

China's Relations with Burma

*Testimony before the U.S.-China Economic and Security Review Commission
China's Relations with Southeast Asia
May 13, 2015*

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Burma and China are inextricably linked by geography, history, ethnicity, culture, and economy. The original Myanmar tribe came down from Tibet and spawned the kings who united the kingdom of Bama or Myanmar in the 12th century and became the dominant ethnic group of modern Burma, now formally known as Myanmar. The two countries share a land border of more than 1,300 miles, populated largely by tribes living on both sides of the border in Burma's eastern Shan and Kachin States and in China's southwestern Yunnan Province. The very long history of coexistence and interaction between the two countries makes their bilateral relations highly complex and often inscrutable to Western eyes.

On the whole, Burma and China have enjoyed cordial relations since the time their modern border was drawn during the British colonial years. Perhaps the major exception might be the period during China's cultural revolution when the Peoples' Liberation Army joined and supported a communist insurgency inside Burma. However, even as he was pitting his army against the communist insurgency in the country's northeast, General Ne Win, the head of Burma's military government at the time, was careful to maintain correct relations with Beijing. He also formed a close working relationship with China's then enemy, the Soviet Union, and received military and other forms of assistance from the United States. The period of conflict with the PLA, nonetheless, left an important imprint on Ne Win's military successors, all of whom earned their battle scars fighting the Chinese intruders. These former military leaders now occupy the leadership positions in both the executive and legislative branches of the government in Naypyitaw formed in 2011.

After Deng Xiao Ping came to power, Chinese support for the communist insurgency in Burma was withdrawn and Beijing encouraged the Kokang, Kachin, Wa, and Mong La insurgent border groups to negotiate cease-fire agreements with the Burmese military government. As part of the ceasefire arrangements with the military regime, these tribes were assigned relative autonomy over areas of the Shan and Kachin States, which later became enshrined in the 2008 constitution.

¹ The views expressed in this testimony are those of the author alone and not the Asia Society or the U.S. Institute of Peace.

These ceasefire agreements and the improving relations with China coincided roughly with the 1988 popular uprising against the Ne Win government, which resulted in the formation of a new military regime in Rangoon after Ne Win stepped down. When Western governments began imposing sanctions on the military government in response to the harsh military repressions of 1988 and the regime's failure to follow through on the results of their 1990 elections, China became the prime source of support and protection for Burma in the international community.

Economic Relations

Since the late 1980's, China has been Burma's major source of military equipment and training, a major investor in the Burmese economy, and a major export market for Burma's wealth of natural resources. Because much of the bilateral trade has consisted of illegal cross-border activity between Burma's Kachin and Shan States and China's Yunnan Province, the totality of the bilateral economic relationship can only be roughly calculated. Furthermore, most of the Chinese mega-projects in Burma were concluded in the final years of Burma's previous military government, the State Peace and Development Council (SPDC), and the first year of the new government, creating a somewhat distorted three-year jump in Chinese investment from roughly \$1 billion to nearly \$13 billion between 2008 and 2011.² After the first year of the new government in Burma, however, Chinese investment in major projects in the country began to experience serious difficulty and total Chinese investment dropped precipitously to less than \$1 billion in fiscal year 2012/2013. In the past year, Chinese investment has tended to trend upward once again.

Chief among the troubled mega-projects have been the giant Myitsone Dam at the headwaters of the Irrawaddy River in the Kachin State, the oil and gas pipelines extending across Burma from the Burmese port of Kyaukphyu on the Bay of Bengal to China's Yunnan Province, and the expansion of the Letpadaung copper and gold mine just north of Mandalay. All three of these projects were designed to pump energy and resources into the rapidly expanding Chinese economy, particularly in Yunnan Province, and, with the advent of the new government in Burma, all three ran into serious political roadblocks in the form of public protest.

In September 2011, just six months after he took office, President Thein Sein abruptly suspended construction of the Myitsone Dam in response to mounting public opinion against it and concern for the serious downstream impact it could have on the Irrawaddy River, which is considered the country's major lifeline. A joint venture between the large Chinese state-owned enterprise CPI and the Burmese crony company Asia World, which probably had the backing of some of the country's top generals, the Myitsone Dam was designed to transmit more than 90 percent of its electricity output to China and create a

² Yun Sun, "Chinese Investment in Myanmar: What Lies Ahead?" Stimson Center Issue Brief No. 1, September 2013 in the series Great Powers and the Changing Myanmar is one of the best sources on the state of Chinese investment in Burma today. This part of my testimony draws heavily on this source.

lake the size of Singapore in the middle of the Kachin State, sitting on an earthquake fault line. The base of the dam appears to have been rushed into construction before the end of the SPDC and environmental groups inside and outside Burma had already begun to protest the project before the transition to the new government. President Thein Sein's sudden suspension of the construction in 2011 nonetheless came as a major shock to Beijing and created a period of tension between the two governments.

Subsequently in 2012, a long-running low-level protest by local villagers against the expansion of the Letpadaung mine mushroomed into a national movement, drawing activists from urban centers and from across the border in Thailand, demanding cancellation of the project. A joint venture between Burma's large military company the Union of Myanmar Economic Holdings Ltd and a Chinese state-owned arms producer Wanbao, the contract, like Myitsone, had been concluded in the final years of the SPDC with no concern for its environmental and social impact on the surrounding population. When police action against the protesters resulted in serious injury in 2012, the new government formed a parliamentary commission under the chairmanship of NLD leader Aung San Suu Kyi to produce a thorough study of the project in all its aspects and recommend solutions. Both partners to the project agreed to comply with the commission's recommendations and came up with fundamental revisions to the original agreement that essentially corrected its environmental, social, and financial imbalances. Although the core of protesters who would settle for nothing less than cancellation of the project continued their activities against it, the majority of the local inhabitants eventually came to see enough benefits from the project that it was finally allowed to proceed in 2014.

Meanwhile, the long dual oil and gas pipelines, stretching from the Bay of Bengal in Burma to Kunming in Yunnan Province, had also drawn major protests both inside and outside Burma from the time the original agreement was concluded in 2009. Once the new government was in place in Naypyitaw, the Chinese contractor was able to meet the concerns of towns and villages affected by construction of the pipeline and forged a variety of programs along the length of the pipeline that brought roads, bridges, schools, clinics, and power sources to local inhabitants. Eventually local opposition to the pipeline subsided, construction was completed, and they began operating in late 2013.

Responding to popular opposition to these large infrastructure projects, the new government ordered the renegotiation of all the large infrastructure agreements that had been concluded at the end of the previous government to ensure that they met environmental and social standards. Furthermore, it is probably fair to say that the environmental and social corrections made to the pipeline and Letpadaung mine projects by the Chinese companies had a substantial impact on China's approach to other large infrastructure projects not only in Burma, but in other countries, as well.

While the original Chinese anger over President Thein Sein's suspension of the Myitsone Dam has subsided, CPI is still pressing to move forward with the dam when the next government comes to power in Naypyitaw. Undue Chinese pressure to proceed with this project, however, runs the risk of igniting serious anti-Chinese sentiment in Burma,

because the dam is not only highly unpopular with the people, but also within the leadership itself. No elected Burmese leader is likely to risk this degree of unpopularity and Beijing probably understands this.

Aside from these large projects undertaken by China's state-owned enterprises, private Chinese entrepreneurs have historically comprised a significant portion of Burma's business sector. Many migrants from China have settled in the northern part of the country, especially the urban centers of Mandalay, Lashio, Muse, and Taunggyi, purchasing Burmese identity papers from corrupt immigration officials. Much of the illicit border trade is probably associated with their businesses, as well as businesses in Yunnan Province. Yangon also has a very successful Chinese business class, but it is not necessarily connected directly with China. Rather these are people who have lived in the country for more than a generation and identify as Burmese today.

Security Relations

Burma's security and stability are significantly linked to China. Although Burma often purchases military equipment from a variety of sources, China remains the single largest source of equipment and training for Burma's military forces. Beijing has an interest in maintaining stability on its long border with Burma and generally cooperates with Burmese security organizations, both military and police, in attempting to control drug trafficking and other illegal cross-border activities, although not with great success in recent years.

Narcotics production and use in Burma have grown at alarming rates in the past ten years and Chinese traffickers are deeply involved in providing precursors, running meth and heroine labs, paying farmers to grow opium, and purchasing and trafficking the products. Unfortunately, unlike narcotics trafficking patterns a decade or more ago, when the bulk of the narcotics produced in Burma was moved to markets outside the country, today much of it goes to markets inside the country. Drug addiction has spread across the country, particularly among younger people, and the country's political leadership is becoming alarmed about its consequences.

Chinese in Yunnan Province have very close connections with the ethnic groups living along its border with Burma. The Wa, Mong La, and Kokang regions are probably better connected to Yunnan with roads and economic activity than they are to Burma itself. The principal language of these regions is Chinese and trade is conducted in Chinese currency.

The recent outbreak of fighting in the Kokang region is a good example of Naypyitaw's dilemma in managing its border with China. When the former leader of the Kokang ceasefire group was forced into exile by the Burma army in 2009, he disappeared somewhere along the border, perhaps in Yunnan, perhaps inside Burma. Late last year, he managed to regroup with a new fighting force raised and equipped in Yunnan, and he attacked the Kokang capital of Laukkai, seeking to retake his former domain and become part of the negotiation then underway with Naypyitaw for a national ceasefire agreement.

The Burma Army responded forcefully to this attack and the political leadership in Naypyitaw became quite confused about Beijing's motivation in allowing such a serious battle to erupt on its border. Beijing, after all, had been closely monitoring and encouraging the national ceasefire negotiation between the Burmese government and the armed ethnic minority groups who had been battling government forces since the end of the colonial period. In his meetings with Burmese leaders, Chinese premier Xi Jin Ping had been promoting the idea of developing a major trade corridor from China through Burma to South Asia, the Middle East, and Africa.

After a period of tense interaction between Beijing and Naypyitaw during February and March this year, Naypyitaw appears to have accepted the notion that Beijing does not have assured control over the activities of border groups in Yunnan Province and was not complicit in the outbreak of fighting in Kokang. The preliminary agreement reached on a draft national ceasefire agreement at the end of March, at which the official Chinese observer was present, probably served to alleviate Naypyitaw's concern about Beijing's intentions on the border, at least for the time being.

There has also been frustration in Naypyitaw with Yunnan's support for the Kachin Independence Organization in its continuing conflict with the Burma Army. While this support is not readily visible, there is no question that illegal cross-border trade and Chinese mining in the Kachin State provide a great deal of the wealth that supports the continuing conflict. In recent months, the Naypyitaw government has arrested two groups of Chinese truckers moving logs illegally across Kachin State to the Yunnan market, and operations have been interrupted at some of the lucrative jade mines in Hpakant.

On the whole, there is wide opportunity for much greater cooperation and coordination between Burma and China in regulating and controlling cross border activity, including drug trafficking, illegal trade, and disease control. However, until a stable ceasefire agreement and political settlement can be reached between the Burmese government and the armed ethnic groups, the border areas will remain somewhat unstable and very difficult to police.

Political and Diplomatic Relations

China and Burma enjoy what they call brotherly relations, with China often looking down on Burma as the little brother. For some twenty years, China protected the previous military regime from harmful action by the UN Security Council and helped to offset the economic effects of western sanctions on Burma. In fact, Chinese business was quite comfortable dealing with the corrupt practices of the generals who controlled the economy and the country's natural resources. Burma's military leaders, however, were not comfortable becoming so dependent on and indebted to a single great power, because Burma's post-colonial foreign policy had traditionally practiced a studied equi-distance from the world's major powers. As a founding member of the Non-Aligned Movement, for example, Burma had withdrawn from the group when it sensed that the NAM had become too aligned with one side during the Cold War.

In the final years of Burma's military regime, Beijing joined ASEAN in gently urging the generals to proceed with their plans for political transition, undoubtedly expecting that the transition would bring badly needed economic reform and improve the business climate for Chinese investments in the country, while leaving the government essentially in the hands of its military leaders. Beijing therefore appears to have observed the first year of the transition in 2011 with some alarm when it realized that the generals seemed to be using a form of western liberal democracy as the political objective of the reforms. This alarm was only intensified by the unexpected decision by President Thein Sein in September 2011 to suspend construction of China's major investment, the Myitsone Dam. It quickly became clear that the favorable investment climate China had expected might not be so hospitable after all and that Burma's new politics could risk posing a challenge to China's internal political stability.

When NLD leader Aung San Suu Kyi decided to join the new parliament in 2012, Beijing had to adjust its approach to the new government in Burma, as it began to take on true multi-party dimensions. Beijing could no longer base its bilateral relations strictly on party-to-party ties between the large Union Solidarity and Development Party (USDP) and China's Communist Party. China increasingly hosted visits by members of parliament from various parties and Chinese organizations formed a variety of new bilateral relations with the growing civil society in Burma. Realizing that China suffered from a serious deficit of analytic knowledge of Burma and its emerging political diversity, Beijing encouraged its various universities and policy research institutes to develop new study programs for Burma. Consequently, China's policy community gradually began to grasp a more nuanced and sophisticated attitude toward its changing relations with the new Burma, particularly as it became apparent that the military no longer dominated the country's economic and political life, as it had under the SPDC.

Beijing has been especially concerned about the implications of the budding friendship between Burma and the United States, as the new government began responding to U.S. concerns about human rights and civil liberties, eventually gaining a relaxation of the harsh U.S. economic sanctions and hosting visits by top U.S. officials. Chinese political analysts began to warn that U.S. interest in Burma was actually part of a strategy to encircle and contain China around its perimeters. Travel by U.S. officials in parts of northern Burma receives special attention in the Chinese press and Beijing has remained adamant that the U.S. should not participate as an observer in the ceasefire negotiations with Burma's ethnic armed groups.

Naypyitaw has carefully cultivated its relations with Beijing, making the obligatory leadership visits to Beijing before venturing out to the United States or other western countries. The necessary apologies have been offered for accidental military incursions across Chinese borders in battles with the Kachin and Kokang, but the battles have continued. Naypyitaw has also continued to rebalance its economic ties with China by courting robust Japanese, Korean, ASEAN, and western investment. While giving rhetorically positive responses to Beijing's proposals for building an economic corridor through Burma, somehow the pieces of this corridor, such as a high speed railway and highway along the route of the pipeline and a special economic zone (SEZ) for China on

the Bay of Bengal, have so far failed to come together for one reason or another. Meanwhile the Japanese SEZ at Thilawa port near Rangoon is building its first factories.

Political instability in Burma is not in China's interest and Beijing keeps a close watch on the political transition, undoubtedly preferring to see continued authoritarian characteristics in the new government. A strong NLD victory in the coming elections will test China's flexibility, because while the new head of state may not be a member of the NLD, the democracy party may well be the kingmaker in the parliament and thus a force to be reckoned with. Recognizing her rising political strength in the government, Beijing has developed channels of communication to NLD leader Aung San Suu Kyi and senior members of her party and has praised her for leading the solution to the Letpadaung mine protest. And finally, Beijing is very sensitive to any signs of rising anti-Chinese sentiment in Burma, for fear that it could quickly turn violent against Chinese residents, as it has in the past.

Senior members of the new government in Naypyitaw have from time to time expressed concern about the prospect of Burma becoming a battleground for U.S.-Chinese competition and suggested that both governments should make efforts to cooperate in the country's economic development. At the same time, if cooperative U.S.-Chinese efforts in Burma were to materialize, this could raise another set of concerns about great power collusion. Therefore such efforts have so far been limited to trilateral conferences and academic conversations about comparative perspectives on Burma's transition. Furthermore, there is little convergence between U.S. and Chinese interests in Burma upon which to build cooperative efforts.

As if to disprove Chinese conspiracy theories that the U.S. sees Burma as part of a containment strategy, for more than 25 years, U.S. policy in Burma has focused consistently on the promotion of democratic political development and respect for human rights. U.S. economic and political sanctions against Burma in pursuit of these policy objectives have effectively inhibited the development of political, diplomatic, and economic relations with the country until the past two or three years. In fact, U.S. bilateral relations with Burma are still at a formative stage, with only tentative efforts at building political and economic ties, until the country's reforms have become more clearly sustainable. U.S. objectives in Burma, therefore, have had little bearing on its proximity to China or to larger U.S. objectives in its own massive bilateral relationship with China. For these reasons, Burma is unlikely to be an area of U.S. competition with China. China will remain an essential neighbor and economic partner to Burma and the United States will continue to promote Burma's democratic development from half way around the world.

Relations with the Neighborhood

Burma is a committed member of ASEAN and views the organization as a form of protection against exploitation by any of the world's major powers, particularly those in its neighborhood. ASEAN provides all of its members, not least of all Burma, with an organizing principle for managing Southeast Asia's relations with the rest of the world.

The East West Center calculates, for example, that ASEAN is now the third largest trading partner for the United States, after Japan and China, and it provides the largest destination for U.S. exports.³

During the final years of Burma's military government, the U.S. government even sacrificed its political relationship with ASEAN on the altar of sanctions, refusing to send senior officials to high-level ASEAN meetings as a means of punishing the organization for having accepted Burma as a member in 1996. In the final analysis, however, ASEAN was a major motivator behind Burma's transition, when it began to move forward in 2010. Most tellingly, the organization convinced Burma's military leaders to step aside from its turn to chair the organization in 2006 until it had completed its so-called "seven step" move to democracy, effectively speeding up the transition and providing a stable regional environment for undertaking serious political change.

When the new government in Burma finally got its turn to chair ASEAN in 2014, it was determined not to repeat Cambodia's experience in the chair, when it caved to Chinese pressure and prevented an ASEAN statement on the South China Sea. As chair of ASEAN, Naypyitaw successfully maneuvered ASEAN support for a code of conduct in the South China Sea and managed to avert Chinese pressure against it. Burma can be expected to remain a loyal, if not particularly dynamic, member of ASEAN, although it will strain to meet the structural and other requirements of ASEAN economic integration.

Geographically, Burma sits between India and China. In the past, India tended to view Burma as an arena of military and economic competition with China, often sounding the alarm about Chinese military installations in Burma. With time it has become clear that Burma opposes the stationing of any foreign military on its territory and that India's democratic economic system is not geared to competing directly with China's centrally driven investment machine. India remains a key economic partner for Burma, especially as a major market for beans and pulses, but its investments in Burma are dwarfed by those of the other large Asian economies of China, Japan, and Korea.

With the change of government in 2011, Japan reached out with major new investment and aid packages that have created a dramatic spike in Japan's stake in Burma's economy. Among other things, Japan provided the necessary loan guarantees to remove Burma's debt to international financial institutions, making it possible for them to resume assistance to Burma. Japanese investment and ODA has been the driving force behind development of Burma's first Special Economic Zone at Thilawa port near Rangoon and it has contributed significantly to infrastructure projects for transportation and electricity. In fact, the steep drop in Chinese investment in 2012 and 2013 was more than offset by Japanese and other foreign investment. Burma's FDI rose from \$329.6 million in 2009-2010 to more than \$8.1 billion in fiscal year 2014-2015, thanks largely to investment in telecoms, energy, and manufacturing.⁴

³ <http://www.asiamattersforamerica.org/asean/data/trade/importexport>

⁴ <http://www.reuters.com/article/2015/03/25/myanmar-investment-idUSL3N0WR25Q20150325>

Thoughts on U.S. Policy toward Burma

The coming elections in Burma this year will be a key turning point in the political transition. Although the 2008 constitution poses a number of undemocratic structural impediments to truly free and fair elections,⁵ if the existing rules governing competition for the elected parliamentary seats are applied fairly, Aung San Suu Kyi's National League for Democracy (NLD) is likely to become the single largest party in the parliament and have a major impact on the country's political future in the next five-year parliamentary term. Although the current government deserves credit for creating the conditions for the NLD to rise to a prime political position after nearly 25 years of severe repression, this will nonetheless be a serious test of whether the country's former and current military leaders genuinely intend to develop democratic governance in Burma. One way or the other, the results of the elections will also have continuing consequences for Burma's relations with China.

In my estimation, it is time for the United States to strengthen its commitment to Burma's democratic future by expanding U.S. engagement in all respects. Over the past four years, U.S. assistance to Burmese civil society has made a critical contribution to the rise of civilian power in the country's political and social life. U.S. institutions are helping with election preparations and will be participating in the elections as observers. The easing of economic sanctions has allowed U.S. business to invest significantly within the rules of responsible engagement laid out by the U.S. State and Treasury Departments. As such, it is helping to create a modern business environment in the country that will improve the prospects for future investment.

However, the remaining U.S. sanctions still present serious impediments to full U.S. engagement in building the country's democratic future. We should be prepared to assist also in strengthening government institutions to implement reforms effectively; in developing the badly needed structures to support rule of law; and in forging effective channels of communication with the military. If it is still too soon to engage directly with senior military, we should at least be offering the new generation of military officers an opportunity to be educated in our prestigious military academies, where an appreciation of the role of the military in a democracy can be instilled. We should develop a fair and transparent exit strategy for those individuals and businesses that remain on the U.S. list of Specially Designated Nationals with whom U.S. entities are enjoined from engaging. Instead of continuing to sanction the country for its weak banking institutions that are susceptible to money laundering and for its narcotics and human trafficking problems that are driven in large part by neighboring countries, we should be sending the expertise to help them tackle these problems more robustly.

⁵ For example, eligibility rules for the presidency are restrictive, 25 percent of parliamentary seats are occupied by appointed military personnel, and sparsely populated constituencies have greater weight in the national parliament than more densely populated urban areas.

The experience of the past four years has produced enough evidence that, unlike many countries in other parts of the world where the U.S. is fully engaged, Burma has a good chance of building a democratic future. However, it is not realistic to expect that full-fledged democracy will spring to life overnight in a country that has been held in a state of arrested development for more than 50 years. The rapid pace of change during the past four years has created serious social strains that will take time to resolve. Our response to these problems should not be further punishment, but rather more active efforts to help develop the political, economic, and social institutions required for stable democratic governance. The United States is uniquely positioned to help with this critical task.