



# Journal of Current Southeast Asian Affairs

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SUN, Yun (2012), China and the Changing Myanmar, in: *Journal of Current Southeast Asian Affairs*, 31, 4, 51-77.

ISSN: 1868-4882 (online), ISSN: 1868-1034 (print)

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Published by

GIGA German Institute of Global and Area Studies, Institute of Asian Studies and Hamburg University Press.

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# China and the Changing Myanmar

Yun SUN

**Abstract:** The author argues that the democratic reform in Myanmar is rooted in profound internal and external factors. Since the beginning of the reform, the changes in Myanmar have taken tolls in a series of China's existing interests inside the country. Economically, Chinese investments have come under increasing scrutiny, criticism, and even oppositions, threatening the viability of strategic projects such as the oil and gas pipelines. Politically, the initial success of the democratic reform in Myanmar raises questions about Beijing's continuous resistance to reform. Strategically, the changes in Myanmar undercut China's original blueprint about the strategic utilities of Myanmar for China at ASEAN, in the Indian Ocean and more broadly in the region. In light of the changes, China has adjusted its policy toward Myanmar. Not only has Beijing dramatically reduced its economic investments in Myanmar, it also cooled down the political ties while established relations with the democratic oppositions. At the same time, China also launched massive public relations campaigns inside Myanmar aimed at improving its image and relations with the local communities.

■ Manuscript received 14 January 2013; accepted 23 February 2013

**Keywords:** PR China, Myanmar, Myitsone dam, bilateral relations

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## Introduction

Myanmar's rapidly political reform dazzled and puzzled many watchers, Chinese included. Multiple internal and external factors contributed to the decision to adopt the reform. Internally, the political change is the result of a process designed and implemented by the military government, which was necessitated by the military's lack of professional governance skills and made possible by its consent. Externally, Myanmar's desire to mitigate its over-dependence on China, to improve relations with U.S. and to repair its reputation at ASEAN motivated its reform at home.

The democratic reform in Myanmar unveiled a series of unpleasant uncertainties for China. Economically, the suspension of the Myitsone dam project has encouraged further scrutiny and criticism of Chinese investments, threatening the viability of strategic projects such as the oil and gas pipelines. The pressure on Chinese existing economic interests on the ground is strengthened by the increasing competition from the west. Politically, the preliminary success of Myanmar's democratic reform has raised questions inside China about China's political system and the long postponed political reform. Strategically, Myanmar's changing foreign policy undercuts China's original blueprint regarding the strategic utilities of Myanmar at ASEAN, in the Indian Ocean and more broadly in the region.

As a result, China has adjusted its posture and policy toward its south-west neighbour. Since the suspension of the Myitsone dam, China has dramatically reduced its economic investment in Myanmar, intentionally cooled down the bilateral political ties while established historical relations with the democratic oppositions. At the same time, China also launched massive public relations campaigns inside Myanmar that aimed at improving its image and relations with the local communities. The security of China's energy investment, such as the oil and gas pipelines and the Myitsone dam, remain China's priority. And the issues are substantially complicated by the conflict in the ethnic border areas.

## 1 Myanmar's Political Reform

Myanmar's rapid political changes since August 2011 have surprised many. Starting with President Thein Sein's historical meeting with Aung San Suu Kyi, the government undertook a series of dramatic reform procedures, including releasing political prisoners, relaxing press and internet censorship, implementing new labour laws that allow unions and strikes. The most significant event came on April 2012, when the National League for Democracy (NLD) participated in the by-elections and won 43 of the 45

seats contested. NLD's victory is historical – it is the first time the democratic oppositions led by Aung San Suu Kyi were allowed a legitimate and key role in the domestic politics since the 1990 elections.<sup>1</sup>

Myanmar's political reforms are met with a warm welcome by the United States. In December 2011, three months after Thein Sein's historical meeting with Aung San Suu Kyi, Hillary Clinton paid the first visit to the country by a U.S. Secretary of State in more than 50 years (Longbottom 2011). Washington hailed the results of the by-elections.<sup>2</sup> Under a well-considered, "action for action" guideline, Washington responded to the political progress with step-by-step but meaningful "rewards". The most significant ones have included the lifting of key financial sanctions (in May), import bans (in September), and the appointment of the first ambassador to the country after a long absence of twenty-two years (in July).<sup>3</sup>

There are various interpretations on what motivated Myanmar's political reform. Most agree that the complexity of the country, its history and politics defies any singular, monolithic explanation. Multiple internal and external factors contributed to the dazzling reform process. Singled out alone, none of them probably would have led to the same result. But together, they made the reform not only necessary, but also possible.

## 1.1 Why the Changes? – Internal Factors

Internally and most importantly, the reform is attributed to the top leaders' desire for a change for better governance and economic performance. Since 1962, the military's lack of professional knowledge to manage the country had "pushed the whole system to the edge of collapse"<sup>4</sup> and therefore they were eager to retreat to its traditional role of the nation's guardian instead of its manager.<sup>5</sup> Experts from the Center for Strategic and International Studies (CSIS) observed after their August 2012 trip,

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1 Suu Kyi's NLD won 392 of the 492 seats in the 1990 elections. However, the military government refused to recognise the results of the elections and put Suu Kyi under house arrest for 15 out of the 21 years from 1989 and 2010 (*BBC* 2010).

2 According to Secretary of State Hillary Clinton, "The results of the April 1st parliamentary by-elections represents a dramatic demonstration of popular will that brings a new generation of reformers into government. This is an important step in the country's transformation, which in recent months has seen the unprecedented release of political prisoners, new legislation broadening the rights of political and civic association, and fledging process in internal dialogues between the government and ethnic minority groups" (Secretary of State 2012).

3 Interviews with Burma analysts, Washington DC, June 2012.

4 Interviews with Burmese government advisors, Yangon, August 2012.

5 Interviews with Burma analysts, Washington DC, July 2012.

[...] inside the country, officials and observers stressed such internal factors as the leadership's damaged pride and embarrassment over the country's falling economically so far behind its neighbors, the army's fatigue with running the country, and the increasing clamor by the country's people for a voice in shaping their destiny (Bower et al. 2012: 7).

Evidence suggests that the military had aspired for a power transition long before the 2010 elections. Some track its desire for the change to the aftermath of the 1988 uprising, when the State Law and Order Restoration Council declared that "the military would not cling to power for long" (Guyot 1991). The military government's original plan was to hold elections in 1990 and form a parliament sized constitutional committee to draft a new constitution. However, the unexpected landslide defeat of the government-backed National Unity Party (NUP) by NLD disrupted the plan, led to the annulment of the elections' results and another two decades' planning for a gradual political change.<sup>6</sup> In 2003, Prime Minister Gen. Khin Nyunt announced the seven-step "roadmap" to a disciplined democracy as the renewed institutional framework to restart the transition process. Even after his purge in 2004, Senior Gen. Than Shwe continued to follow the road map: A new constitution was drafted, a referendum was held in 2008 and elections took place in 2010 (Buente and Portela 2012: 2). The inauguration of the Thein Sein government concluded the last step of the road map: "Building a modern, developed and democratic nation by the state leaders elected by the Hluttaw, and the government and other central organs former by the Hluttaw" (Mizzima Election 2010). In this sense, the political change was indeed designed and implemented by the Myanmar military.

This explanation was endorsed by President Thein Sein. During his interview with the *New York Times* in September 2012, when asked for the reason behind Myanmar's democratic change, he responded that:

We planned to undertake democratic reforms from the beginning. It took about two decades for us to make all necessary preparations. We tried to improve our education system and we adopted a seven-step program, we drafted a new constitution, we had a referendum on the constitution, then we held elections (Keller 2012).

Individual leaders played a key role in making the political reforms possible. Other than implementing the seven-step roadmap, Than Shwe willingly stepped aside for Thein Sein in March 2011, opening the space for reform

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6 Interviews with Burma analysts and former U.S. diplomats in Burma, Washington DC, September and October 2012.

(Bower et al. 2012: 7). Analysts from the U.S., China and Myanmar share the consensus that given Than Shwe's absolute authority in the military, he was, and still is capable of shutting down the reform.<sup>7</sup> His tacit support of Thein Sein and the reforms against conservative politicians such as former Vice President Tin Aung Min Oo quietly but decisively guaranteed their implementation and success.<sup>8</sup> Another major contribution of Than Shwe to the reform process was his choice of Thein Sein as head of state to lead the transitional process. "A veteran politician with tremendous wisdom and courage, Thein Sein was the best, and probably the only one who could have managed the process so well."<sup>9</sup>

The motivation of Than Shwe and the military to support the reform was hardly altruistic. They "needed a graceful exit" (Bower et al. 2012: 7). As a result, the structure and the composition of the new government are designed to protect the military's special status and interests. Senior members of the military government were given the top positions in the new government: former Prime Minister Thein Sein as President, former General Tin Aung Min Oo as Vice President, and General Shwe Mann as Speaker of the Lower House. This special and dominant political position of the military was further institutionalised through the 25 per cent guaranteed seats in the parliament, which effectively pre-empts any attempt to amend the constitution without the army's consent.<sup>10</sup> Furthermore, the diffused power structure of the new government provides an additional layer of protection to Than Shwe, his retirement and family. Indeed, none of reform measures by far adopted has fundamentally threatened his personal interests.<sup>11</sup> The incompleteness resp. inconclusiveness of the reform criticised by human rights groups are precisely the preconditions that have allowed the reform to happen at the first place.

## 1.2 Why the Changes? – External Factors

Despite the wide argument that Myanmar's political reform was primarily motivated by a desire to mitigate China's overwhelming influence in the country, the picture is far more complicated. Other than China, at least three other external factors played into the decision-making: the U.S., ASEAN and the Arab Spring.

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7 Interviews, Beijing, Washington DC, Yangon, summer of 2012.

8 Interviews with government advisors, Yangon, August 2012.

9 Interviews with government advisors, Yangon, August 2012.

10 According to the 2008 Constitution, to amend the Constitution there must be more than 75 per cent approval votes by representatives of the Pyidaungsu Hluttaw.

11 Interviews, Yangon, Naypyidaw, Washington DC, Beijing, Yunnan, summer 2012.

Ample debates have taken place inside Washington about whether it was the sanctions or the engagement that should take credit for Myanmar's change. The answer is: both. Sanctions made the reform necessary – Myanmar needed to break the investment and trade sanctions to foster economic growth at home; and the engagement made the reform possible – the enhanced communications and clarified expectations by the U.S. instilled a confidence in Naypyidaw that as long as certain demands are met, the lifting of sanctions and better bilateral ties would ensue. For the Thein Sein government was eager to rally support for its reform agenda, such confidence was of utmost importance.

Myanmar needed the political reform to improve its position at ASEAN and secure its 2014 chairmanship. Burmese analysts see their country as a traditional leader of ASEAN, a role it previously had to relinquish due to the lack of political progress at home.<sup>12</sup> In 2005, Myanmar was forced to forgo the 2006 chairmanship of ASEAN due to western pressures and the oppositions by some member states (*BBC* 2005), a tremendous “humiliation” for the military government.<sup>13</sup> History would have repeated itself to Myanmar's bid for the 2014 chairmanship – ASEAN declared as late as August 2011 that they were still “waiting to decide and observing political events in Burma” to make their decision (*Mizzima News* 2012a). However, Thein Sein rapidly moved to meet with Aung San Suu Kyi and suspended the unpopular Myitsone dam in honour of “people's concerns”. These moves were instantly welcomed by ASEAN with a 180 degree shift on the chairmanship – as the “member states believed that Burma had made significant progress down the path of democracy”, therefore “agreed that Burma can chair the regional bloc in 2014” (*BBC* 2011a).

Externally, a series of dramatic political events in 2011 catalysed the political reform in Myanmar. The Arab Spring swept across Middle East and North Africa was the last straw that convinced the leaders of the urgency of political reform (*BBC Chinese Language Service* 2012). If they had not adopted political reforms, they would have risked not only their power (like Egypt's Mubarak) but also their lives (like Libya's Gaddafi).<sup>14</sup> Chinese analysts went further to argue that the killing of Bin Laden by the U.S. raid had determining psychological effects over the top Burmese leaders as it proved that “the U.S. had both the will and means to take out anyone they target.”<sup>15</sup> Given the U.S. hostility towards the Myanmar government and the constant talk

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12 Interviews with Burmese analysts, Yangon, August 2012.

13 Interviews with Burmese analysts, Yangon, July 2010.

14 Interviews with Burmese analysts, Yangon, August 2012.

15 Interview, Kunming, May 2012.

about a “regime change” at the time, “senior leaders such as Than Shwe were desperate to reform to avoid being the next on the list.”<sup>16</sup>

China was the most important negative incentive that promoted the changes inside Myanmar. For the Thein Sein government, the failure to reform will prolong Myanmar’s international isolation and deepen its overdependence on China. Indeed, given the financial sanctions and political isolation, Myanmar had relied overwhelmingly on China for political support and economic patronage since 1990. Beijing shielded Myanmar from UN sanction in 2007 and provided vast investment and foreign aid to the country. Currently, with a cumulative investment of 14.14 billion USD, China dwarfs any other foreign investor inside Myanmar (*Xinhua News Agency* 2012b).

The downside of such overdependence is apparent: It gives China an asymmetrical leverage over Myanmar, putting it at a highly disadvantaged position. Indeed, Chinese investment and support came at a price. Economically, China’s exploitation of Myanmar’s rich natural resources has created serious problems: Neither the hydropower dams nor the oil and gas pipelines would help alleviate Myanmar’s extreme power shortage; most investments from China focus on extractive industry with little regard for sustainable development, job creation or technology transfers; many of them bring irreversible detrimental environmental and social impacts. Politically, the unbalanced relationship forced Myanmar to reluctantly accept China’s de facto interference on the border ethnic groups issue<sup>17</sup> and agree to adjust its diplomatic positions for China on regional forums such as ASEAN.<sup>18</sup> The overwhelming economic and political influence of China in Myanmar touched the most sensitive nerves of the xenophobic Burmese leaders paranoid about foreign threats and interference (Emmott 2008). Seeing Myanmar as the powerless sheep living next to the elephant (China) (Zhao 1996), Myanmar leaders feel intrinsically vulnerable and suspicious about the intention of China. Under these circumstances, Myanmar’s desire to adopt re-

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16 Interview, Kunming, May 2012.

17 Certain Chinese actors continue to maintain a close relationship with the border ethnic groups through trade and aid and this is a main sore spot that bothers Naypyidaw. China does not support the independence of the Kachin of the Wa, but emphasises that any resolution of their future status should be achieved peacefully. A famous Chinese Myanmar analyst commented that this is essentially the same policy Washington pursues on Taiwan, practically a de facto interference of Myanmar’s internal affairs.

18 In May 2011, China and Myanmar pledged to provide “mutual support of each other’s position at multilateral and regional forums” with a clear request from Beijing for Naypyidaw to support its unpopular position on South China Sea at ASEAN. Sun 2012: 82.

form to break its isolation, diversify its foreign relations and overcome its dependence on China became completely sensible.

## 2 The Implications of Myanmar's Political Reform for China

Despite the close political and economic ties between China and Myanmar before the 2010 elections, China did not anticipate the dramatic political reform. In China's original analysis, the new Myanmar government would be only "marginally and negligibly different from the military government" and after its legitimacy was strengthened by the elections, Naypyidaw would "embark on a long journey of slow political changes and economic reforms" (Sun 2012: 75). Such a strategic misjudgement was based on China's own political governance philosophy<sup>19</sup> and largely dominated China's assessment of the Burmese politics until the announcement of the Myitsone dam suspension. Beijing was not prepared for the major policy shifts in Myanmar, and this had important direct and indirect impacts over China's interests in three areas: economic, political and strategic.

### 2.1 Economic Impacts

The most significant impact of Myanmar's political reform on China was President Thein Sein's decision to suspend the Chinese Myitsone dam project on 30 September 2011. The 3.6 billion USD mega project was negotiated with the military government and had been under construction despite a litany of politics, economic, environmental, social and cultural controversies.<sup>20</sup> The suspension decision was directly associated with the public opinion and the government's desire to honour people's will. As put by President Thein Sein, "We have to respect the will of the people as our government is elected by the people" (*BBC* 2011b). Indeed, in the summer of 2011, Thein Sein's decision regarding Myitsone had become the ultimate test of the authenticity of his proclaimed "democratic reform" and "respect for the

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19 In China's own experience, authoritarian regimes would not give up its power and adopt democratic reforms willingly. However, in a less developed country, as long as the authoritarian regime adopts economic reform and provide development and benefits to its people, it would be legitimate. That is also the path Beijing had hoped Myanmar would adopt.

20 These include: the manipulated environmental impact assessment, the lack of transparency and corruption associated with the negotiation, negative ecological, environmental and social impacts, displacement of villagers, etc.

public opinion”.<sup>21</sup> Therefore, in China’s view, because Thein Sein was eager to cater to the public sentiment and the West’s demand for democratic reform, the Myitsone dam, or more broadly, China’s economic interest was sacrificed for the sake of the political reform.<sup>22</sup>

The repercussion of the Myitsone suspension rippled over almost all Chinese projects in the country. Encouraged by the victory over Myitsone and the booming democratic atmosphere, the Burmese society instantly grew more vocal and pro-active in scrutinising and criticising other deals China reached with the military government under similar conditions. The China National Petroleum Company (CNPC) oil and gas pipelines became the new top target.<sup>23</sup> Anti-pipeline NGOs, demonstrations, media stories and research reports mushroomed, calling for a suspension of the project due to environmental impacts, social concerns and human rights abuses (*OOSKAnews* 2012). Given the strategic importance of the project, Beijing is dreadfully worried about any unexpected policy change by Myanmar that it has substantially sped up the construction.<sup>24</sup> Another project that has come under rising local attacks was the Mongywa copper mine acquired by the China North Industries Corporation (NORINCO) in 2010 (Maung Shwe 2011). In 2012, farmers of the areas fiercely aired their complaints and demanded adequate compensation. They not only publicised the hazardous pollution and environmental impact of the mining operation, but also filed a lawsuit against the mining companies for allegedly using force and intimidation against the protestors (Mann 2012).

This wide-spread sentiment against Chinese projects directly altered Chinese investment behaviours. According to state and private investors from China, “Chinese project has become a synonym for corruption, pollution, local condemnations and oppositions, sometimes without much evidence or reason.”<sup>25</sup> To manage the risk, large state-owned enterprises (SOEs) have almost completely suspended new investment to Myanmar, while provincial or local SOEs and private businesses resort to co-ownerships with Hong Kong or local businesses to mitigate the hostility associated with the Chinese brand.<sup>26</sup>

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21 Interviews with Burmese analysts, NGO representatives and economists, Yangon, August 2011.

22 Interviews, Beijing, Kunming and Yangon, July and August 2012.

23 Interviews with Chinese journalists, Beijing and Yangon, August 2012.

24 According to Gao Jianguo, the Deputy head of CNPC Pipeline Department and the GM of Sino–Myanmar pipeline project, CNPC sped up the construction of the pipelines to complete the main construction before 30 May 2012. This reduced the total project by 14 months. Li 2012.

25 Interviews, Yangon, August 2012.

26 Interviews with Chinese businessmen, Kunming, August 2012.

Other than the local opposition to Chinese investments, the rising competition from western governments and companies also took its tolls. Now free from legal restrictions, American, European, Japanese and Korean companies are all looking into entering the last underdeveloped market in Southeast Asia.<sup>27</sup> Although Chinese companies enjoy certain advantages,<sup>28</sup> it's said that the Myanmar government eager to "introduce competition and diversify foreign investments" has consciously taken business opportunities away from Chinese players.<sup>29</sup> In addition, Chinese companies face an inherent disadvantage in the technology and quality of their work, which further undercut their competitiveness. Burmese analysts observed that China lost the Yangon–Naypyidaw high-speed railway contract to Japanese companies precisely because Naypyidaw lost its confidence in the Chinese technology after the Wenzhou high-speed train collision in July 2011.<sup>30</sup>

## 2.2 Political Impacts

Politically, Myanmar's rapid democratisation was particularly bothersome for China because it represents the "peaceful revolution" of another authoritarian regime on China's periphery after the disintegration of the Soviet bloc in the 1990's and the "colour revolutions" in the 2000's. It created unexpected, additional pressure for Chinese leaders to adopt political reforms at a highly sensitive time – the power transition in China is planned for 2012. Some Chinese intellectuals admire Myanmar's stable and peaceful transition from the military junta to a reformist democratic government, and began to dismiss Beijing's pronounced fear for "instability and chaos" as the excuse to delay the much-needed political reform (Guo 2012). Saddened by the stagnant Chinese politics, they see Myanmar's top-down political reform model, one that protects the interests of both the military and the democratic forces, as the true "harmonious model" (Zhao 2012).<sup>31</sup> When the government mouth-piece, nationalistic *Global Times* put up a rebuttal arguing that China's reforms are far more superior than the "untested, uncertain and simply bold reforms of Myanmar" (*Global Times website* 2012a), it was widely condemned by netizens as "shameless", "desperately aimed at prolonging the life of

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27 Interviews with western diplomats, Washington DC, and Yangon, July and August, 2012.

28 Such advantages include financial assistance from Chinese policy banks and lower labour costs.

29 Interviews with Chinese businessmen, Kunming, August 2012.

30 Interviews with Burmese analysts, Yangon, August 2012.

31 Zhao Xiao is a Professor of Economics at the Beijing Science and Technology University.

authoritarianism” and “outright lying” (*Global Times website* 2012b). The pressure on Beijing increased tremendously.

Myanmar’s reform model could offer authoritarian regimes an appealing alternative to the traditional China model, featured by political authoritarianism and economic capitalism. Against China’s earlier advice for Myanmar to resort to economic development instead of democratic reform to build legitimacy, Thein Sein government chose a completely opposite path. Rather than focus on economic reform first, Myanmar started with political democratisation, a sharp contrast to the model China propagandised. Myanmar’s success could have a potential, far-reaching exemplary effect over other authoritarian countries important for China, such as North Korea. In June 2012, the U.S. envoy on North Korean human rights issues, Ambassador Robert King argued that political and economic reforms unfolding in Myanmar are a great example for North Korea to follow (Foster 2012).

The counter-argument from the Chinese policy community against the so-called “Myanmar model” focuses on the untested future of the reform. In their views, Myanmar might have established the democratic procedures, but it also has inherited their downside such as the lack of efficiency. Combined with Myanmar’s hierarchical political culture, rampant governance irregularities and political factionism, the eventual result of the political reforms is “too early to tell.”<sup>32</sup>

## 2.3 Strategic Impacts

In China’s original strategic plan prior to the inauguration of the Thein Sein government, its relations with the new civilian government in Myanmar would be a strategic cooperation based on the traditional fraternal friendship and economic ties. Summarised as a “comprehensive strategic cooperative partnership”, China’s strategic aspiration about Myanmar included Naypyidaw’s support of China at ASEAN and Greater Mekong Sub-regional economic cooperation (*Xinhua News* 2011b), as well as a national “bridgehead” strategy that would turn Myanmar into China’s outpost into the Indian Ocean with a potential for naval cooperation (Sun 2012: 83–84).

The foundation of this strategy is the assumption that Myanmar would not adopt political reform, hence its international isolation and overdependence on China would continue. However, as the Myanmar politics goes through rapid changes, the asymmetry between the two countries began to reserve: In the past China had all the leverage against Myanmar because of its international isolation, but now Myanmar has found viable alternatives to

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32 Interviews with Chinese analysts, Kunming, Hong Kong and Beijing, May, June and August 2012.

China while China's interests are already deeply entrenched in Myanmar. The most immediate impact over China's strategic interests is that Myanmar is no longer seen as a reliable, loyal ally to advance China's regional and strategic agenda.

Under the circumstances, the official references to the "comprehensive strategic cooperative partnership" by senior Chinese leaders become less enthusiastic and rather pale. In their meetings with President Thein Sein, Vice President Xi Jinping and National People's Congress Chairman Wu Bangguo both expressed the hope to "push forward the comprehensive strategic cooperative partnership" (*Xinhua News Agency* 2012a; Chinese Ministry of Foreign Affairs 2012). However, key components such as "mutual strategic support of each other at multilateral forums" and "pragmatic, mutually beneficial economic cooperation" (*Xinhua News* 2011b) have disappeared from the official statements. One senior Myanmar analyst in China commented that the comprehensive strategic cooperative partnership has been dropped as a realistic policy goal and diminished to a mere slogan.<sup>33</sup>

Discussions about using Myanmar for access into the Indian Ocean and provide naval cooperation have also become largely silent.<sup>34</sup> Dialogues between Chinese and Burmese security apparatus have focused on the security and law enforcement cooperation along the Mekong River (*Xinhua News Agency* 2012e), such as the quadrilateral joint patrol by China, Myanmar, Laos and Thailand (*China Daily* 2012). Different from the previous ambitious and aggressive discussion about Myanmar's strategic utility for China's "two ocean" strategy, these dialogues are defensive in nature, aimed at protecting the safety of Chinese ships and are largely defensive in nature.

China's strategic interests in Myanmar are seen further undermined by the engagement of the U.S. China invariably sees the U.S. engagement in Myanmar and their rapidly improving ties as Washington's strategic move to undermine China's regional influence, a concern that was openly expressed by China's Vice Foreign Minister (*Reuters* 2012). As early as 2009, Chinese Southeast Asia experts such as Zhang Xizhen and Yu Changsen had warned that the normalisation of U.S.–Myanmar relations was bound to threaten China's security, damage the existing China–Myanmar cooperation and indirectly hurt the security of Chinese border and energy transportation route (*People's Daily website* 2009). The prophecy seemed to have proven true, as Myanmar becomes "an important pawn for the U.S.' deployment to China's borders" (Wang 2012). Chinese officials and scholars essentially see the game as a zero-sum one, believing China's quagmire in Myanmar today is a

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33 Interview, Hong Kong, June 2012.

34 Interviews with Chinese analysts, Kunming, August 2012.

result of U.S. manipulation to alienate China and Myanmar, and an essential component of the U.S. pivot to Asia.<sup>35</sup> Under the circumstances, potential military cooperation between the U.S. and Myanmar rings louder alarm bell in China than anything else. The invitation for Myanmar to observe the U.S.-led Cobra Gold joint military exercise (Bernstein 2012) or the potential intelligence sharing between CIA and Myanmar (Roberts and Symonds 2012) are perceived to be serious challenges to China's national security.

Last but not least, the changing Myanmar also has influenced China's strength at ASEAN. Free from its previous over-dependence on China, Naypyidaw no longer needs to struggle between the desire to please China and its ASEAN identity. According to President Thein Sein's advisor, "Myanmar determines its position on South China Sea in accordance with its own national interest and the solidarity of ASEAN as the regional organisation", implying that Myanmar has no intention to back up China's position.<sup>36</sup> During the July 2012 ASEAN Summit, China had to rely completely on Cambodia to block the attempt by the Philippines and Vietnam to reference Manila's recent naval stand-off with China over disputed Scarborough Shoal (*The Economist* 2012). It was said that Myanmar "stood aside" and "didn't even lift a finger" to assist China.<sup>37</sup>

### 3 China's Responses to the Changing Myanmar

The changes inside Myanmar and the impacts over China's national interests set off a broad debate in the policy community about how China should respond to the challenges. Centred on whether China should "punish" Naypyidaw for its "betrayal" and seek to enhance its leverages through issues such as border ethnic groups to prevent it from further "victimising" China in pursuing a better relationship with the west, the debate calls for a complete re-examination of China's policy towards Myanmar.<sup>38</sup> Opponents argue that such actions will inevitably strain the already tense relationship and China should leave the harsh feelings and focus on the future. Propo-

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35 The Wikileaks reports on U.S. Embassy in Rangoon funding anti-Myitsone activities in and outside Myanmar confirmed such suspicion and reinforced the Chinese perception that the Chinese projects have been sabotaged by the West in an effort to alienate China-Myanmar relations. *World Knowledge* 2011. And interviews with U.S. diplomats, Washington DC, and Yangon, March, August 2012.

36 Interviews with Myanmar government advisors, Yangon, August 2012.

37 Interview, Kunming, August 2012.

38 Interviews with Chinese analysts, Beijing, Washington DC, Hong Kong, May, June, July and August 2012.

nents believe that appropriate responses to Myanmar's action are required to maintain the effectiveness of China's policy.

While the debate is ongoing, China has responded to the changes inside Myanmar in several important fronts. These include a major reduction of Chinese direct investments, the cooling off of the political relationship, the establishment of relations with the democratic forces and major public relations campaigns.

### 3.1 Major Reduction of Investment

China's most striking adjustment toward Myanmar is the drastic shrinking of Chinese investment since late 2011. Between 2008 and 2011, Chinese investment in Myanmar jumped from 1 billion USD to nearly 13 billion USD (*Mizzima News* 2012b). The boost came primarily in 2010 – the Myitsone dam project, the CNPC pipelines and Norinco's Mongywa copper mine project valued collectively more than 8 billion USD (*The Myanmar Times* 2010). Part of these committed investments came through in 2011, with a total value of 7.5 billion USD according to Chinese official *Xinhua News* (*Xinhua News Agency* 2012d).

However, since the political reforms in Myanmar picked up speed, this rapid growth was abruptly interrupted. According to Burmese official data, by December 2011, China's accumulative investment in Myanmar was 13.95 billion USD (Chinese Embassy in Myanmar 2012). However, by September 2012, the cumulative FDI from China only grew to 14.14 billion USD based on the statement by President Thein Sein (*Xinhua News Agency* 2012b). The ten month period witnessed a growth of a mere 190 million USD in Chinese investment, a major decrease compared with 2010 and 2011 by the monthly average. According to Chinese journalists in Yangon, there has been no announcement of any major investment in Myanmar since the suspension of Myitsone dam.<sup>39</sup> Most Chinese investors are focusing on implementing the previously signed agreement and refrain from reaching new deals (*Zhongguo-qiyebao* 2012). Large state-owned energy and mining companies have been most active in Myanmar in the past. Although some of them still wish to invest in the country to pre-empt western competition, they are advised to hold off new projects until further notice.<sup>40</sup>

The sharp reduction of investment is a natural response to the perceived "China-unfriendly" moves by Naypyidaw, as Beijing warns its companies of the "rising political risk against Chinese investment" in Myan-

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39 Interviews with Chinese journalists, Yangon, August 2012.

40 Interviews with Chinese businesses, Beijing, May 2012.

mar.<sup>41</sup> For Beijing, the existing Chinese projects already stirred up strong anti-China sentiment and more endeavours will only “throw gas on fire”.<sup>42</sup> Therefore, it is necessary to avoid additional potential controversies. Another reason for the caution is the uncertainty of Myanmar’s domestic politics. With the foreign investment law and power distribution among central/local parliaments and governments unsettled, Chinese firms wishes to “wait and see.”<sup>43</sup>

This explains the wide spread, scornful attitude in China toward the west’s enthusiasm about Myanmar’s economy opportunities. Chinese investors and analysts believe that the westerners are “prematurely optimistic” because “they know nothing about Myanmar” while the Chinese already learned their lessons.<sup>44</sup> At the same time, they also argue the Burmese have unrealistic expectations about the west and after the locals learn about their same profit-driven nature, “their resentment against China will be eased.”<sup>45</sup>

### 3.2 Cooling Political Ties

China’s recalibration of the relationship with Myanmar is also reflected in the decreasing level and frequency of senior official visits. From March 2009 to April 2011, four members of China’s Politburo Standing Committee visited Myanmar.<sup>46</sup> However, no senior Chinese leader visited the country since then until September 2012, which coincided with the downturn of the bilateral relations. It was said that Premier Wen Jiabao originally planned to attend the 4<sup>th</sup> Summit of the Greater Mekong Sub-region Economic Cooperation in December 2011, but his trip was cancelled last minute and State Councilor Dai Bingguo was dispatched instead (Varma 2011). The speculation was both Myitsone dam suspension and Hillary Clinton’s visit to My-

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41 Interviews with Chinese analysts, Yangon, August 2012.

42 Interviews with Chinese analysts, Beijing, August 2012.

43 In the past, Chinese companies only needed to deal with the Burman central government, a cause of grievance from local communities and ethnic groups. But now, according to one Yunnan private businessman who has received various invitations from Myanmar to invest in Shan and Kachin states, the process is complicated by the competition and redundant requirements from the governments, parliaments and military at both central and local levels. Additional concerns are rampant, such as local reaction to Chinese investments, social and environmental issues, ethnic groups’ discontent and armed conflicts.

44 Interviews with Chinese diplomats, Yangon, August 2012.

45 Interviews with Yunnan analysts, Yunnan, May 2012.

46 They were: Li Changchun (March 2009), Xi Jinping (December 2009), Wen Jiabao (June 2010), and Jia Qinglin (April 2011)

anmar contributed to the decision.<sup>47</sup> Even the level of visit by the People's Liberation Army has degraded: from the Vice Chair of China's Central Military Commission in May 2011 to the Vice Chief of Staff in September 2012.

During this period, most of Chinese officials visiting Myanmar were focusing on working-level, substantive issues, rather than on high-profile display and celebration of bilateral friendships. For example, State Councillor Dai Bingguo visited Myanmar in December 2011 to attend the 4<sup>th</sup> Summit of the Greater Mekong Sub-region Economic Cooperation (Chinese Ministry of Foreign Affairs 2011). Politburo member Wang Gang visited the country in May 2012 for parliamentary exchanges and public relation campaigns (*Xinhua News* 2012), then State Councillor Meng Jianzhu (in charge of security) was in Naypyidaw in July 2012 to discuss the safety patrol of Mekong River (*Global Times* 2012).

The Chairman of China's National People's Congress, Wu Bangguo, was the only senior Chinese leader to have visited Myanmar since the 2010 elections. Despite the repeated official media stories portraying the trip as one that "cements relationship", and "lifts ties", the details reveal more problems under the rosy picture (*Chinese Government's Official Web Portal* 2012). Wu emphasised three aspects of the bilateral relations: "to enhance bilateral strategic mutual trust"; "to push forward the agreed major cooperation projects"; and "to deepen cultural and people-to-people exchanges" (*Chinese Government's Official Web Portal* 2012). However, in Chinese foreign policy lexicon, a calling for enhancing mutual trust only happens when there is a bankruptcy of such trust.<sup>48</sup> The "agreed" major cooperation projects were clearly targeted at the oil and gas pipelines as well as the Myitsone dam, which have both run into major problems. Furthermore, the "people exchanges" attests to China's new public relation campaigns aimed at combating the anti-China sentiment on the ground. Issues such as the "mutual support of each other" position at multilateral forums" completely disappeared from the language. In addition, the trip did not result in any major announcements about the bilateral relations (Boehler 2012).

### 3.3 New Relations with the National League for Democracy

After two decades of rejection and denial, China finally recognised the legitimacy of Aung San Suu Kyi and her National League for Democracy (NLD)

<sup>47</sup> Interviews with China analysts, Washington DC, December 2011.

<sup>48</sup> The best example of such a case is Sino-US relations, on which Beijing constantly calls for enhancing mutual strategic trust. Interview with a Chinese analyst, Beijing November 2011.

in late 2011 and began to develop a normal relationship with them. From December 2011 to June 2012, the Chinese Ambassador had three meetings with Aung San Suu Kyi, an unthinkable development under the junta years (*Seven Days Weekly News* 2012). The result of such endeavour remains to be seen. Aung San Suu Kyi has openly expressed the importance she attaches to China and her willingness to work with both Beijing and Washington in and outside Burma.<sup>49</sup> However, in many Chinese' eyes, Aung San Suu Kyi is the loyal ally of the U.S. and who champions democratic values absent in China. Beijing understands that it has to work with her and NLD given their rising influence in the domestic politics and it is against China's interests to reject them. Nevertheless, "given the historical baggage, we have not figured out how to improve the relationship."<sup>50</sup>

### 3.4 Major Public Relations Campaigns

While China is cooling down on its economic and political engagement, it has been actively reaching out to Myanmar people. Relying on public relations, public diplomacy and corporate social responsibility programs, Beijing aims to improve its image on the ground and relations with the local community.

The first component of this strategy is media. Seen the major role media played in influencing the public opinion on Myitsone dam, Beijing has put more efforts into its public outreach inside Myanmar. Not only Chinese Central TV began its broadcasting in Myanmar weeks after the suspension of Myitsone dam (*Xinhua News* 2011a), China also began to invite Burmese media delegations to visit China (*China News* 2011). These public diplomacy programs are aimed at promoting a positive image of China and fostering favourable feelings among Myanmar media workers.

The second component is Buddhist diplomacy (*Wall Street Journal Chinese Version* 2011). The sacred Buddha relics China possesses are a unique public diplomacy instrument. In November and December 2011, the sacred tooth relic of Buddha was conveyed to Myanmar for a 48 day obeisance. According to Beijing, "Buddhist culture exchange plays an important part in China-Myanmar friendly exchange, enhancing the understanding and mutual trust between the two peoples" (*Chinese Embassy Website* 2011). The last time China offered such a favour was in 1996.

The public diplomacy was further boosted in May 2012, when Beijing kicked off a mass campaign named "Deep Fraternal Friendship" in Yangon

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49 Htay 2012. And Aung San Suu Kyi's Speech at U.S. Institute of Peace, Washington DC, 18 September 2012.

50 Interviews with Chinese analysts, Kunming, August, 2012.

to consolidate the friendship between the two peoples and boost traditional ties (*People's Daily website* 2012). The program is consisted of five key components: a medical assistance program “Brightness Action” for cataract patients, the establishment of a Sino–Myanmar ophthalmology centre, the donation of computers to local elementary and secondary schools, a business forum targeting local small businesses, and large artistic performances “Linked by Mountains and Waters” to compliment the friendship between the two peoples (*China News* 2012).

Last but not least, Beijing has made corporate social responsibility programs as an integral component of Chinese SOEs’ operations inside Myanmar after the Myitsone suspension.<sup>51</sup> CNPC has committed six million USD to build eight schools, nineteen clinics and one hospital along the pipeline construction sites (*Xinhua News Agency* 2012c). It is also reported that the Chinese investor has continued to build roads and schools in Myitsone even after the dam was suspended (Duan 2012). Chinese companies are required to honour requests of local populations and local governments, such as avoiding all religious sites in the pipeline constructions and adapting technical specifications of the project according to local requests despite the higher costs (*Liao Wang Oriental Weekly* 2012). CNPC also has increased the percentage of local hires. In certain construction sites, it’s said that the percentage of local workers is as high as 70 per cent (*Liao Wang Oriental Weekly* 2012).

## 4 China’s Strategic Priorities

Before the political reform, China used to have four key interests inside Myanmar: border stability, energy security, economic investment and geo-strategic utility. As China temporarily holds off new investment and geopolitical aspirations, the security of China’s energy investment and border issues have emerged as the top two priorities on Beijing’s agenda.

### 4.1 Security of China’s Energy Investment: Oil and Gas Pipelines and Myitsone Dam

Myanmar’s importance for China’s energy security lies in two aspects: as an energy transportation route and as a provider of hydropower and natural gas (ICG 2010: 8). The largest Chinese investments in the country have been in hydropower dams and energy pipelines (*Xinhua News Agency* 2012f). Currently, the pipeline project stands as China’s top national priority inside Myan-

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51 Interviews with Chinese businesses, diplomats and analysts, Yangon, August 2012.

mar. This is not only because the 2.54 billion USD project will bring in 22 million tons of crude oil and 12 billion cubic meters of natural gas annually to the energy-starved southwest China, but also because the pipelines are a key component to diversify China's energy transportation routes to mitigate its strategic vulnerability (*Lunwen Wang* 2012). The Chinese government is highly concerned with the frequent anti-pipeline reports and protests and how they might impact the construction of the pipelines. According to a senior advisor to the government,

for China, Myitsone dam is only a commercial project by one Chinese company, but the pipeline project is significant on the national and strategic levels. Therefore, all measures are being taken to preempt potential risk to the pipelines.<sup>52</sup>

To this end, senior Chinese leaders repeatedly re-emphasised the need to “ensure the progress and implementation of the pipeline project” (*Xinhua News Agency* 2012a; Chinese Ministry of Foreign Affairs 2012).

While China focuses on the speedy construction of the pipelines, Myitsone dam has become a major obstacle for the bilateral relations. According to Burmese observers, China has made the “resolution” of Myitsone dam issue a precondition for negotiation on other deals and projects. The “resolution” China pushes for includes two questions: 1) whether the project is completely and permanently cancelled, and 2) if so, what the compensation scheme would be.

The Burmese policy community is divided into two camps on how to deal with the Myitsone dam. Both agree that the permanent abandonment of the dam is inevitable, as it symbolises the free will of Burmese people, democratic awakening and independent foreign policy. However, they differ on the terms of the cancellation. The hawkish school argues that China should unilaterally give up not only the project but also the financial compensations to make up for its past exploitation of Myanmar if it is “genuinely interested in repairing the relationship.”<sup>53</sup> The more realistic camp contends that China should accept Myanmar's decision on Myitsone, “turn over the page as soon as possible” and focus on new collaborations. They also argue that Myanmar should fairly compensate the Chinese investor for the losses.<sup>54</sup> But the Chinese side doubts Naypyidaw will have the financial resources to do so.

There are strong voices inside China calling for the resumption of the Myitsone project. Some officials and analysts are fundamentally uncon-

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52 Interviews with Chinese government advisor, Washington DC, July 2012.

53 Interviews with Burmese analysts, Yangon, August 2012.

54 Interviews with Burmese analysts, Yangon, August 2012.

vinced by the negative impacts associated with Myitsone dam, seeing them as mere misunderstanding resulted from CPI's poor communication skills and the hostile instigations by the west.<sup>55</sup> Furthermore, China is willing to renegotiate the terms on Myitsone dam, including its location, compensation packages and the power output distribution ratio. Therefore, it is "counter-intuitive" to them that Myanmar should reject the proposal.<sup>56</sup>

## 4.2 Border Issues

China's anxiety about the security of its energy investment is exacerbated by the ongoing conflict between the Kachin Independence Army (KIA) and the government military since June 2011. The conflict itself was not as serious a threat to China's border security as the Kokang incident in 2009 in that it didn't cause a large refugee flow into China. This explains China's rather hands-off approach towards the conflict: China refused to play a role in the peace negotiation between the Kachin and the government other than providing a venue for the talks and repatriated most of the Kachin refugees entered China.

However, the prolonged Kachin conflict does impact China's national interests, especially on the security of China's energy investment. The Myitsone dam is located in Kachin state and a negotiation about its resolution will have to include the local Kachin population, but the prospect of that is hindered by the ongoing conflict. The construction of the pipelines circumvents the conflict zones, but still is relatively close. This reality is particularly unsettling given KIA's bombing of roads, bridges and other civilian facilities in fighting with the government military.<sup>57</sup> The only beneficiaries of the conflict have been the private Chinese businesses, who exploited the lack of management and patrol of the border to illegally exploit and smuggle timber, jade and minerals back to China.<sup>58</sup>

China's dilemma on the Kachin issue therefore is multi-fold. China does not actively seek to mediate, which would be seen by Naypyidaw as an interference of Myanmar's internal affairs. However, the failure to end the conflict has a direct impact over China's commercial and security interest. Helping Naypyidaw by pressuring Kachin for negotiation might improve Sino-Myanmar relations. Nevertheless, the uncertain Myanmar politics of-

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55 For example, a Chinese journalist argued that CPI should publish its environmental impact assessment report and terms negotiated with the military government to dispel public criticisms.

56 Interviews, Yangon, August 2012.

57 Interviews with Chinese journalists, Yangon, August 2012.

58 Interviews with local interlocutors, Ruili, August 2012.

fers no guarantee that such a move would not hurt China in the future when China might need the KIA as policy leverage.

China is pleased to see the establishment of the Peace Center by President Thein Sein to negotiate with the ethnic ceasefire groups and agree with the Peace Center's identifying the sharing of economic benefits from the natural resources with Kachin as the key to reach a ceasefire/resolution.<sup>59</sup> However, China's suspicion is with Thein Sein's capacity to control the military's actions given the military's existing equity in the natural resources of Kachin state. According to Burmese analysts, any attempt to achieve peace in Kachin state will have to be based on an effective control of the military by President Thein Sein, which depends upon certain coalition among Thein Sein, Shwe Mann and Aung San.

Whether they can put aside their individual agendas, ambitions and competitions to reign in the military will be a major test for their leadership and a challenge for the future of the country.<sup>60</sup>

## 5 Looking Ahead

The political reform in Myanmar has achieved what U.S. diplomats see as a "victory of the first stage." The democratic framework and procedures are now preliminarily put in place, but the more difficult tasks are yet to follow. Now the different political forces have to work out their relations in the new political setting. And the government will need to deliver real economic benefits to the people long starved for both political and economic freedom. The road ahead is daunting.

In general, China remains critical on the future of Myanmar. Politically, Beijing sees Myanmar politics as chaotic, incohesive and infested with factional competitions. Economically, the Thein Sein government is yet to produce effective policies to stimulate growth, attract foreign investment and improve economic performances. As for national reconciliation, it might take years, if not decades, for the negotiation to conclude. These perceptions translate into a general conclusion by Chinese analysts that Myanmar will be primarily consumed by its internal mess in the next few years.

The weaknesses of Myanmar might be potential good news China. Given the internal problems Myanmar faces, western investors are being extra cautious in their economic engagements. Despite the downturn since 2011, China sees itself eventually being indispensable for the future of My-

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59 Such "dual-track" (political+economic) resolution has been welcomed by some Kachin organisations. Interviews with local interlocutors, Ruili, September 2012.

60 Interviews with Burmese analysts, Yangon, August 2012.

anmar with its rich financial resources, geographical vicinity and other advantages. Among all the turbulences and uncertainties for China from Myanmar's political reform, Beijing still sees a silver lining.

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