during its years of international seclusion, supporting strategic infrastructure projects such as oil and gas pipelines, ports, and dams. Between 1988 and 2013, China accounted for a whopping 42 percent of the $33.67 billion in foreign investment that flowed into Myanmar."[15] Political considerations bolstered this relationship. Myanmar was viewed as being integral to Chinese energy security, and so Beijing stood by the old State Peace and Development Council (SPDC) regime whenever it came under international pressure to reform.[16] Chinese patronage allowed the *junta* to survive punishing sanctions applied by the European Union and the United States throughout the 1990s and 2000s.[17]

The Sino-Burmese dyad stumbled in the early 2010s as a series of individually minor confrontations soured relations between Beijing and leaders in Myanmar's military.[18] This weakening of the old alliance may have been driven by shifting patterns of interdependence: it roughly coincided with increases in Chinese investment in Australian natural gas projects, and in oil-for-loan deals across Sub-

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[12] Author's own calculations, using data from the Myanmar Directorate of Investment and Company Administration (DICA); http://www.dica.gov.mm/en/taxonomy/term/38

[13] Ibid.

[14] "Foreign investment in Myanmar jumps 18% amid political transition." Nikkei Asian Review (20 April 2016). Accessed February 18, 2017 at http://asia.nikkei.com/Politics-Economy/Economy/Foreign-investment-in-Myanmar-jumps-18-amid-political-transition.

[15] Jaishankar, Dhruva. "Myanmar is pivoting away from China." *Foreign Policy.* 15 June 2015. Accessed January 14, 2017 at http://foreignpolicy.com/2015/06/15/myanmar-burma-is-pivoting-away-from-china-aung-san-suu-kyi-xi-jinping-india/

[16] Kolås, Åshild. (2007). "Burma in the Balance: The Geopolitics of Gas." *Strategic Analysis* 31:4, 626.

[17] Ibid.

[18] Dhurva, 2017.

Saharan Africa.[19] In any case, the deterioration of a consequential political and economic relationship forced Myanmar to forge new connections beyond China's sphere of influence.

As China became a less reliable partner, Myanmar's leaders sought to nourish new strategic and commercial relationships. Enter the upswell of Singaporean investment, and the growing importance of India as a trading partner. Myanmar's old military and pseudo-civilian governments were seen as being capricious and scorned globally — not traits beloved by private investors in a free market. Attracting new investment became a matter of appealing to economic calculations rather than power politics. The regime now faced powerful incentives to create an environment defined by transparency, rule of law, and predictability — traits most commonly associated with liberal democracies, or with states aspiring to be liberal democracies.[20] Whether or not these traits have emerged is another matter, but it is clear that changing patterns of interdependence have put pressure on the state to create them — and in the process to open the door to the creation of a freer society.

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[19] "China." United States Energy Information Administration. 14 May 2015. Accessed February 3, 2017 at https://www.eia.gov/beta/international/analysis.cfm?iso=CHN

[20] Larkin, Stuart (2012). "Myanmar at the Crossroads: Rapid Industrial Development or De-industrialization." Accessed February 2, 2017 at http://www.burmalibrary.org/docs12/Stuart_Larkin-Myanmar_at_the_Crossroads.pdf