Short Term Policy Brief 37

China-Burma Relations

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**Background Briefing: China-Burma Relations**

**Executive summary**

China-Burma relations are underpinned by strategic interests and geographic realities. China has been an important source of political and economic support for Burma. In return, China has been given access to Burma’s abundant resources, and an ability to use it as a strategically important entry point to the Indian Ocean.

While several key challenges lie ahead, including the upcoming 1 April by-elections, the speed and breadth of the recent political and economic reforms in Burma under Thein Sein’s government have been remarkable. Following earlier efforts to engage the Burmese regime, the US was quick to respond to Thein Sein’s reform programme with support and encouragement. The Secretary of State visited Burma in December 2011, and full diplomatic relations with Burma were restored in January this year.

Burma’s reforms and improved relations with the US present an interesting challenge for China. The reforms are likely to lead to greater stability and economic development in Burma – a common goal for China and the US – but threaten China’s economic and political dominance in its neighbour. China is also suspicious of the motives underlying the US’s engagement in Burma, in the context of the US’s broader strategic shift to Asia.

Although China has sought to increase its influence in Burma for strategic and economic reasons and Burma turned to China for protection during its international isolation, China’s ability to contain Burma has been limited due to Burma’s strong sense of nationalism and independence.

Chinese media reports on the general reform process and US engagement have focused on issues around stability and economic development, rather than on the shift towards a more democratic system. On matters such as the suspension of the Myitsone dam and the US ‘pivot’ towards Asia, coverage tends to be more critical, and raises concerns about the potential impact on China’s political and economic interests in Burma and the wider region. Censure tends to be focused on the US, rather than Burma.

While Burma’s reforms do appear genuine, the underlying motivations are not clearly known. Burma’s concern about over-reliance on China, and a desire to reassert and leverage its independence are likely to be key factors. The military regime may also have decided that reform was necessary for the on-going survival of Burma and for the military to be able to retain some form of control.

The Burmese government is keen to engage with the EU among others. In determining next steps, the EU should consider how to help foster sustainable reform and development in an independent Burma. The EU’s development assistance should be provided as rapidly as possible, and the EU should support Burma in protecting its economy and environment from being swamped by competitive foreign investors.
Main points

• China has been an important source of political and economic support for Burma. In return, China has been able to access Burma’s abundant resources, and to use it as a strategically-important entry-point to the Indian Ocean.

• Following earlier efforts to engage the Burmese regime, the US was quick to respond to Thein Sein’s reform programme with support and encouragement. The Secretary of State visited Burma in December 2011, and full diplomatic relations with Burma were restored in January this year.

• While Burma’s reforms will result in a more stable and prosperous neighbour, China is concerned about the potential impact on its economic and strategic interests.

• China’s ability to contain Burma has been limited due to Burma’s strong sense of nationalism and independence.

• Chinese media reports on the general reform process and US engagement tend to focus on issues around stability and economic development. Reporting is more critical when Chinese interests are directly affected.

• The reforms are likely to have been prompted by Burma’s concern about over-reliance on China. The reforms may have also been intended to ensure the survival of Burma and to enable the military to retain some form of control.

• In determining next steps, the EU should consider how to help foster sustainable reform and development in an independent Burma.
1) Introduction: China-Burma relations before the recent reforms

As with a marriage of convenience, relations between China and Burma have been underpinned by strategic interests and geographic realities. While China is a dominating neighbour, it has been an important source of political and economic support for Burma.

1.1 Political relations

From 1988 until the recent reforms, Burma increasingly relied on China’s support to shield it from international pressure and mitigate its growing isolation. In the United Nations Security Council, China protected Burma from punitive measures by blocking meaningful discussion, softening the language of resolutions and exercising its veto. Burma was able to circumvent arms embargoes by the US and EU by turning to China for military hardware and technical assistance.

On China’s side, Burma has a strategically important location between South Asia, China and Southeast Asia. Accessing the Indian Ocean through Burma provides China with a strategic presence in the Indian Ocean, boosting its ability to compete with India, as well as enabling access to alternative shipping routes to the congested and strategically vulnerable Straits of Malacca. These trading routes could also help to open up China’s less economically developed western provinces. For this reason, China is developing several ports along Burma’s coast on the Bay of Bengal, and building highways through Burma linking these ports to Rangoon and the Chinese interior.

1.2 Economic interests

During its international isolation, Burma relied heavily on China for trade. The balance of trade is significantly in China’s favour, and imports from China have grown exponentially over the last few decades. China has also provided significant development assistance to prop up the regime, including loans and grants.

In return, China has had access to Burma’s abundant resources to boost its own growth and meet its energy requirements. To extract these resources, China has invested billions of dollars into infrastructure projects, including more than US$20 billion into a planned high speed rail line, and more billions into oil, gas and hydroelectric power projects, including a planned oil and gas pipeline to transport energy resources to China’s cities.
2) Recent improvements in US-Burma relations

2.1 The recent reforms in Burma

The remarkable speed and breadth of political and economic reform in Burma over the past six months are well known. While the November 2010 elections were condemned as flawed by the international community, due to vote-rigging, other fraud and voter intimidation, the elections did result in the dissolution of the military regime’s ruling body, the State Peace and Development Council (SPDC) and the convening of President U Thein Sein’s nominally civilian government in March 2011. Although Thein Sein’s government consists primarily of retired senior military officers with close links to the former military regime, Thein Sein – originally seen as a regime flunky – has led a wide ranging reform programs since coming to power.

Political reforms include the release of hundreds of political prisoners since mid-2011, on-going negotiations with armed ethnic groups, electoral and media law reform, and reaching out to pro-democracy leader Aung San Suu Kyi. While many of the proposed reforms are still to be implemented, Aung San Suu Kyi believes Thein Sein is genuine in his desire for change. Her party, the National League for Democracy (NLD), will contest by-elections on 1 April to fill seats departed by parliamentarians who became ministers. On the economic side, Burma is working to modernise and open up its economy, including improving its banking and foreign exchange systems, and talking more openly about the need to address high levels of corruption.

While the reform process has considerable momentum and will be difficult to reverse, the road ahead will not be easy. The April by-elections will be the first real test and the government is well aware of the close international scrutiny surrounding the democratic nature of the elections. Other challenges include continuing conflict with ethnic groups, and huge capacity gaps in the ability of the government to implement the proposed reforms.

Given the broad nature and speed of the reform process, Burmese dissidents and the international community initially questioned the sincerity of Thein Sein and his reform agenda. These concerns have now abated somewhat, as the evidence indicates that Thein Sein and key figures in his government are genuine in wanting to implement reforms that will lead to greater stability and development in Burma, including boosting its international engagement. The underlying motivations and the extent of the government’s desire to move towards participatory democracy, however, are still not clear.
2.2 The US response: improved US-Burma political relations

The US was quick to respond to Thein Sein’s reform programme with support and encouragement. Since 2009, the Obama administration had been looking for opportunities to increase engagement with the military regime. They considered that the Bush administration’s policy of sanctions and isolation had not succeeded in improving conditions in Burma, and had only made the regime more resentful towards the US and more closely aligned to China. They wanted to create US influence in Burma, including on issues such as its relationship with North Korea, and to boost support for moderate factions. More broadly, hostile relations with Burma had obstructed the US’s ability to redevelop and strengthen its relationship with the Association of Southeast Asian Nations (ASEAN).

Initial outreach efforts from late-2009, including regular visits by senior US State Department officials, did not meet with much success. These efforts, however, meant that the US could move quickly when Thein Sein’s reform program started to take shape, including the appointment of a Special Representative and Policy Coordinator for Burma in August 2011.

Aung San Suu Kyi’s meeting with Thein Sein in August 2011 and her subsequent endorsement of his sincerity opened the way for the Secretary of State’s visit to Burma in early December 2011. During this visit, Clinton said the US wanted to assist Burma in its reform efforts if these maintained momentum. On 13 January 2012, Clinton announced that the US intended to ‘meet action with action’, and would restore full diplomatic relations with Burma.

The US has maintained its sanctions regime against Burma, and its next steps will depend on how the April by-elections are conducted. If the elections are seen as free and fair, the US is likely to find ways to provide significant financial and technical assistance. While the current policy of engagement and support for Burma has bipartisan support, removing the sanctions requires congressional approval, which will take some time. The current conditions of this include continued political reform and reconciliation with the ethnic minority groups.

3) Chinese perspectives on improved US-Burma relations

For China, Burma’s reforms and improved foreign relations present an interesting challenge. On one hand, the reforms are likely to lead to greater stability in a strategically important neighbour. On the other hand, Burma is shifting itself out of China’s orbit, threatening China’s economic and political dominance in
Burma. China is also suspicious of American motives, within the broader context of the US’s very public strategic ‘pivot’ to Asia.

3.1 Greater political and economic stability in Burma
Stability in Burma is a common goal for China and the US. China has had long-standing concerns about the military regime’s economic and political mismanagement, including activities such as diverting significant resources to building the new capital in Nay Pyi Taw. US assistance in promoting stability in Burma would allow China to focus more on maximising the value of its economic and strategic interests.

On the economic front, China’s ability to do business in Burma and maximise the returns from its large investments has been hampered by the lack of economic development and adequate institutions, as well as significant corruption and other failings in governance. China has been required to provide massive financial assistance to Burma to shore up the regime and maintain stability.

Politically, China needs a stable neighbour, particularly in the border regions. While China would not encourage full autonomy for Burma’s ethnic groups, given the precedent this would provide for ethnic groups on its own side of the border, reconciliation between the Burmese government and Burmese ethnic groups would reduce the pressure on China from on-going conflict and refugee flows.

At the national level, it is likely that China would be willing to deal with whichever government is in power. China’s ambassador was the first to congratulate Aung San Suu Kyi following the NLD’s landslide victory in the 1990 elections. Aung San Suu Kyi has emphasised publicly her desire to maintain good relations with China.

3.2 The threat to China’s economic dominance in Burma
While it may lead to greater stability, the opening up of Burma’s economy will threaten China’s ability to maintain its substantial influence in Burma’s economic development. Increased engagement by Burma with the US and others is likely to lead to greater competition for access to Burma’s natural resources, and closer scrutiny of the environmental and social impact of Chinese investment.

Currently, the US, EU and others still maintain economic sanctions against Burma. However, these will be reviewed and potentially removed if the April by-elections go smoothly and the reform momentum
continues. While some western corporations are still cautious about the investment climate in Burma, cancelling the sanctions is likely to generate much greater interest in economic opportunities in Burma. An influx of investors is likely to push up the price that China is required to pay to access resources.

Chinese investment in Burma, particularly in the extractives sector, has a poor reputation for ignoring adverse effects on the environment and failing to promote wider economic and social development. There have been allegations of forced labour and other human rights violations. More broadly, China’s support for the military regime is still resented by many in Burmese. China was seen as propping up an authoritarian and abusive regime in return for access to large swathes of Burma.

Public resentment towards China, and a greater choice of investment partners, has already impacted on Chinese interests. In September 2011, in a statement highlighting Burma’s reduced reliance on China, Thein Sein suspended China’s large Myitsone dam project, stating that the dam was contrary to the will of the people. The hydroelectric project would have spanned the Irrawaddy River, and was a key project for the former military regime. It was financed and led by China Power Investment, a state-owned Chinese company, and was due to deliver electricity to southern China. While problems with the dam had been discussed with China, the decision to suspend the dam was reportedly not communicated to China in advance.

While Burma made some effort to assure China of its on-going friendship following the suspension, it is unclear whether China is willing to accept the decision. There are reports that China recently started a public relations campaign in the area around the proposed dam. Chinese media coverage on the dam suspension continues to be negative.

3.3 Greater US political influence in Burma and the region

The US’s increased engagement with Burma is part of a broader strategic shift towards Asia. In November 2011, Obama announced that the US was ‘a Pacific power’ and would be strengthening its presence in Asia Pacific. A US strategy document released in January stated that the strategic shift would be aimed at countering China’s growing influence in the region.

The US has, publically and privately, made it clear to China that its increased engagement in Burma is aimed at supporting reform, rather than targeting China, and is in the best interests of both the US and China. Despite these diplomatic efforts, sections of the Chinese leadership see improved US relations with
Burma as part of a broader ‘containment’ strategy by the US against China. China recognises that Burma highly values its independence and is unlikely to become a US puppet. China, however, is still concerned about the possibility of a US-dominated neighbour, particularly one with such strategic importance. Burma’s declared shift towards a democratic system will also undermine China’s championing of socialist market ideology in Southeast Asia.

3.4 Chinese containment of Burma

While China has sought to increase its influence in Burma for strategic and economic reasons and Burma turned to China for protection during its international isolation, China’s ability to contain Burma has been limited.

As discussed further in section 5, China’s leverage over Burma was not extensive even at the height of Burma’s isolation. China was well aware that the military regime could cause significant headaches for China by blocking resources or causing increased unrest along the border and was not willing to risk its investments or border stability by overly pressing the regime on key issues.

Although Burma is conscious of its neighbour’s enormous economic and military might, it has a strong sense of nationalism and independence and would be willing to sacrifice much to maintain its independence. In an effort to strengthen its autonomy, Burma has also worked to leverage its strategic geographic location and natural resources, for example, by leveraging China against India.

4) Chinese media perspectives on improved US-Burma relations

Official Chinese media coverage of developments in Burma reflects the perspectives outlined above. Media reports on the general reform process and US engagement have tended to focus on issues around stability and economic development, rather than on the shift towards a more democratic system. On matters such as the suspension of the Myitsone dam and the US ‘pivot’ towards Asia, coverage tends to be much more critical and raises concerns about the potential impact on China’s political and economic interests in Burma and the wider region. Censure tends to be focused on the US, rather than Burma, perhaps because China is now competing to maintain its influence in Burma and cannot be overly critical of its neighbour.
4.1 Media reports on progress towards development and stability

Official Chinese media outlets (such as the People’s Daily, the Chinese Communist Party’s newspaper; and Xinhua News Agency, the official press agency of the Chinese government) have regularly reported on Burma’s reform process and increasing international engagement. While the democratic nature of some reforms is mentioned, changes are generally presented as progress towards stability and development, rather than towards a more democratic political system.

Chinese government spokespeople officially welcomed Clinton’s December 2011 visit to Burma and the resumption of full diplomatic relations, and said that China was ‘glad’ to see more contact between Burma and the US. Media reports have also covered other senior visits to Burma by the US and western countries, as well as on-going developments in Burma, such as preparations for the by-elections, the release of political prisoners, and Aung San Suu Kyi’s campaign trail. There has also been regular reporting on the progress of negotiations with armed ethnic groups, indicating China’s interest in border stability.

Reporting of high-level visits between Burma and China has largely emphasised the on-going close bilateral ties and cooperation between Burma and China. Statements of support have also emphasised stability and development, including phrases such as: ‘China supports Myanmar to walk on the development road which accords with its national conditions’ and ‘China supports Myanmar’s development path and will continue to back the country’s efforts to maintain national stability and development’.

4.2 Voicing Chinese concerns

Opinion pieces on the suspension of the Myitsone dam project and the US’s broader strategic shift into Asia have criticised the US and raised concerns about the potential impact on Chinese interests in Burma and Southeast Asia. While not necessarily representing official government policy, opinion pieces generally reflect the views of some in the Chinese leadership.

The official statement on Burma’s decision to suspend the Myitsone dam said that ‘Relevant matters that have emerged during the implementation of the project should be properly settled through friendly consultations between the two sides’. Opinion pieces complained that Chinese interests had been ‘stamped on’, and speculated that the US was behind the decision, or had supported groups opposing the dam. Further reporting noted that this move ‘sent alarming signals’, and that China would need to invest more diplomatic effort in protecting the rights and interests of its companies investing in emerging markets.
Opinion pieces have also voiced concern about the US’s underlying reasons for engaging with Burma, in the context of its broader strategic shift towards Asia. By isolating and encircling China, some articles have argued that US engagement could threaten China’s strategic interests in Burma, including access to the Indian Ocean. More positive reports note that China-US cooperation could be a common goal, if the US respects China’s legitimate interests in the region.

5) Burmese perspectives: concern about over-reliance on China

While the motivations underlying Burma’s reforms are not clearly known, Burma’s concern about over-reliance on China, and a desire to reassert and leverage its independence are key factors. The military regime may also have assessed that reform was necessary for the on-going survival of Burma and to maintain some form of military control.

5.1 Burmese mistrust of China

Burma prioritises independence and has a strong resistance to foreign intervention. While Burma sought and relied on China’s protection during its international isolation in order to survive, it resented its dependence on China and remained suspicious of China’s strategic intentions, even with wide-ranging cooperation. Many of the senior military officers in the regime fought against the Chinese-supported Communist Party of Burma (CPB) in the 1940s, and were well aware of China’s more recent support for armed ethnic groups on the border, aimed at providing a counter-balance to the military regime.

The Burmese leadership has also been concerned about China’s economic dominance in Burma, fearing that Burma was becoming an economic colony. As mentioned above, there is a significant trade imbalance between the two countries and Burmese markets are dominated by Chinese goods. China is also the largest investor in Burma by a sizeable margin. While some key figures in the former military regime have a personal financial interest in the status quo and close association with China (due to corrupt commercial deals), they have not yet been able to derail the reform process.

Burma also understands the value of its strategic location and rich resources. Reliance on China has limited Burma’s ability to leverage these advantages, though it has been relatively successful in using India as a counterweight to China. One important benefit of greater engagement on the international stage will be an increased ability to leverage its strengths with other global powers, including the US, Japan and others.
5.2 Reforming to survive
Before the reforms, it was fairly clear that Burma had fallen far behind its neighbours. Its economy was in tatters, and there was a serious prospect of further large-scale social unrest, given the level of anger and hostility towards the regime. In order to be able to access necessary technical and financial assistance without increased dependence on China, Burma needed to reengage at the international level and, in particular, utilise the resources of international financial institutions, blocked by US sanctions.

Key figures in the former military regime may have decided to give some ground and implement economic and political reforms, rather than risk continued build-up of popular resentment and potentially destabilising uprisings that could topple the regime. In this case, it is possible the regime drew broad lessons from the Arab Uprisings.

These considerations may have helped push some of the more hardline military figures to accept the reforms, particularly since Thein Sein’s government still operates under the restrictive 2008 Constitution which enshrines power for the military. The extent to which the current Burmese government will be willing, and able, to move towards a more democratic and participatory system through constitutional reform is still to be determined.

6) Conclusion and policy recommendations
While the US and international financial institutions are key targets for Burma, the Burmese government is also keen to reengage with the EU and EU Member States. There have been numerous high-level visits from the EU and Member States over the past few months, including the EU Aid Commissioner Andris Piebalgs, an European Parliament delegation, UK Foreign Minister William Hague, French Foreign Minister Juppe and German Development Minister Dirk Niebel.

The EU removed visa bans against some former regime figures in early-February and announced that it would review the rest of the sanctions, including further visa bans, asset freezes and the arms embargo on 23 April, following the by-elections. Piebalgs also announced €150 million in assistance to Burma.

In determining next steps, the EU should consider how to help foster sustainable reform and development in an independent Burma. To consolidate these early stages of reform and ensure they result in tangible benefits, the EU’s development assistance should be provided as rapidly as possible, in close coordination with other donors.
The EU should also support Burma in protecting its economy and environment from an influx of competitive foreign investors, including assisting it to develop appropriate environmental, legal and social safeguards. It would not be in the long-term interests of Burma or the EU if the Burmese economy was flooded with investment before it developed the absorptive capacity to ensure that finance is used productively and sustainably.

Burma’s suspension of the Myitsone dam project, and the recent cancellation of a 4,000 Megawatt coal-fired power plant, part of the US$58 billion Thai-led Dawei project, shows that the government is willing to consider the social and environmental impact of investments and is not afraid to stand up to its neighbours. The EU should seek to involve China in the development of these safeguards and emphasise the common goal of sustainable long-term development and stability in Burma.