

# Stalled hope?

The resource conflict risk to Myanmar's political and economic transition



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**Author's note:** This briefing paper uses the official name Myanmar in reference to the country of Burma/Myanmar. This usage should not be interpreted as a position on the legitimacy of the current government or main opposition parties, nor the legitimacy of the name change in 1989. In some instances, this paper refers to pre-1989 names of rivers or cities for ease of recognition. Again, usage here should not be interpreted in political terms, and is adopted purely for reader familiarity and comprehension.

All currency figures are in US dollars (USD) unless stated otherwise.

# Executive summary

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This briefing paper assesses the trajectory and significance of resource conflict risks and threat multipliers in Myanmar. The principal findings include:

1. Despite poor institutional settings, **increased foreign direct investment is unlikely in of itself to increase local or regional resource conflict.**<sup>i</sup> Investment industry, type of local business partners, ability to secure social licence, and specific project footprints will all shape the contribution of FDI to resource conflict.
2. **Select armed ethnic group's demands for a federal political system are highly likely to intensify** in absence of public finance reform, more transparent resource revenue management and greater fiscal devolution to states hosting projects. This is likely to result in the fracturing of some ceasefire agreements, increased ethno-religious communal violence, localised project sabotage and magnified security risks for business investments.
3. **Increasing military securitisation of key energy infrastructure assets, such as pipelines and hydrodams, is highly likely.** They are the lifeblood of Myanmar's fragile economy and will continue to be strategic targets if project revenues are allocated solely to the military and military-affiliated businesses.
4. **Armed ethnic groups, particularly in Kachin and Shan states, are likely to attempt expelling the Tatmadaw (Myanmar armed forces) from these positions** or engage in project sabotage in response to land seizures, human rights abuses, environmental degradation and arbitrary arrests.
5. **The number of internally displaced persons is unlikely to decrease in the next 12 months, and those trying to return home are likely to experience continued dislocation from land** as a result of opportunistic land grabs.
6. **Protests over land grabs and particular infrastructure projects are likely to escalate** if parliament does not act on the recommendations of the Farm Land Commission.
7. **Conflation of localised, isolated or project-based resource conflicts within broader ethno-religious confrontations and communal violence is could possibly be a threat multiplier** and expand the geographic scope of conflict.
8. **Armed ethnic groups or nationalist forces could possibly exploit local conflicts and marshal existing tensions around religion, nationalism, development disparity and ethno-political competition to attempt nationalising conflict** as a strategy to leverage greater political power. However, **the ruling Union Solidarity and Development Party (USDP) and elements of the military could possibly attempt to mitigate this risk through a divide and conquer strategy** to reduce any existing semblance of ethnic group solidarity.

<sup>i</sup> Please see <http://www.openbriefing.org/intelligenceunit/intelligencemethod/> for an explanation of the words of estimative probability that Open Briefing uses in its briefings.

# Section I

## Introduction

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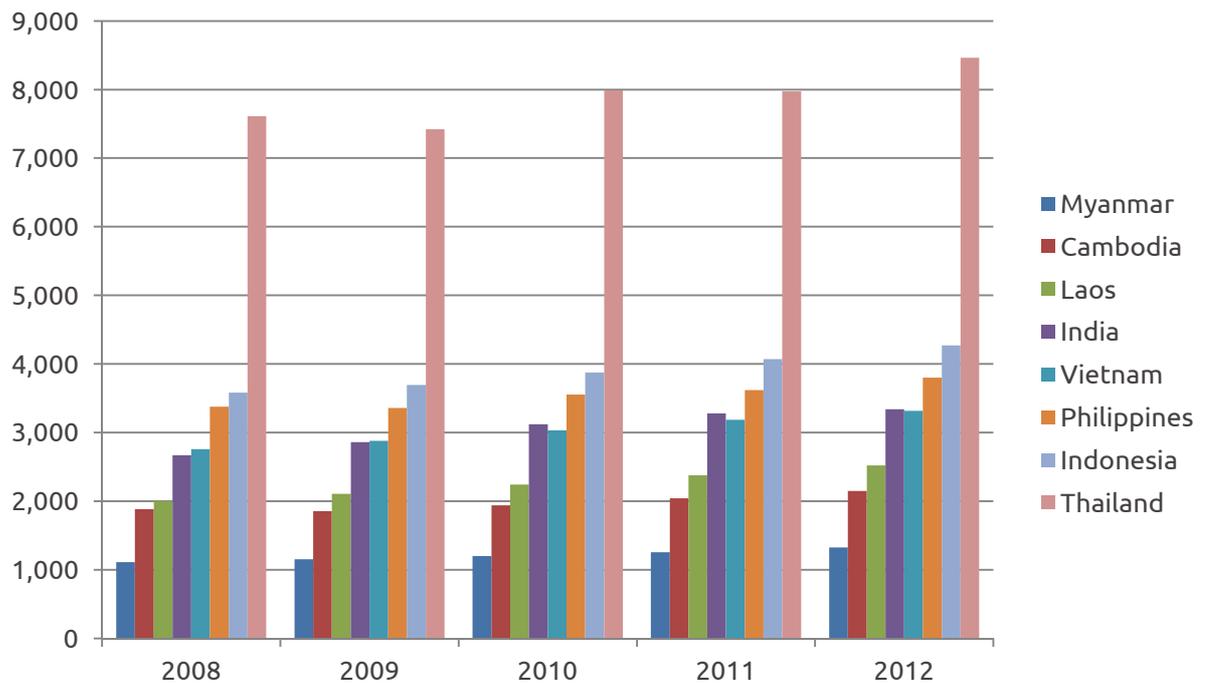
In 2011, President Thein Sein's quasi-civilian government initiated one of the most ambitious economic and political transformation campaigns of the last 50 years. Gone are the days of international isolation. Sein has painted a vision of Myanmar shedding its pariah status and swiftly transitioning from one of the region's least developed countries (see **table 1** below) to a dynamic, emerging Asian Tiger. This is a challenging task after almost five decades of autocratic military rule, severe impoverishment and destructive armed ethnic conflict.

**Table 1.** Select social, development and institutional rankings.

Metric	Ranking
Human Development Index (UN Development Programme, 2012)	149 of 187 countries (low human development)
Civil and Political Freedom rating (Freedom House, 2013)	<b>Not Free</b> (though improving civil and political rights)
Press Freedom Index (Reporters without Borders, 2014)	145 of 177 countries (+24 positions from 2012)
Corruption Perception Index (Transparency International, 2013)	157 of 177 countries
Index of Economic Freedom (Heritage Foundation, 2014)	162 of 178 (overall score 46.5 'repressed', +7.3 from 2013)
Resource Governance Index (Revenue Watch Institute, 2013)	58 of 58 countries

Myanmar's estimated 61 million citizens are cognizant the country is endowed with great geostrategic advantage, sitting between the 21st century's rising economic powers, China and India.<sup>1</sup> Sein and the USDP are very aware of the comparative economic advancement and growth of its neighbours, particularly Thailand, whose per capita GDP (in purchasing power parity, PPP) is more than eight times larger than Myanmar's (see **figure 1** opposite).

The reformist agenda has the potential to steer Myanmar away from historic insecurity and economic stagnation. With sanctions either removed or eased, new comprehensive aid packages signed, diplomatic relations rebooted and new bilateral defence ties on the table, a space has opened for Myanmar to build rule of law, initiate civil and political rights reform and develop a more inclusive and equitable economic growth trajectory.



**Figure 1.** GDP per capita (PPP) in US dollars. Data from the World Bank and Trading Economics.

These rags to riches aspirations give great hope after false starts in breaking from military dictatorship. But they also conceal complex, multidimensional political and economic challenges. Leveraging significant endowments of natural resources to achieve sustainable security, lasting political settlements with ethnic states and economic growth that supports human development will be difficult.

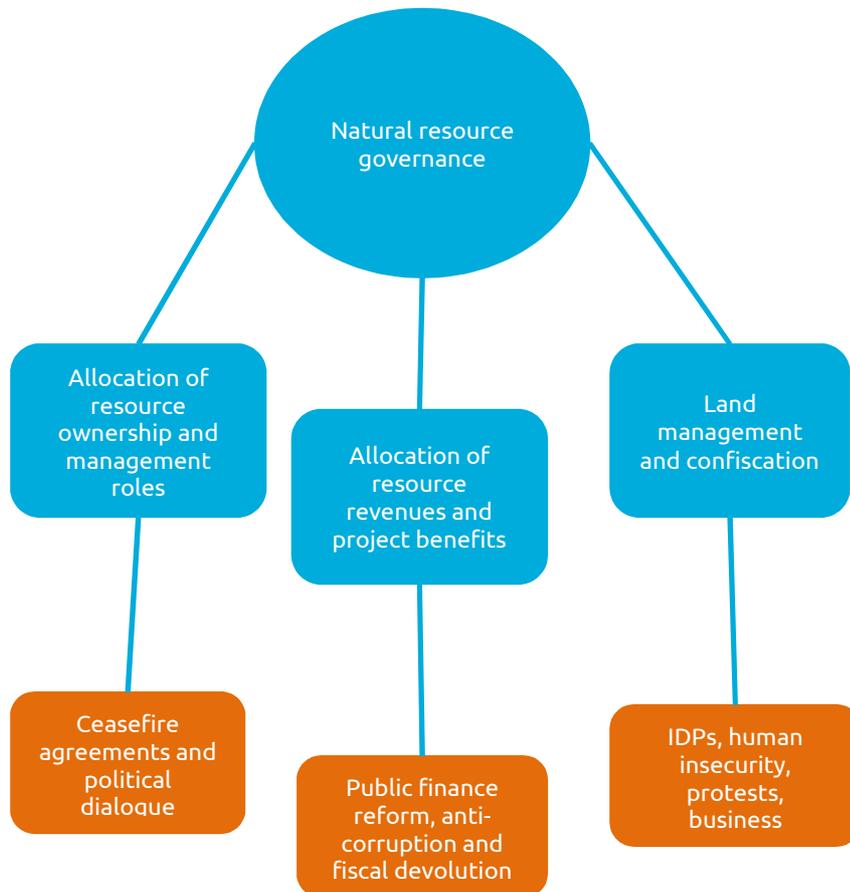
The transition process involves a risk that unsatisfactory institutional settings, development asymmetry between central Myanmar and its ethnic periphery and fractured political identities will conspire to reignite interwoven resource, intercommunal and ethnic conflict.<sup>ii</sup> Resource conflict poses an ongoing challenge to Myanmar's reform process. While it is unlikely to permanently derail Myanmar's political reform, it is likely to fuel continued, episodic armed conflict between some ethnic armed groups and temporarily stall future political negotiations. The capability of Naypyitaw to successfully manage resource development in a post-conflict society will be central pillar of a peaceful transition.

Myanmar is divided into seven states along the resource-rich border areas, each named after one of the seven largest ethnic minority groups, and seven regions (formally divisions), which are largely inhabited by the majority Bamar (see **figure 2** overleaf). Natural resource governance and conflict over resources play a particularly critical role in shaping ethnic state grievances and political demands, but also exacerbate widespread public dissent over land seizures and contribute to armed conflict (see **figure 3** overleaf). Establishing appropriate institutional, operational, cultural and regulatory settings for natural resource governance will be fundamental to Naypyitaw's political dialogue with ethnic states and addressing economic and infrastructure development inequity.

<sup>ii</sup> The ongoing intercommunal violence in Rakhine/Arakan state, though having some dimensions of a conflict rooted in land issues, is beyond the scope of this report.



**Figure 2.** State and region boundaries of Myanmar. Copyright © Oxford Burma Alliance.



**Figure 3.** The links between natural resource governance and critical reform issues.

The key drivers of resource conflict risk in Myanmar include: increasing foreign direct investment (FDI), institutional corruption and revenue misappropriation, imbalances in revenue distribution, delays in political system decentralisation, unravelling of some ethnic state ceasefire agreements, and land confiscation and environmental degradation. This briefing paper assesses the trajectory and significance (see **table 2** below) of these macro-level risks and threat multipliers of resource conflict. By way of context, it first explores three major resource conflict flashpoints in the country: the Myitsone hydroelectric dam project, the Letpadaung copper mine and the Shwe oil and gas project.

**Table 2.** Risk analysis of drivers impacting on resource conflict. (The overall risk RAG status – red, amber, green – is shown in left-hand column.)

Risk	Probability	Impact
Increased foreign direct investment	High	Low
Institutional corruption and revenue misappropriation	Medium	High
Imbalance in resource revenue distribution and benefit sharing	High	Medium
Delay in decentralisation and sub-national governance reform	Medium	High
Unravelling of some ethnic state ceasefire agreements	Medium	Very High
Land confiscation and environmental degradation	Very high	High

## Section II

### Myanmar's resource conflict flashpoints

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Due to Myanmar's historical international isolation, weak institutions, anaemic economic development and previously military-controlled government, natural resource development has not been balanced or used as leverage for social and economic development.

Natural resource exploitation cannot be ignored in examining Myanmar's armed conflict and insecurity, particularly after the 1988 uprising. Teak and jade trade and export,<sup>2</sup> often illicit in nature, provided a financing mechanism for arms and weapons procurement.<sup>3</sup> Major oil and gas revenues have underwritten the growth of the Tatmadaw (armed forces) both in terms of helping Myanmar build an army of almost half a million personnel, one of Asia's largest, and by providing capital for military and business ventures.

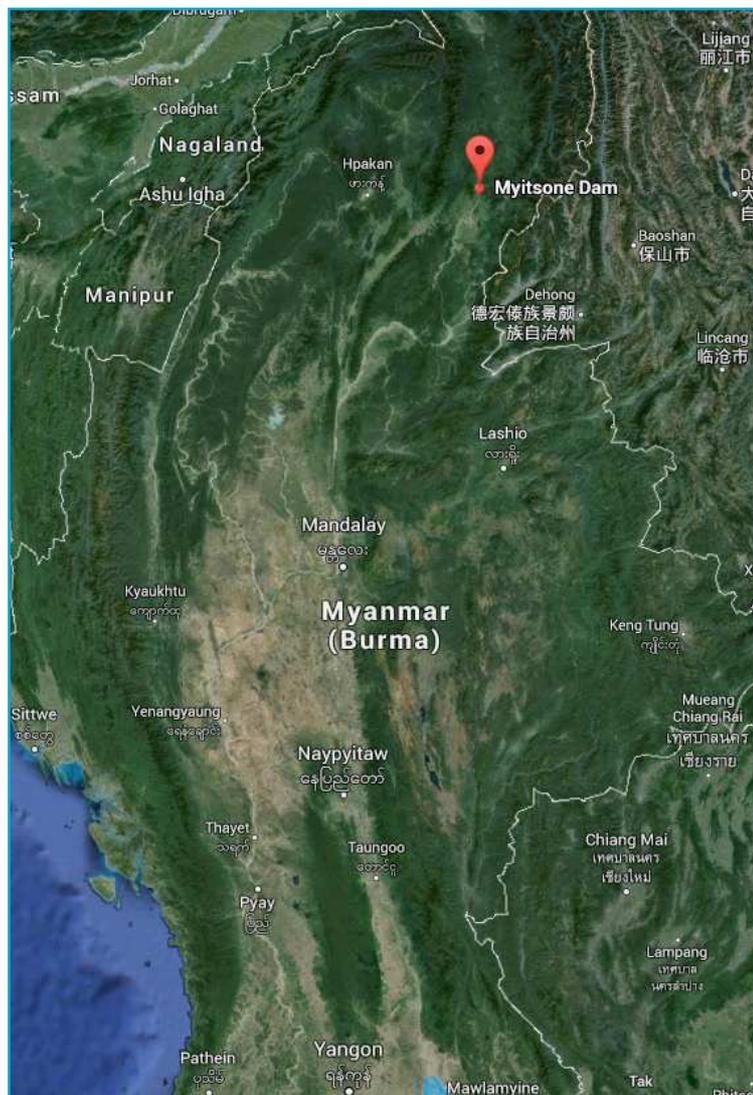
In a climate of international sanctions, many resource exploitation and export activities were considered illegal for international importers and investors. Resource exploitation was a means to an end for the junta, with the end being financing superior military and arms capability. The race to the bottom in terms of resource extraction, resource curse affected economy and general instability created a type of natural resource fatalism. Natural resource management was totally unregulated, leaving excessive environmental degradation, diminished capacity for rural livelihoods and local resentment.

Over the last decade, a number of large extractive and energy infrastructure projects have resulted in isolated, sporadic protests, dissent and violence.<sup>4</sup> Schemes such as the Myitsone hydroelectric dam project, the Letpadaung copper mine and the Shwe oil and gas project receive occasional coverage in the international media, partly because disruption, conflict and political challenge is perceived as a weather vane for Myanmar-Sino relations and the progress of Sino energy security strategies.<sup>5</sup> However, project sabotage, securitisation and protest are an equally viable gauge for ethnic group power dynamics vis-à-vis Naypyitaw and broader political grievance.

The following pages explore the three major projects mentioned above, as they are significant resource conflict flashpoints. However, a proliferation in small- to medium-sized hydroelectric dam projects and industrial-scale agriculture is likely to dwarf the big name mega projects as market accessibility for Myanmar's natural resource riches improves. The proliferation of smaller-scale natural resource sector activities could have positive economic distribution effects. However, if businesses do not improve the standard of living of local communities, conflict and violence could become more disaggregated, rather than centralised around large resource project flashpoints.

## Myitsone hydroelectric dam project

The proposed \$3.6 billion 6,000 megawatt Myitsone hydroelectric dam project is located at the start of the Ayeyarwaddy/Irrawaddy River in Kachin state, 42 kilometres north of the state capital, Myitkyina (see **figure 4** below). It is being developed by China's state-owned China Power Investment Corporation (CPI) and Myanmar's Asia World Company. Myitsone dam is the largest and highest profile of a proposed \$20 billion seven dam cascade slated for construction along the Ayeyarwady, Mali and N'Mai rivers.



**Figure 4.** Location of the Myitsone hydroelectric dam project. Copyright © Google Earth, 2014.

National civil society groups, Kachin authorities, local communities and international NGOs have consistently opposed dam construction in the area. Serious concerns have been raised over upstream and downstream environmental degradation, safety issues, local community dislocation and destruction of cultural heritage. It has also been criticised over unfair project-benefit sharing because the majority of electricity generation is destined for China's transmission system (it is anticipated that the project will generate 90% of Yunnan Province's electricity).

The reservoir surface area is anticipated to be 766 square kilometres. According to environmental assessment documentation,<sup>6</sup> building the dam could necessitate the relocation of over 15,000 mostly ethnic Kachin residents. Reports suggest over 300 households from Tanphye, Padan and Myitsone villages have been relocated to date – some forcibly by the Myanmar military – with many relocated residents expressing deep dissatisfaction with the compensation received.

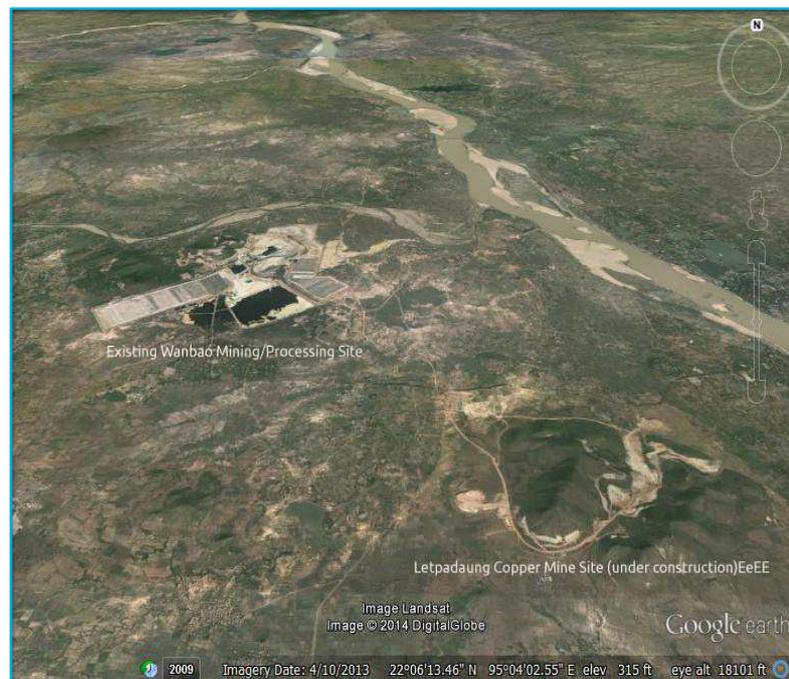
Dam construction has sparked consistent protests within Kachin state and at Chinese embassies around the world. In April 2010, three bombs were detonated at the Asia World Company worker camp, killing four workers. In March 2011, Kachin Independent Organisation (KIO) published an open letter to then Chinese President Hu Jintao warning that civil war could erupt in the region if the dam project was to go ahead. A delegation of the Arakan National Party (ANP) and the Kachin chapter of the National Democratic Force (NDF) visited Beijing in June 2014 at the same time as Sein at the invitation of Chinese leaders. The delegation clearly indicated that resumption of the dam would harm ties between the China and Myanmar.

In September 2011, Sein suspended dam construction until the 2015 election, with significant domestic and international implications. Domestically, it presented Sein as a president who listens to the people and gave weight to the idea that things were changing in Myanmar. Some analysts interpreted the suspension as a populist response to rising anti-Chinese sentiment and a means for Sein to demonstrate to powers such as the EU, United States and India greater Myanmar autonomy in international relations. The US embassy in Yangon had provided some financial support to organisations opposing the dam, and the Washington welcomed the decision to suspend construction. In contrast, Chinese diplomats and state media expressed significant disappointment with Sein's announcement. During Sein's June 2014 visit to Beijing, Chinese leaders are highly likely to have pressed Sein on a number of stalled Chinese-Myanmar projects, including the Myitsone dam.

In October 2014, a coalition of environmental groups, Salween Watch, suggested that the recent escalation in fighting between Karen state groups and the Myanmar Army and local Border Guard Force is a result of the Union government trying to clear the way for dam construction at multiple sites along the Salween River. Salween Watch suspects that the armed conflict is aimed at moving populations away from the Hut Gyi dam area, the site of one of the major hydropower projects slated for the Salween River in Shan, Kayah and Kayin (Karen) states.

## Letpadaung copper mine

The Lepandaung copper mine is a joint venture project between Chinese state-owned company Wanbao Mining, Myanmar state-owned company Union of Myanmar Economic Holdings Limited (UMEHL) and the Myanmar government. The Letpadaung deposit is one of four significant copper deposits located in west central Myanmar, approximately 24 kilometres from Monywa in Sagaing region (see **figure 5** opposite). The deposit is estimated to hold as much as 3.8 million tonnes of copper – enough to produce 125,000 tonnes a year for 25 years.



**Figure 5.** Site of the Letpadaung copper mine. Copyright © Google Earth, 2014.

The mine has been criticised by some after more than 3,000 hectares of land was confiscated from an estimated 26 villages. In late 2012, local farmers and Buddhists led an 11-day occupation of the mine over issues related to land compensation, degradation and destruction of religious sites and pollution from the mine. The government ordered riot police to disperse the protestors who used white phosphorus on protestors, which resulted in more than 70 protestors being injured. The government response was criticised, and in the aftermath of the confrontation, mine operations were suspended and a parliamentary commission established to investigate the project.

The parliamentary committee, led by opposition leader Aung San Suu Kyi, reviewed the project and determined the mine operations could proceed if the company addressed the social and environmental impacts. Some limited mine operations were resumed in September 2013 after new agreements were signed between the mine operators, Wanboa and UMEHL, and the central government, which gave the government a much larger stake in revenues from the mine. Most of this work is focused on Wanbao undertaking new environmental and social impact assessments with communities in early 2014. It is not clear whether Wanbao corporate social responsibility (CSR) programmes are arresting community concerns. In May 2014, activists purportedly from Yangon Public Service Network kidnapped three Wanbao workers and made demands relating to Wanbao's operations. The last report from the UN special rapporteur on the situation of human rights in Myanmar noted that Wanbao had not implemented the recommendations of the parliamentary committee.<sup>7</sup>

## Shwe oil and gas project

The Shwe oil and gas project incorporates natural gas and crude oil processing facilities and a dual 2,500/2,800 kilometre respectively oil and gas pipeline corridor from Arakan state in western Burma to Yunnan Province and Guangxi Zhuang Autonomous Region in China. The pipeline corridor traverses Arakan state, Magway region, Mandalay region and Shan state.

The project involves the exploitation of natural gas reserves estimated at 4.5 trillion cubic feet (tcf) off the coast of Arakan state and the transport of Middle Eastern and African oil from port facilities in Arakan. The export of natural gas has historically delivered almost 90% of foreign exchange for Myanmar. It is estimated that the production and sale of natural gas will generate over \$54 billion for the Myanmar regime over the next 30 years.

The establishment of a special economic zone has encouraged complementary industrial development around the deep-sea port and natural gas and crude oil processing plants. The use of such zones has been highly contested in Myanmar and in the Shwe oil and gas project in particular, as they include concessional income tax rates for companies and necessitate extensive government security protection.<sup>8</sup>

Many grievances over the project are similar to other large-scale infrastructure projects in Myanmar. In the same way lack of local electricity in Kachin state enflames grievances about considerable hydroelectricity export to Yunnan Province in China, the priority given to exporting natural gas from the Shwe project ahead of domestic use has inflamed local tensions. Land confiscation, forced relocation, environmental damage and military occupation along the pipeline corridor has led to sporadic, low-level conflict. Continued conflict is possible, as the pipeline corridor crosses contested areas in the northern Shan state and areas occupied by the Kachin Independence Army (KIA), the Kachin Defence Army (KDA) and the Shan State Army-North (SSA-N) (see **figure 6** opposite).

Myanmar ranks as 39th in the world in terms of proven natural gas reserves and 72nd in proven oil reserves, despite considerable underinvestment in exploration. Myanmar has released over 100 new onshore and offshore oil and gas blocks for exploration. At present, approximately 22 companies are operating across 20 offshore and 17 onshore blocks. The Shwe oil and gas project is not the first large-scale extractive-industry project to trigger conflict. The Yadana offshore gas fields in the Andaman Sea contain more than 5 trillion cubic feet (140 billion cubic metres) of natural gas, with an expected field life of 30 years. Both offshore and onshore pipelines transport natural gas through Mon and Kayin (Karen) areas in southern Myanmar and into Thailand. These projects have also been subject to limited claims of human rights abuses, land confiscation, poor labour practices and environmental degradation.



Figure 6. Shwe oil and gas pipelines and military positions. Copyright © Shwe Gas Movement.

## Section III

### Drivers of resource conflict in Myanmar

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Issues surrounding the exploitation of natural resources are closely interlinked with the national political economy in Myanmar. Natural resources are critical for national government balance sheets, emerging political identities and claims to self-autonomy staked on resource ownership or stewardship.

Key drivers influencing potential resource conflict are increased foreign direct investment, institutional corruption and revenue misappropriation, imbalance in revenue distribution, delay in political system decentralisation, unravelling of fragile ethnic state ceasefire agreements, and land confiscation and environmental degradation. There is feedback loop between these key drivers of resource conflict risk and actual resource conflict; the majority of key resource conflict drivers are reciprocally influenced by the presence of resource conflict. The findings of a risk assessment of these principal drivers are outlined in the following pages.

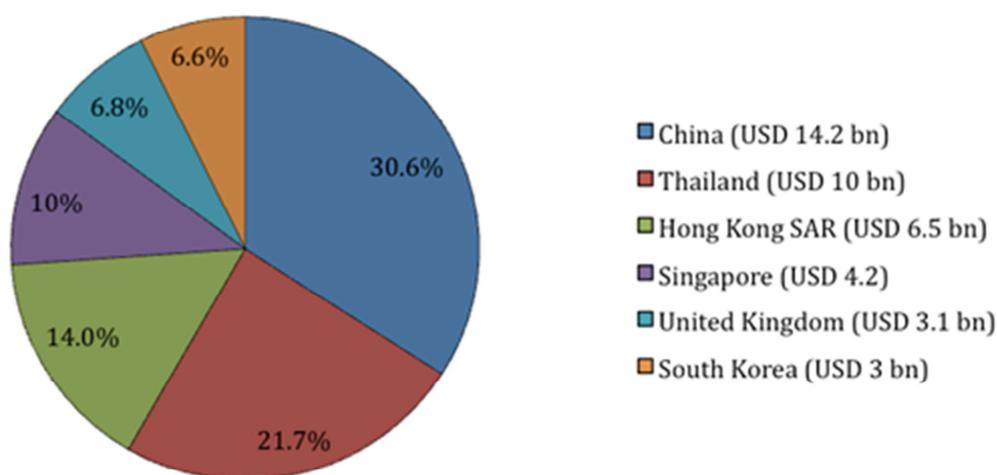
#### a) Increased foreign direct investment

Risk	Probability	Impact
Increased foreign direct investment	High	Low

**The probability of increased foreign direct investment occurring is assessed as *high*, but the impact on resource conflict is assessed as *low*. The overall risk of increased foreign direct investment is therefore *medium*.**

Myanmar opened up limited sectors for foreign investment in 1988. The State Law and Order Restoration Council (SLORC) maintained strong administrative oversight of FDI authorisations. Sanctions imposed by Western countries after the military junta's violent response to the 1988 popular uprising led to limited diversity among foreign investors and provided uncontested opportunities for Chinese and ASEAN investment. Chinese and Thai FDI has dominated investment inflows (see **figure 7** opposite). Thailand and China (including the special administrative regions) are also key importers of Myanmar goods and services, to the tune of 41.6% and 21.1% respectively (2010 figures).<sup>9</sup>

The dominance of Chinese investment in Myanmar has, in part, led to national political concerns and strong anti-Chinese sentiment within major project footprints. Sein’s suspension of the Myitsone dam project until 2015 tapped into nationalistic rhetoric on unpopular Chinese investment and concern over strategic dependency on Beijing. Problems with major projects, including the three discussed in the previous section of this report, and increasing FDI competition resulting from the easing and removal of sanctions are likely to temper Chinese investment flows in future.<sup>iii</sup>



**Figure 7.** Share of total ‘permitted’ FDI in Myanmar by country (1989-2012).<sup>10</sup>

Speculation that a series of bombing across Yangon, Mandalay, Taungoo, Sagaing and Nanhkan in October 2013 was aimed at scaring away foreign investors, whether rumour or reality, does point to the sensitivities around foreign direct investment. However, it is uncertain whether local communities have reservations over foreign direct investment generally or whether objections are based on recent experiences with Thai and Chinese FDI specifically.

Whether the nationality of the investor alters local reception of FDI or not, the particular terms of investment are important, particularly where foreign firms are provided tax free periods. Social licence, tangible returns for local communities and project-related community development are all important. As such, US, Canadian, Japanese and European investors claim that social, environmental and human rights benchmarks will give their investment proposals a competitive edge over existing market participants and mitigate the negative social impacts associated with a number of major Chinese infrastructure projects in Myanmar.

<sup>iii</sup> Chinese investment fell dramatically in the fiscal year 2012-13 to just \$407 million, compared to \$12 billion for the period 2008-11, of which \$7.5 billion was disbursed in 2011.

Even those foreign investors with genuine intentions to apply strong investment ethics may be foiled by institutional corruption and cronyism within key public service agencies and departments. Investors could also risk becoming involved with USDP-associated business partners and companies that then become entangled in anti-USDP political dissent. Investment partnerships that appear to predominately enrich the USDP political elite may be particularly exposed to local disruption.

Another factor to consider is whether community opposition could be linked to the type of sectors drawing investments. In Myanmar this is predominantly the primary and extractive industry sectors.<sup>iv</sup> According to Myanmar Investment Commission data, the accumulated FDI totals \$36 billion up to May 2014 (including pre-1988 FDI), with approximately 36% of FDI going to the power industry and 37% directed into the oil and gas sector.<sup>11</sup> Disproportionate investment in large-scale resource projects and export-orientated commodity production is likely to create inflationary pressures, currency appreciation and potential resource curse dynamics. These economic impacts have a disproportionate effect on those already living below the poverty line, and thus inflame local tensions.

## b) Institutional corruption and revenue misappropriation

Risk	Probability	Impact
Institutional corruption and revenue misappropriation	Medium	High

**The probability of institutional corruption and revenue misappropriation occurring is assessed as *medium*, and the impact on resource conflict is assessed as *high*. The overall risk of institutional corruption and revenue misappropriation is therefore *high*.**

Anecdotal evidence suggests that corruption and misappropriation pervades many Myanmar institutions, from the highest levels of public finance management to the coalface of government administration. Transparency International reports predating the beginning of reforms in 2011-12 suggest that corruption is endemic within the government bureaucracy and the judiciary.<sup>12</sup> It seems one of the main objectives of public office holders is to enrich members of the armed forces and their families. In his inaugural speech, Sein clearly recognised the link between addressing corruption and the provision of fundamental human rights; the president committed the new regime to ‘fighting corruption in cooperation with the people’. Despite improvement, there is likely to be ongoing high levels of institutional corruption in Myanmar – as evidenced in the 2014 Myanmar business survey from the UN Economic and Social Commission for Asia and the Pacific.<sup>13</sup>

<sup>iv</sup> While some indicators show that tourism and manufacturing are capturing a higher than expected share of FDI, it is anticipated that the natural resources and primary industry sectors, particularly mining, forestry, large-scale agriculture and oil and gas, will be dominant FDI targets.

Reports of alleged corruption are reflected in Myanmar's consistently poor ranking in Transparency International's Corruption Perception Index. While Myanmar still ranked poorly in the 2013 index (157 of 177, with an overall score of 21/100), there is significant improvement in reduced perceptions of corruption from the 2012 index (172 of 176, with an overall score of 15/100) and 2011 index (180 out of 182, with an overall score of 1.5/10). However, consistently poor rankings in the index reflect major discrepancies in and unaccountable use of resource revenues.

Revenue earnings from exports from the Yetagun and Yadana offshore gas fields to Thailand generated since 1998 and 2000 respectively have accounted for approximately 45% of total exports, and is Myanmar's largest foreign income source. According to civil society groups such as Arakan Oil Watch, these revenues do not enter the public accounts and are not managed in the national budget.<sup>14</sup> Instead, the speculation is that state-owned corporations, including the Myanmar Oil and Gas Enterprise (MOGE)<sup>y</sup> and the Union of Myanmar Economic Holding Limited, hold the majority of gas revenues in offshore third-party accounts in Singapore, China and Dubai. It is suggested that Myanmar authorities make direct transfers from offshore accounts to procure goods and services for import, in particular military equipment and weapons.<sup>15</sup>

The non-disclosure of historical gas revenues and suspicion that funds are used to support the modernisation of the Tatmadaw is likely to reinforce the position of resource industries as high-value targets for armed ethnic groups and underscore anti-USDP sentiment. Ethnic groups and communities that experience the negative impacts of projects without sufficient compensation are further antagonised by the reinforcement of outstanding political grievances.

For a country where conservative estimates place approximately a third of the population below the poverty line of \$1.25 a day, large-scale corruption will erode the legitimacy of reform efforts in the eyes of both domestic and international stakeholders. Furthermore, the everyday experiences of citizens with corruption and cronyism within government agencies can be equally corrosive. Bureaucratic corruption involving land, licences and citizenship, though more difficult to quantify and measure, leads to sporadic and isolated incidents of communal violence.

A secondary dimension of the failure to insulate public financing and fiscal management from corruption is the further warping of Myanmar's tax-to-GDP ratio – with tax standing at 3.2% of GDP (excluding resource revenues).<sup>16</sup> The disproportionately small tax revenue is further diminished by corrupt practices. It also creates powerful ministerial fiefdoms that spend as they please and remit the remainder to a consolidated national account.

Despite the scale of corruption and revenue misappropriation there has been some positive reform likely to improve national revenue and transparency in budgetary accounting. The floating of the national currency (kyat) will reduce the historical variance between official (fixed) exchange rates and market exchange, thereby removing the dual exchange rate system, which led to large portions of government revenue being unaccounted for.<sup>17</sup>

<sup>y</sup> Myanmar Oil and Gas Enterprise (MOGE) is the only company authorised to partner with foreign companies for oil and gas exploration and production in Myanmar.

In December 2012, Sein publically announced that Myanmar would take steps to implement the Extractive Industries Transparency Initiative (EITI). The EITI board’s approval of Myanmar’s EITI candidate status in July 2014 is a positive sign that the president’s office has followed through with the early stages of the EITI implementation process, and is now obligated to implement greater revenue transparency measures and public finance reforms. This will resolve some of the systemic weaknesses that enable broad-scale corruption and represents a significant change from the management of resources during the military-government era, which has remained a political sore point. The formal creation of the Anti-Corruption Commission as mandated by the 2013 Anti-Corruption Act would indicate that some MPs are serious about addressing institutional corruption. Judiciary independence from the executive branch of government could also mitigate institutional corruption risks and give a clear indication to the Myanmar citizenry that there are non-violent, official avenues to pursue government and public sector corruption. However, in September 2013, the UN special rapporteur on the situation of human rights in Myanmar, Tomás Ojea Quintana, reported that there is little evidence of judiciary independence emerging.<sup>18</sup> A legal community de-skilled by years of military targeting further compounds the lack of an independent judiciary.

### c) Imbalance in resource revenue distribution and benefit sharing

Risk	Probability	Impact
Imbalance in resource revenue distribution and benefit sharing	High	Medium

**The probability of an imbalance in resource revenue distribution and benefit sharing occurring is assessed as *high*, and the impact on resource conflict is assessed as *medium*. The overall risk of an imbalance in resource revenue distribution and benefit sharing is therefore *high*.**

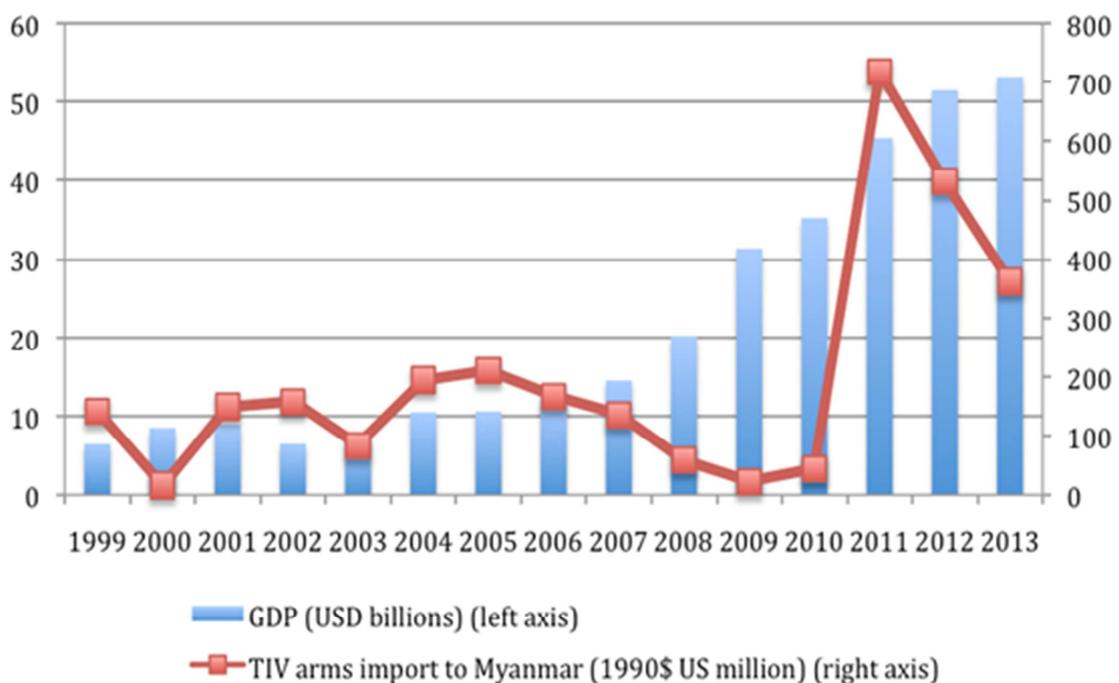
Corruption and misappropriation are one obvious element of poor public finance management and resource governance. More insidious perhaps than wholesale expropriation can be extreme imbalances in revenue distribution, which can just as equally foster political grievances that translate into violence, dissent, sabotage and, in extremis, insurgency.

The sharing and distribution of resource revenues are often highly contested in Myanmar, given the presence of disputed internal borders, asymmetries in development and resource impacts, and insurgency and potential Balkanisation. Imbalances in the distribution of resource revenue to resource-rich ethnic states that host large-scale extractive industry projects become political capital to empower dissent and conflict. This is particularly so in the context of development inequity, limited civil rights, suppressed media and military elite patronage networks.

The management of extractive industries exists within a virtual institutional vacuum, delivering major financial resources to USDP- and military-affiliated patronage networks and the central Myanmar states. In fact, Resource Watch Institute ranked Myanmar last (58th out of 58) in the 2013 Resource Governance Index.<sup>19</sup> Myanmar rated extremely poor on the index due to high-level corruption, extremely limited accountability of expenditure of resource revenues, ineffectual regulation and the absence of institutional oversight of natural resource projects.

Myanmar's GDP growth has increased significantly across the 2000s with increasing mineral sales and major increases in sales of natural gas. The percentage of GDP spent on the Myanmar military has also increased, from 1.6% in 2005 to 4.5% in 2013. In of itself this increase does not sound significant, but when understood in the context of significant GDP growth represents a notable increase in military spending. The average percentage of GDP spent on the military between 1995 and 2005 was 2.2%; between 2011 and 2013<sup>vi</sup> the average was 3.9%.<sup>20</sup>

That arms procurement as a component of gross military expenditure has increased (absolute value terms) is evident in arms import data from the Stockholm International Peace Research Institute (SIPRI), which shows an increase in 2011 and higher (though declining) than previous import levels in 2012 and 2013 (see **figure 8** below).<sup>21</sup> While the trend-indicator value (TIV) for arms imports as a ratio of GDP was historically larger between 2002 and 2006, the absolute value of TIV is much larger between 2011 and 2013. The fact that arms procurement was more significant as a ratio to GDP when the overall military expenditure to GDP was relatively lower between 2001 and 2005 could indicate a number of scenarios. One scenario could have been opportunistic weapons procurement contracts with key trading partners achieved on concessional terms of deferred payment. There may also be scenarios under which procurement outstripped military wages and maintenance budgets.



**Figure 8.** GDP compared with total trend-indicator value (TIV) of arms imports. Data from Trading Economics and the SIPRI Arms Transfer Database.<sup>22</sup>

<sup>vi</sup> Note, the availability of data has affected the years selected for comparison, as there is no reliable data for 2006-10. Spending on military forces between 2006 and 2010 may have been significant, and if included, there may not have been an increase in military expenditure as a percentage of GDP between 1995-2005 and 2011 onwards.

Expenditure of natural resource revenues on military imports and procurement has underscored the militarisation of major asset protection, as demonstrated in the case of the Shwe oil and gas pipelines, and intensified the lethality of armed conflict. Unsurprisingly, major investors in infrastructure in Myanmar have also been important arms exporters to the country, with China providing 45%, 69% and 58% of total arms exports in 2011, 2012 and 2013 respectively. As major projects have become the economic lifeblood of the incumbent regime, armed ethnic groups have focussed their attacks on infrastructure as a way of disrupting Tatmadaw military modernisation and advantage.<sup>23</sup>

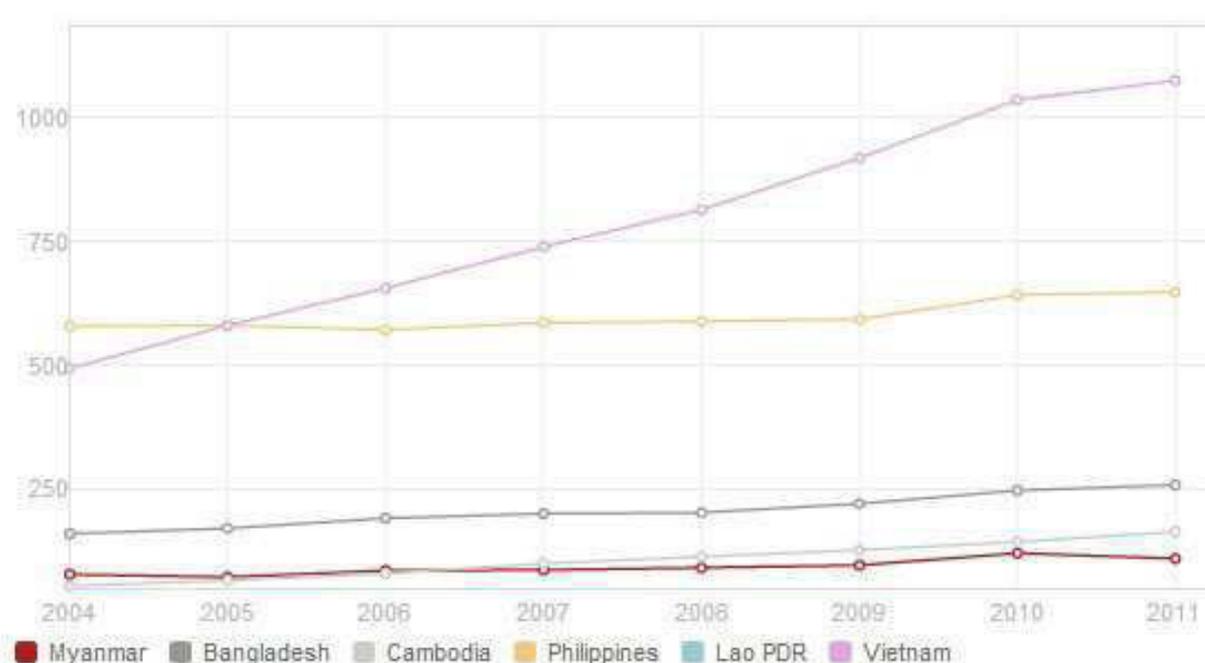
Beneath this macro-level grievance over revenue sharing exists equally potent localised dissatisfaction with Naypyitaw. Myanmar faces significant infrastructure deficit that compounds economic disadvantage and poor development outcomes in health and education. For example, less than 20% of Myanmar's 152,000-kilometre road network is paved, only 1.1% of the population are internet users, and 21% of the rural population are without improved water access. Not only does this infrastructure deficit hamper further investment, but it means that people experience the results of imbalanced resource revenue distribution and benefit sharing in their everyday lives.

State or region	Rural poverty incidence (%)	Urban poverty incidence (%)	Total poverty incidence (%)
Kayin (Karen)	12	8	12
Yangon	17	14	15
Mon	21	23	22
Sagaing	27	22	27
Ayeyarwaddy	30	24	29
Bago (E)	30	35	31
Bago (W)	34	23	33
Kayah	38	26	34
Taninharyi	37	21	34
Rakhine	41	26	38
Mandalay	45	24	39
Shan (S)	44	26	40
Magwe	44	26	42
Kachin	47	38	44
Shan (N)	55	35	51
Shan (E)	56	37	52
Chin	81	46	73

**Table 3. Poverty headcount index (%).**<sup>24</sup>

Economic disadvantage, corruption and infrastructure deficit are likely to be understood as components of ethnic competition and rising Burmese nationalism. This is particularly evident in the disproportionate poverty incidence rate in the ethnic states, in particular Chin, Shan and Kayin (Karen) (see **table 3** opposite).

Resource projects to date have only amplified these dynamics. For example, projects such as the Shwe processing plants and Myitsone dam have created community expectations around social development, particularly electrification. The Myitsone dam project was primarily intended to export approximately 90% of the electricity generated to the neighbouring Yunnan Province in China. Yet there is staggering demand for industrial and residential electrification within Myanmar, with 74% of the population lacking access to power.<sup>25</sup> The country consumed 110 kilowatt hours (KWh) per capita in 2011 was at 110 KWh – far lower than many of its South and South East Asian neighbours (see **figure 9** below).



**Figure 9.** KWh per capita in select South and Southeast Asian Countries (2004-11).  
World Bank data.<sup>26</sup>

Highly contested employment opportunities associated with new international investment and the ancillary sectors benefiting from major projects have also caused social tension. Official estimates of 4% unemployment are likely to grossly underestimate what National League for Democracy (NLD) opposition leader Suu Kyi described to the World Economic Forum an ‘unemployment time bomb’.<sup>27</sup> A parliamentary committee income and employment survey reported in January 2013 that Myanmar’s unemployment rate is approximately 37%.<sup>28</sup> The combination of systemic unemployment, unequal development opportunities and an emerging youth bulge who were born after the unsuccessful 1988 uprising (an estimated 25-27% of the population are under 14 years old) is likely to exacerbate existing social and political fissures.<sup>29</sup> In some of the poorest ethnic states, lack of legitimate industry, poverty, need for arms funding and general absence of national law enforcement has given rise to illicit drug cultivation (see **figure 10** overleaf).<sup>30</sup>



**Figure 10.** Map of poppy growing fields in Myanmar (2013). Copyright © Myanmar Peace Monitor.

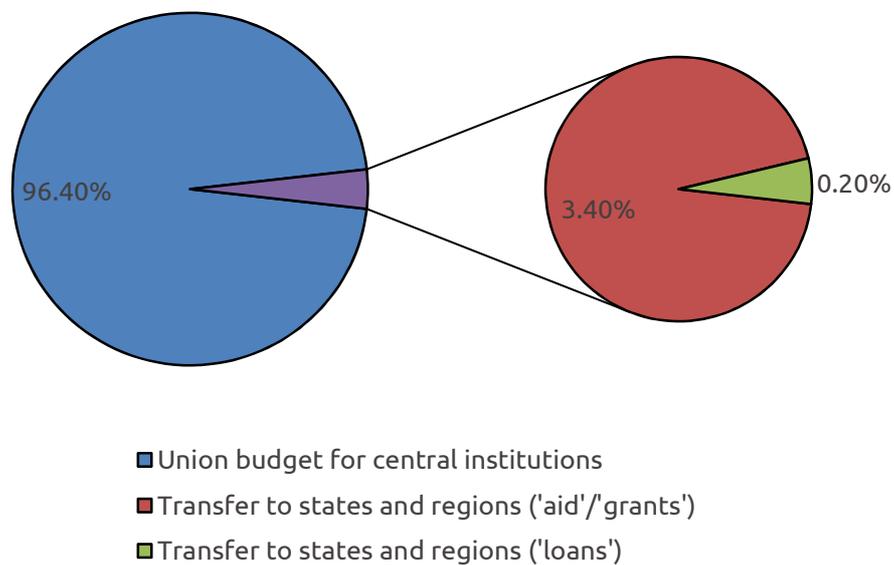
#### d) Delay in decentralisation and sub-national governance reform

Risk	Probability	Impact
Delay in decentralisation and sub-national governance reform	Medium	High

The probability of a delay in decentralisation and sub-national governance reform occurring is assessed as *medium*, and the impact on resource conflict is assessed as *high*. The overall risk of a delay in decentralisation and sub-national governance reform is therefore *high*.

Parliamentary representation and constitutional reform have dominated dialogue on Myanmar democratic reforms. Provisions reserving 25% of parliamentary seats for the military and constitutional restrictions preventing candidates with foreign family members from assuming the presidency – with the implication that NLD leader Suu Kyi is ineligible – remain intact. For international audiences and stakeholders, these elements are the litmus test for Myanmar democratic reform. The use of existing ethno-communal conflicts for political ends in the first half of 2014 indicates ongoing tensions over NLD parliamentary representation after the 2015 elections. In early July 2014, a fake memo purported to be authored by the NLD was circulated on social media by unconfirmed sources, which claimed that the NLD would be using clashes in Mandalay between Muslims and Buddhists as a pretext to protect Muslim populations.<sup>31</sup>

Harder to measure for international observers, but of equal importance, are decentralisation, devolution and sub-national governance reform. These are critical components of political settlements with ethnic states, particularly in states with an abundance of resources and that host major infrastructure projects. However, there are a number of constraints on increasing sub-national capacity to govern. Firstly, the 2008 constitution provides a less than ideal governance model for devolution to sub-national governments. Secondly, there has been very limited fiscal devolution to date, which severely restricts the functionality of sub-national governments. Transfers from the Union to the states and regions represent approximately only 3.6% of total central government expenditure (see **figure 11** below).<sup>32</sup> Without a federal structure through which Union revenues can be apportioned and distributed, local resentment towards Naypyitaw is likely to continue.



**Figure 11.** Share of the Union budget transferred to state and region budgets (2013-14).  
Data from the Asia Foundation.<sup>33</sup>

Ceasefire agreements focused on cessation of armed conflict have consistently failed to include a roadmap for political reform. In fact, political settlements on issues such as regional autonomy, parliamentary representation, intergovernmental income transfers and governmental responsibilities are intentionally excluded from most ceasefire agreements. Problematically, Myanmar cannot move forward without negotiating some form of limited ethnic state autonomy sufficient to allow these states to determine the management of natural resources and receive a greater dividend from resource projects. Of equal importance is space for ethnic states to reflect religious and cultural differences, particularly those with significant Christian and Muslim communities.

However, The USDP and military are high likely to harbour trepidation at such ‘federalist’ arrangements. They continue to cast any federalism project in Myanmar as a slippery slope towards regional succession and the dissolution of Myanmar into independent states.<sup>34</sup> Specifically, they fear that local militias seeking new income streams from resource revenues to rearm and pursue full independence will capture state-level political institutions. Some may also fear potential threats to territorial integrity in the border regions if armed ethnic groups become proxies for neighbouring powers, for example the United Wa State Army and China. As such, developing the rule of law more generally is critical to the national government finding a balanced form of federalism for Myanmar.

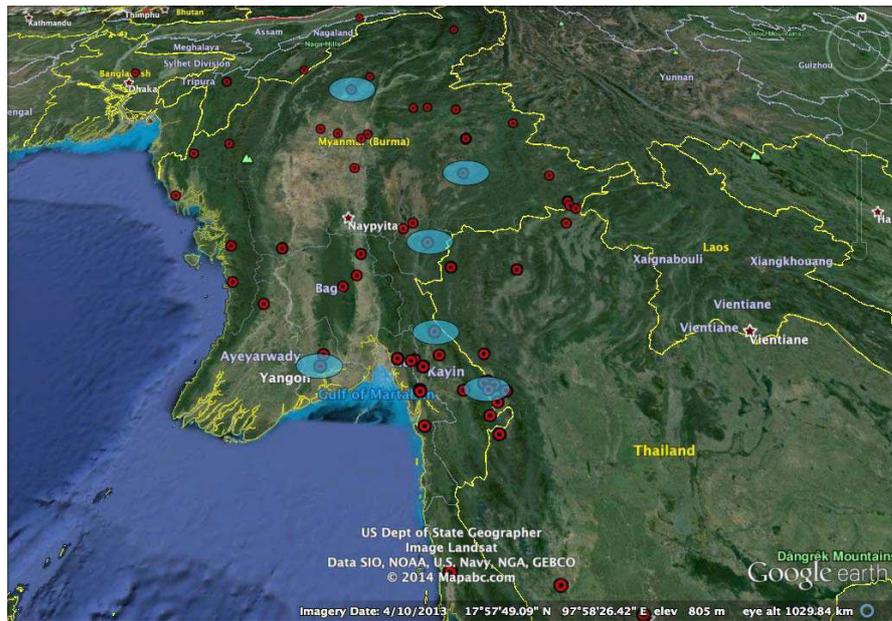
### e) Unravelling of some ethnic state ceasefire agreements

Risk	Probability	Impact
Unravelling of some ethnic state ceasefire agreements	Medium	Very High

**The probability of the unravelling of some ethnic state ceasefire agreements occurring is assessed as *medium*, and the impact on resource conflict is assessed as *very high*. The overall risk of the unravelling of some ethnic state ceasefire agreements is therefore *high*.**

Myanmar has experienced multiple attempts to deliver lasting ceasefires with armed ethnic groups since independence. From the 1963-64 peace parley under General Ne Win to the 1989 SLORC-sponsored ceasefires and Sein’s Union peace-making initiative, no peace and reconciliation process has delivered sustainable and lasting peace. In some cases, borderlands under the control of over 20 armed ethnic forces have actively prevented any military control or government authority in post-colonial times.

Despite the laudable progress under Sein, Myanmar remains divided by historical legacies of colonial partitioning, military campaigns of ‘Burmanisation’ and the economic and social marginalisation of ethnic minorities. Such minorities make up 30-40% of the total population and occupy 57% of Myanmar by land mass. Prior to 2011, successive regimes had habitually understood minority economic and political grievance as a security threat that could only be suppressed with an armed response. Five decades of sporadic armed conflict between ethnic armies and the Tatmadaw have solidified divisions. The relationship between the central regions and periphery ethnic states is likely to remain an accelerant for political and armed conflict. **Figure 12** opposite shows that key conflict hotspots between 2000 and 2011 have been in Kayin (Karen) and Shan states, and **figure 13** opposite shows internally displaced person (IDP) camps, which are generally aligned with key conflict zones. It should be noted that figure 14 does not capture significant conflict in Kachin State that has occurred since 2011. The locations of IDP camps in figure 15 does provide some insight into recent conflict in Kachin State, in particular the large number of armed group IDPs in the southeast of the state, near the Shan State border.



**Figure 12.** Geographic information from the PRIO Armed Conflict Dataset (2000-11) overlaid on a Google Earth map of Myanmar. The red dots indicate conflict events; multiple conflict event zones are highlighted in blue.



**Figure 13.** Map of IDP camps in Myanmar (2012).  
Copyright © Myanmar Peace Monitor.

The unpredictable, fragile and tenuous nature of the ceasefire agreements has been demonstrated by the protracted, high-intensity armed conflict between the Kachin Independence Army (KIA) and the Tatmadaw. Kachin state had experienced almost 17 years of ceasefire until the Sein government came to power – taking the reins of the quasi-civilian government on a platform of reform and reconciliation.<sup>35</sup> However, between June 2011 and January 2013, regular clashes between the KIA and the Tatmadaw resulted in allegations of serious and systematic human rights violations and over 100,000 internally displaced persons<sup>36</sup> throughout Kachin and the northern-most part of Shan state. Fifty thousand people are still displaced within Kachin state according to an August 2013 UN special rapporteur report.<sup>37</sup> While more recent conflict is not as regular as previous armed confrontation, reports indicate ongoing campaigns by both sides in Kachin and northern parts of Shan State.<sup>38</sup>

The most troubling aspect for both domestic and international observers was the continual and disproportionate show of force from the Tatmadaw despite several announcements from Sein that military operations had temporarily ceased – sparking speculation over Sein’s ability to control the military. Chinese mediation of Kachin-Naypyitaw talks in February 2013 and US, British and EU interest in mediation efforts suggest that major powers are wary about the potential unravelling of ceasefire agreements.

Furthermore, the intensity of the conflict in Shan and Kachin states may undermine the military’s capacity to employ divide and rule tactics. If the military pushes too hard against particular ethnic groups in armed conflict, other groups with ceasefire agreements may question their own positions with the central government. The result would undercut a divide and rule approach and enhance a degree of ethnic state unity of purpose.

While these trends bring into question the long-term sustainability of ceasefire agreements in Myanmar, recent movements by Naypyitaw towards the signing of a national ceasefire agreement may indicate improved prospects for peace.<sup>39</sup> Leaders from 17 ethnic armed groups have held a series of meetings in Thailand and Myanmar attempting to map out the critical elements of such a ceasefire. Signing a national ceasefire agreement would help solidify the progress made on the 13 existing ceasefire agreements negotiated between the Union Peacemaking Central Committee and individual armed ethnic groups. However, previous efforts at building upon ceasefire agreements indicate that ethnic armies will not give up arms until key political demands are addressed. Reports suggest that groups from Chin, Kachin and Shan states do not have confidence in the sustainability of the ceasefire or the ability of ceasefire negotiations to address their federalist ambitions. Despite positive government comments on May and June 2014 bilateral negotiations between the KIA and government officials and the setting up of a peace monitoring commission, there has been no lasting de-escalation to enable IDPs to return home.

A national ceasefire agreement may deliver a pause in armed conflict, but to establish a trajectory of lasting security is unlikely without Naypyitaw finding ways to balance the expectations of rapid economic growth with the need to avoid excessive, inequitable and unsustainable exploitation of the rich natural resources in ethnic states. A failure to secure a lasting ceasefire and initiate a political dialogue will likely result in armed ethnic groups targeting critical energy infrastructure, such as pipelines, and the Tatmadaw taking countermeasures to secure the integrity of government projects, which could include the military autonomously initiating pre-emptive strikes.

## f) Land confiscation and environmental degradation

Risk	Probability	Impact
Land confiscation and environmental degradation	Very high	High

**The probability of land confiscation and environmental degradation occurring is assessed as *very high*, and the impact on resource conflict is assessed as *very high*. The overall risk of land confiscation and environmental degradation is therefore *very high*.**

Over 65% of Myanmar's population live in rural areas and depend upon subsistence farming and forest resources to meet their basic needs. Agriculture, fisheries and forestry – mostly small to medium scale – contribute 39% to the country's GDP and employ approximately 70% of the labour force.<sup>40</sup> Upscaling rubber, palm oil and rice plantations is part of Myanmar's agricultural modernisation from subsistence agrarian livelihoods to large-scale cultivation of cash crops. Furthermore, Myanmar's river network, including the Salween and Ayeyarwaddy (Irrawaddy) rivers, supports a huge array of ecological systems, community livelihoods, tourism, agriculture, transportation and energy production.

Self-determination, federalism and local autonomy are repeatedly framed in the context of ethnic states taking control of managing land and rivers.<sup>41</sup> This is at odds with the unitary constitution's dictates of state ownership of all natural resources. Land confiscation and environmental degradation, particularly by companies associated with the military elite, are likely construed as denials of self-determination.

A number of UN and civil society reports have highlighted an increase in land confiscation across Myanmar.<sup>42</sup> The seizure of land from IDPs and subsistence farmers is facilitated by laws that enable the reallocation of farms and forest land to domestic and foreign businesses and projects in the national interest. The lack of a land titling system in an economic climate of rapid business development is a significant risk for both farmers and businesses. The broad discretion afforded to Nayphitaw's departments and institutions to condone or support land confiscation without adequate compensation has inflamed sporadic, local community protest.

While estimates vary greatly, it is thought that there are currently over 260 farmers in prison and over 1,000 facing charges in relation to protesting against land confiscations. Some protest leaders face long sentences, with the notable case of Ko Aung Soe, a member of the Yangon People's Support Network, sentenced to 11.5 years in prison for playing a role in the Letpadaung mine protests. The use of penal code provisions to manage usually peaceful protests by farmers over land confiscation indicates the sensitivity of state agencies to land confiscation issues and the strong desire to quell farmer dissent. In a 2013 address to Chatham House, Sein acknowledged that challenges like land ownership are immense and extremely complex.<sup>43</sup>

In 2013, the Parliamentary Farmland Investigation Commission delivered its first report to parliament outlining the extent of land seizure by the military over recent years. The commission received approximately 565 complaints alleging the forced seizure of land by the military. According to the report most allegations related to the Ayeyarwaddy/Irrawaddy region. However, there is no pressure from parliament for the return of unused confiscated land. The international audience is presented with an image of reform and progress on national ceasefire agreements, yet land confiscation blights the on-the-ground reality.

In addition to losing land through confiscation, rural subsistence farmers also face losing land through environmental degradation. While not capturing the same level of attention as land seizures, environmental degradation remains an issue for communities hosting small- to large-scale hydrodam developments, large-scale commercial agriculture plantations (palm oil and rubber) and extractives industries, such as mining, petroleum and forestry. While grievances over environmental degradation are hard to disaggregate from broader political and economic grievances, protests against multi-stage dam developments highlight the impacts on fishing activities and buildings of significant cultural and religious significance in particular.

Local and international environmental NGOs have raised particular concerns about hydrodam proposals on the Ayeyarwaddy. These groups suggest that multiple dams will prevent river sediment moving downstream to enrich significant rice production areas on the deltas. According to data from the Food and Agriculture Organisation of the United Nations (FAO), the Ayeyarwaddy Division contains approximately 33% of the total rice harvesting area in Myanmar.<sup>44</sup> Between 2002 and 2012, Myanmar produced on average 29 million tonnes of rice according to the FAO's statistics division.<sup>45</sup> Alteration of river flow levels may also impact on the level of salt water inundation in low lying deltas, which increases salinity in irrigation water, reducing productivity. Proposed dams would also have an impact on inland river fisheries and subsistence fishing.

Existing copper mining projects at Monywa (Sabetauung, Sabetauung South and Kyisintaung), approximately 10 kilometres northwest of Letpadaung copper mine, continue to create community grievances over health impacts caused by acid mine drainage (AMD). The logging and clearing of forest areas, which has been relatively high (between 1990 and 2005, 18% of all forested areas were logged<sup>46</sup>), is likely to escalate as larger-scale agricultural activities, such as palm oil and rubber plantations, are established. Without appropriate environmental controls and governance, these projects are likely to impact on subsistence agricultural activities and informal market agricultural production. On a broader scale, Myanmar has already witnessed significant mangrove loss in the Ayeyarwady Delta, which according to remote sensing data has declined from 2,623 square kilometres in 1978 to less than 1,000 square kilometres in 2011.<sup>47</sup> These environmental pressures resulting from a lack of environmental management reduce the natural resilience of highly-productive agricultural areas to natural disasters similar to Cyclone Nargis.

## Section IV

### Conclusion

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Myanmar's reform process is attracting significant international attention. A range of international actors, from international state-owned corporations and multinational corporations to development banks and diplomats, see the strategic, human development and business opportunities presented by Myanmar's opening up.

For all the positivity, there are stark challenges. **Resource conflict remains a significant risk for the country due to its high impact and its potential to interact with other threats, such as socio-communal violence.** Although the improved economic outlook and some reform initiatives are tempering the potential likelihood of key resource conflict drivers occurring, the severity of the potential impacts should they occur remains.

In most instances, resource conflict is likely to occur on the periphery of what the USDP perceive as Myanmar's future urban development and modernisation centre. However, if a peripheral ethnic state is beset with poverty and resource conflict, it is likely to eventually reach into all the divisions with broader implications for Naypyitaw. What may start as low-level local resource conflict – with sporadic armed conflict, protests and project sabotage – could transfer into geographically-broader conflict under certain conditions.

Future Union governments will face the challenge of delivering a certain pace of economic growth, infrastructure development and poverty alleviation. This may manifest in pressure to offer favourable investment conditions, embark on sweeping land reform or roll out large-scale projects that do not account for local conditions. In a post-conflict society 'too much, too quickly' in terms of resource development is likely to antagonise ethnic groups and local communities. It is a challenging and delicate balancing act.

In addition to balancing the speed of economic development, Union governments will also need to address demands from ethnic states for financial and governance devolution. Rapid opening up of Myanmar to natural resource exploitation without sharing the windfalls will intensify calls from ethnic states for a federalist structure. From a USDP perspective, providing increased revenue to areas that have not experienced the presence of central government for decades is a significant risk. However, the risks inherent in not providing greater financial autonomy to the states are equally problematic for the USDP.

**Even in the event of resource conflict increasing, it is only a limited possibility that it would be of such a magnitude as to stunt or derail Myanmar's economic and political transition.** The Tatmadaw's increasing advantage in military procurement and the USDP's divide and rule strategy means armed ethnic groups are going to be increasingly disadvantaged when it comes to armed conflict. The political opening up of Myanmar has provided new opportunities for the Tatmadaw to bring conflict with ethnic armies to an end or at least establish a viable containment strategy. However, the economic lifeblood of Myanmar, in terms of natural resource projects, would remain exposed to the evolving tactics of armed ethnic groups and their ability to inflict financial losses on the central government.

Sein may have delivered a degree of stability through suspending projects such as the Myitsone dam and has calmed the waters by maintaining dialogue with most ethnic groups. However, it is possible that both the USDP and the military are consolidating their economic and military position in order to develop a stronger hand against demands from the ethnic states for federalism and fiscal devolution. In this sense, the cost of short-term stability is the possibility of low-intensity but ongoing future violence.

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