CHINA'S MYANMAR DILEMMA

Asia Report N°177 – 14 September 2009

International Crisis Group
WORKING TO PREVENT CONFLICT WORLDWIDE

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EXECUTIVE SUMMARY

Each time global attention is focused on events in Myanmar, concerned stakeholders turn to China to influence the military government to undertake reforms. Yet simply calling on Beijing to apply more pressure is unlikely to result in change. While China has substantial political, economic and strategic stakes in Myanmar, its influence is overstated. The insular and nationalistic leaders in the military government do not take orders from anyone, including Beijing. China also diverges from the West in the goals for which it is prepared to use its influence. By continuing to simply expect China to take the lead in solving the problem, a workable international approach will remain elusive as Myanmar continues to play China and the West against each other. After two decades of failed international approaches to Myanmar, Western countries and Beijing must find better ways to work together to pursue a wide array of issues that reflect the concerns of both sides.

The relationship between China and Myanmar is best characterised as a marriage of convenience rather than a love match. The dependence is asymmetric – Myanmar has more to lose should the relationship sour: a protector in the Security Council, support from a large neighbour amid international isolation, a key economic partner and a source of investment. While China sees major problems with the status quo, particularly with regards to Myanmar's economic policy and ethnic relations, its preferred solution is gradual adjustment of policy by a strong central government, not federalism or liberal democracy and certainly not regime change. In this way, it can continue to protect its economic and strategic interests in the country. In addition to energy and other investments, Myanmar's strategic location allows China access to the Indian Ocean and South East Asia.

But Beijing's policy might ultimately have an adverse effect on Myanmar's stability and on China's ability to leverage the advantages it holds. Political instability and uncertainty have resulted in a lack of confidence in Myanmar's investment environment, and weak governance and widespread corruption have made it difficult for even strong Chinese companies to operate there. Myanmar's borders continue to leak all sorts of problems – not just insurgency, but also drugs, HIV/AIDS and, recently, tens of thousands of refugees. Chinese companies have been cited for environmental and ecological destruction as well as forced relocation and human rights abuses carried out by the Myanmar military. These problems are aggravated by differences in approach between Beijing and the provincial government in Yunnan's capital Kunming, which implements policies towards the ethnic ceasefire groups.

At the same time, resentment towards China, rooted in past invasions and prior Chinese support to the Communist Party of Burma, is growing. Myanmar's leaders fear domination by their larger neighbour, and have traditionally pursued policies of non-alignment and multilateralism to balance Chinese influence. Increasing competition among regional actors for access to resources and economic relationships has allowed Myanmar to counterbalance China by strengthening cooperation with other countries such as India, Russia, Thailand, Singapore, North Korea and Malaysia. The military government is intensely nationalistic, unpredictable and resistant to external criticism, making it often impervious to outside influence.

While China shares the aspiration for a stable and prosperous Myanmar, it differs from the West on how to achieve such goals. China will not engage with Myanmar on terms dictated by the West. To bring Beijing on board, the wider international community will need to pursue a plausible strategy that takes advantage of areas of common interest. This strategy must be based on a realistic assessment of China's engagement with Myanmar, its actual influence, and its economic and strategic interests. The West could better engage China to encourage Myanmar's government to commit to a truly inclusive dialogue with the opposition and ethnic groups. In addition to talks on national reconciliation, dialogue should also address the economic and humanitarian crisis that hampers reconciliation at all levels of society. At the same time, China should act both directly and in close cooperation with ASEAN member countries to continue support for the good offices of the United Nations as well as to persuade the military to open up.

Myanmar is heading towards elections in 2010 which, despite major shortcomings, are likely to create opportunities for generational and institutional changes. International policy towards Myanmar accordingly deserves careful reassessment. China is encouraging the government to make the process genuinely inclusive, but will certainly accept almost any result that does not involve major instability. While its capacity and willingness to influence Myanmar's domestic politics is limited, the international community should continue to encourage Beijing as well as other regional stakeholders to take part in a meaningful and concerted effort to address the transition in Myanmar.

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International Crisis Group
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CHINA'S MYANMAR DILEMMA

I. INTRODUCTION

China's political and commercial position in Burma/Myanmar[1] is in large part a consequence of decisions made in Western capitals. Confronting a comprehensive set of economic and diplomatic sanctions by the U.S. and the European Union, as well as the suspension of new development assistance by Japan in 1988,[2] Myanmar sought stronger relations with its neighbours. Burmese Prime Minister Ne Win had begun working to improve diplomatic relations with China in October 1970 and visited Beijing the following August, but it was not until years later that ties improved. Border trade officially opened in 1988. The Communist Party of Burma (CPB), which China had supported, collapsed in March 1989, around the same time that democracy movements in both countries were followed by harsh crackdowns and Western condemnation. Relations warmed considerably. China, which had just entered a period of economic reform and development, readily expanded its stake in Myanmar.

The benefits were almost immediate for Myanmar. China's economic, military and political support was a lifeline for the military government.[3] Disastrous nationalisation policies had turned Myanmar into one of the world's most impoverished countries, and it relied increasingly on trade, investment and aid from China. China also provided military assistance, beginning in 1989, at a time when few others were willing to supply arms. China's value to Myanmar has only increased with its rise as a regional power.

As Myanmar's strongest supporter, China's backing for any international strategy to promote positive change is vital, but there are important limits to China's influence over Myanmar and to how it is willing to exert pressure. This report examines the drivers of Chinese national and provincial policy towards Myanmar and its implications for international approaches toward the country. In so doing, it explains how Chinese authorities manage the relationship with the Myanmar government, ethnic groups and opposition; and analyses limits on Chinese influence. The report does not present a general framework for international policy on Myanmar, which was the subject of an earlier Crisis Group report.[4]

This report is based on interviews conducted on both sides of the China-Myanmar border, from Thailand on the Thai-Myanmar border, as well as in Yangon, Mandalay, Kunming, New Delhi, Bangkok, Geneva, New York and Washington DC. Crisis Group spoke to a wide range

[1] This report uses the name Myanmar, in line with the practice of the UN and most countries outside North America and Europe. This is not a political statement or a judgment on the right of the military regime to change the name of the country.

[2] Up to 1988 Japan had been the main foreign aid donor to Myanmar, making up 78 per cent of Myanmar's overseas development assistance (ODA). Following that year's military coup and crackdown on pro-democracy demonstrators, Japan suspended all assistance, except for a small amount of humanitarian aid and projects that had been previously agreed upon. Even so, Japan continues to be among the largest donors. Toshihiro Kudo, "Myanmar and Japan: How Close Friends Become Estranged", Institute of Developing Economies, discussion paper no. 118, August 2007, at www.ide.go.jp/English/Publish/Download/Dp/pdf/118.pdf; Patrick Strefford, "Japanese ODA diplomacy towards Myanmar: A Test for the ODA Charter", *Ritsumeikan Annual Review of International Studies*, vol. 6 (2007), pp. 65-77, at www.ritsumei.ac.jp/acd/cg/ir/college/bulletin/e-vol.6/04Patrick%20Strefford.pdf.

[3] The State Peace and Development Council (SPDC) is the official name of the government, which until 1997, was known as the State Law and Order Restoration Council (SLORC).

[4] See Crisis Group Asia Report N°144, *Burma/Myanmar: After the Crackdown*, 31 January 2008. Other previous Crisis Group reports include Asia Report N°174, *Myanmar: Towards the Elections*, 20 August 2009; Asia Report N°161, *Burma/Myanmar After Nargis: Time to Normalise Aid Relations*, 20 October 2008; Asia Briefing N°58, *Myanmar: New Threats to Humanitarian Aid*, 8 December 2006; Asia Briefing N°34, *Myanmar: Update on HIV/AIDS Policy*, 16 December 2004; Asia Report N°82, *Myanmar: Aid to the Border Areas*, 9 September 2004; Asia Report N°78, *Myanmar: Sanctions, Engagement or Another Way Forward?*, 26 April 2004; Asia Report N°52, *Myanmar Backgrounder: Ethnic Minority Politics*, 7 May 2003; Asia Briefing N°21, *Myanmar: The Future of the Armed Forces*, 27 September 2002; Asia Briefing N°15, *Myanmar: The HIV/AIDS Crisis*, 2 April 2002; Asia Report N°32, *Myanmar: The Politics of Humanitarian Aid*, 2 April 2002; Asia Report N°28, *Myanmar: The Military Regime's View of the World*, 7 December 2001; Asia Report N°27, *Myanmar: The Role of Civil Society*, 6 December 2001; Asia Report N°11, *Burma/Myanmar: How Strong is the Military Regime?*, 21 December 2000.

of diplomats, representatives of the ethnic and political opposition both in Myanmar and in exile, representatives of ethnic armed groups (both ceasefire and non-ceasefire), members of civil society, UN officials, and representatives of local and international NGOs. Most of those interviewed asked to remain anonymous, due to the sensitive nature of the subject and because of potential risks, particularly to those based in Myanmar.

II. BEIJING NAVIGATES MYANMAR'S POLITICS

A. BILATERAL RELATIONS

While China holds a prominent place in Myanmar's foreign policy, the reverse is hardly true. Myanmar is currently a low priority for Beijing.[5] This was not always the case. In the years following the establishment of the People's Republic of China in 1949, when China was relatively weak and had few friends, it made efforts to build relations with its neighbours to secure diplomatic recognition and ensure peace along its borders. China deployed significant resources, for example, to strengthen its relationship with Myanmar, including sending Premier Zhou Enlai to Myanmar nine times between 1954 and 1965.[6] In return for its assistance, China gained access to a large, untapped consumer market; exploration rights to oil and gas reserves; the rights to extract timber, minerals and gems; and contracts to build new energy and transport routes to support the development of its southwest. But as China became a regional force and now an aspiring global power, Myanmar remained isolated.

The costs of cooperation with Myanmar have increased along with China's international profile. Providing backing to a repressive and highly unpopular regime is a reputational burden. The issue has become an irritant in Beijing's relationships with other powers, including the U.S., which its foreign policy increasingly prioritises. Nor does China discount the danger that future political upheavals caused by inept governance presents to its investments. While high-level contacts continue apace, including visits of top Burmese officials to China,[7] no Chinese president or premier has visited Myanmar since 2001.[8]

[5] Myanmar's low priority as a foreign policy issue, particularly at the Beijing level – was an opinion expressed by most diplomats interviewed. No think tank in Beijing has a full-time researcher dedicated to Myanmar; rather the country is covered under the umbrella of South East Asia and ASEAN. Within the foreign ministry, more diplomats are assigned to Thailand and Indonesia, for example, than Myanmar. Most Chinese experts on Myanmar are located in Yunnan.

[6] Similarly, China's renunciation of disputed territory in today's Kachin state was a gesture to show China's loyalty and friendship. "周恩来总理曾九次访问缅甸" ["Premier Zhou Enlai visited Myanmar 9 times"], Xinhua, 12 December 2001; Crisis Group interview, Beijing, February 2009.

[7] See Appendix B.

[8] Jiang Zemin visited Myanmar in 2001. Elsewhere in South East Asia, President Hu Jintao made state visits to Laos and Vietnam in March 2006; Vietnam in 2005; Malaysia in December 2005; Indonesia, Brunei and the Philippines in April 2005; and Malaysia and Singapore in 2002. Premier Wen Jiabao visited Laos in March 2008; Singapore in November

This loss of priority has been noted by Myanmar, which has become increasingly suspicious of China's strategic intentions. Many in Myanmar fear that China might use it as a bargaining chip in its relationship with the U.S.[9] These fears increase every time China backs UN efforts to pressure Myanmar (see below).

More troubling to Beijing than international opprobrium, however, is the potential instability that could spill across the border. China's security strategy has traditionally focused on protecting its long, unstable borders.[10] The 2,192-km frontier region with Myanmar has long been known for its lawlessness, drug trafficking and the prevalence of HIV/AIDS. Because conflict along the border has been an enduring characteristic of post-independence Myanmar, China is acutely sensitive to any rapid political change that could lead to instability.[11] It is also nervous about the aspirations of the Wa and Kachin populations within its own borders.[12]

Many Chinese officials realise that the continued failure of the military government to deliver basic economic development and social progress to its people could undermine both Myanmar's stability and China's ability to advance its own economic blueprint. Such concerns deepened after the October 2004 arrest of the former prime minister and intelligence chief, Khin Nyunt, whom Chinese officials had hoped would gradually lead Myanmar out of international isolation and on to economic reforms. Since his purge (and that of the relatively internationalised technocrats surrounding him), Beijing has been increasingly frustrated with the erratic and isolationist behaviour of the military leadership, which has spent vast amounts constructing a new capital in Naypyidaw, engaged in discussions to purchase a nuclear reactor from Russia and developed dubious relations with North Korea.[13]

Rejecting tactics of isolation and sanctions, Beijing believes that political change must be gradual and is best promoted through engagement and encouraging economic development. It has been consistent in its opposition to sanctions – whether bilateral or multilateral.[14] Its antipathy partially derives from its experience of being targeted by the USSR in the 1960s because of its nuclear program, by the U.S. until the 1970s, by the West after 1989, and in the 1990s for missile sales to Pakistan. Beijing believes sanctions are a product of power politics to force countries to submit to the will of more powerful others.[15] Sanctions are also seen as a serious violation of the principle of non-interference.[16]

In China's view, sanctions punish people more than governments, leading to humanitarian and economic crises such as those in Iraq and Yugoslavia.[17] Officials argue that they only complicate situations and add to difficulties in reaching an eventual settlement,[18] and so are more effective as threats than when actually applied.[19] Chinese

2007; the Philippines in January 2007, and Malaysia in December 2005.

[9] Crisis Group interview, Yangon, 2 February 2009.

[10] China's national security is identified with safeguarding its territorial sovereignty, reunification with Taiwan, maintaining internal stability, and curbing intrusion by other great powers into its periphery. Taylor Fravel, "China's Search for Military Power", *The Washington Quarterly*, vol. 33, no. 3 (Summer 2008).

[11] "The Burmese civil war is the longest-running armed conflict in the world and has continued, in one form or another, from independence to the present day". Thant Myint-U, *The River of Lost Footsteps* (New York, 2006), p. 258.

[12] These ethnic groups straddle the border. For example, there are about 700,000 Was in Burma and another 3,000 in China. Ibid. In particular, China fears the consequences of a "pan-Kachin" or "pan-Wa" movement.

[13] Crisis Group interviews, Washington DC, February and July 2008; Bangkok, February 2009; Beijing, August 2009.

[14] One of the rare exceptions has been the recent support of Resolution 1874 on North Korea which enacted targeted sanctions on specific goods, persons and entities, and widened the ban on arms imports-exports to and from the country; and Resolutions 1737, 1747, 1803 against Iran. China made the concessions because the countries that were the object of sanctions had indisputably violated international norms, but also because blocking them would have jeopardised the issue in the U.S.-China bilateral relationship. Crisis Group interview, Beijing, July 2009.

[15] Sanctions are a tool of those who "thought they had supreme authority and could impose sanctions on any country and people not obedient to their wishes". "First Priority Should Always Be Given To National Sovereignty and Security", *People's Daily*, 1 December 1989.

[16] An emphasis on sovereignty and non-intervention has long been a key theme of China's foreign relations. Its "Five Principles of Peaceful Coexistence" (和平共处五项原则), which date from the 1950s, reject interference in other states' sovereign affairs. These principles were central to critiques of Soviet intervention in Eastern Europe and continued through to the U.S.-led NATO intervention in the former Yugoslavia, which China denounced as "hegemonist". Beijing has often expressed a similar distaste for milder means of trying to alter other states' domestic policies. In recent years, Beijing has deviated from a pure non-interference policy in practice. Crisis Group Asia Reports N°153, *China's Thirst for Oil*, 9 June 2008; N°166, *China's Growing Role in UN Peacekeeping*, 17 April 2009.

[17] "联合国近年制裁过谁" ["Who has been sanctioned bv the UN in recent years"], *Global Times*, 20 October 2006.

[18] Statement by China's Foreign Minister Qian Qichen on the 50th Anniversary of the United Nations, S/PV.3583, 26 September 1995.

[19] Dingli Shen, "Can Sanctions Stop Proliferation?" *The Washington Quarterly*, vol. 31, no. 3 (Summer 2008), pp. 89-100. Such a conclusion could potentially lead Beijing to structure

analysts have also asserted that sanctions can backfire, leading to hardened positions and the loss of a channel for communication, citing as an example North Korea's first nuclear test which occurred just days after Beijing cut off oil deliveries in September 2006.[20]

Within China itself, there is very little interest in Myanmar, its people, or its social or political situation. Those with knowledge of the country regard it as a failed state rich in natural resources.[21] According to one official, "They are beggars carrying gold bowls".[22] Others believe that Myanmar's people have even fewer expectations of their government than the Chinese.[23] Several officials cited as the principal reason for this the Buddhist belief that one has to suffer through this life to atone for the sins of a previous life.[24] Chinese who have worked in the country recount difficulties in getting along with the Burmese, who they find overly sensitive and easily offended, behaviour they attribute to Burmese feelings of inferiority.[25] Chinese living in Myanmar believe that local Burmese are not hard working or as industrious as the Chinese.[26] Feelings of antipathy toward Burmese are also expressed in the Chinese blogosphere.[27]

B. UNITED NATIONS

The UN has been involved with Myanmar since the massacres of pro-democracy protesters in 1988.[28] Since 1991, the General Assembly has passed seventeen resolutions deploring the situation there and calling for democratic change. Since 1993, the Secretary-General has been mandated to use his good offices to help in their implementation, and since 1995, three successive special envoys have made over two dozen visits to Myanmar, in addition to visits by the special rapporteur on human rights and others.[29] Since September 2006, the Security Council has also become seized of the matter by formally including Myanmar on its agenda. In general, Beijing considers the UN a neutral actor, unthreatening to its influence in Myanmar, and one which it can influence through its role on the Security Council.

1. The Security Council veto

Beijing's frustration with the regime peaked in January 2007. China exposed itself to intense international criticism by casting its first non-Taiwan-related veto in the Security Council since 1973 to defeat a U.S.-UK sponsored Security Council draft resolution on the situation in Myanmar. The draft resolution condemned Myanmar's human rights situation, expressed strong support for the efforts of the Secretary-General and his representatives to implement his "good offices" mission, called on the government to permit international humanitarian organisations to operate without restrictions to address humanitarian needs and to begin a substantive political dialogue with all stakeholders, including ethnic group representatives.[30] Having failed to block the issue from the agenda,[31]

sanctions to maximise their threat value without necessarily enforcing them.

[20] Hui Zhang "Do Not Let the Rocket Launch Block North Korean Denuclearization", The Nautilus Institute, 14 April 2009.

[21] Crisis Group interviews, Beijing, February-March 2009.

[22] Crisis Group interview, Beijing, February 2009.

[23] Ibid.

[24] Crisis Group interviews, Beijing, 18 February 2009; Yangon, 12, 16 March 2009.

[25] Crisis Group interviews, Beijing, 18 February 2009; Ruili, 7 March 2009.

[26] Interviewees cited the frequent tea breaks taken by the Burmese as an illustration of this. Crisis Group interview, Ruili, 7 March 2009.

[27] Some Chinese bloggers have speculated that the Saffron Revolution was an American conspiracy to thwart plans for China's oil pipeline. Another view is that the Saffron Revolution was sponsored by the West so that Aung San Suu Kyi could come to power, thereby giving the U.S. a foothold in South Asia to further contain China. "从'入联公投'到缅甸'袈裟革命'，美力阻中国武力收台？" ["From UN referendum to Saffron Revolution: US Stopping China from Reuniting TW by Force"], China.com blog, 26 September 2007, http://shi.blog.china.com/200709/1005722.html; "南方朔：西方在缅甸搞袈裟革命　围堵中国" ["The West Prompts Saffron Revolution to Contain China"], 铁血社会 (Iron Blood Society), 1 October 2007, http://bbs.tiexue.net/post_2289259_1.html; "缅甸危机解读" ["Interpreting Crisis in Myanmar"], China.com blog, 27 September 2007, http://dyer215.blog.china.com/200709/1012269.html; "跟大佬就要跟出风范！" ["Following the Big Brother and Learning its essence"], 松乙先生的博客 [Mister Song Yi's Blog], 10 November 2007, http://linstory8.blog.163.com/blog/static/539906152007 10161383851/; "中国最近 20 年对外发生的鲜为人知的军事冲突内幕！" ["The Untold Insiders' Stories of Military Confrontation between China and Foreign Countries in the Past Twenty Years"], 精品文化 [High Society], 28 June 2009, www.009bbs.com/read.php?fid=15&tid=2153.

[28] Pro-democracy protests (commonly known as the 8-8-88 Uprising) were started by students in Yangon on 8 August 1988 and spread throughout the country. Hundreds of thousands of monks, young children, university students, housewives and professionals marched in the streets demonstrating against the government. The protests ended on 18 September after a military coup by the State Law and Order Restoration Council (SLORC) and a bloody crackdown by the army. Human rights groups estimate that at least 3,000 people were killed. For more information, see David Steinberg, *Burma: State of Myanmar* (Georgetown, 2002); Maung Maung, *The 1988 Uprising in Burma* (New Haven, 1999).

[29] For more on Myanmar and the United Nations, see Crisis Group Report, *Burma/Myanmar: After the Crackdown*, op. cit., pp. 6-8.

[30] UN Security Council, S/PV.5619, 12 January 2007; UN Security Council Draft Resolution, S/2007/14, 12 January 2007.

China cast its veto as forewarned. China, along with Russia, stated that human rights problems were not the purview of the council unless they endangered regional or international peace and security, which the situation in Myanmar did not.[32]

At the same time, China's ambassador to the UN, Wang Guangya, called on the regime to "listen to the call of its own people ... and speed up the process of dialogue and reform".[33] Beijing then reinforced Wang's message by sending State Councillor Tang Jiaxuan to Myanmar to tell Senior General Than Shwe that it expected more cooperation with international demands and that the government should speed up reforms.[34]

China's increased demands were rooted in its deep unease at having had to expose itself so publicly in the Security Council against the West. While it was in the company of Russia on the veto (with South Africa opposing and Congo, Indonesia and Qatar abstaining), its image suffered and it also took heat bilaterally from several Western countries.[35] This took place during the lead-up to the 2008 Olympics, a sensitive time for China, when it was being labelled a supporter of repressive regimes, including in Sudan, by groups advocating boycotts. Beijing's message to Myanmar was that it expected not to be put in a similar situation again; the military government needed to at least be seen to be cooperating more with the international community.[36]

By mid-2007, this pressure had generated limited results. Shortly after Tang Jiaxuan's visit, the Myanmar government accepted a new agreement with the International Labour Organization (ILO), which had been on the verge of being ejected from the country.[37] And following Prime Minister Thein Sein's May 2007 trip to Beijing, Myanmar announced a resumption of the long-stalled constitutional national convention.[38]

At the same time, China became more involved in helping the military government improve some of its thorniest relationships: with the ethnic groups, the democratic opposition, and the U.S. China's hope was that once these tensions were eased, the government might be able to concentrate more on improving the domestic situation. China convened the leaders of various armed ethnic groups in the capital of Yunnan province, Kunming, and pressed them to consider disarming.[39] It urged the government to hold direct talks with Aung San Suu Kyi[40] and reached out to the opposition by inviting their representatives to discuss their concerns. In July 2007, Beijing hosted two days of "secret" talks between U.S. Deputy Assistant Secretary of State for Southeast Asian Affairs Eric John and three senior envoys from Myanmar, the first such discussion since 2003.[41]

The vote was nine in favour, three against (China, Russia, South Africa), with three abstentions (Congo, Indonesia, Qatar).

[31] The U.S. engaged in months of diplomatic activity, particularly with elected members of the Security Council, to ensure that nine of fifteen Security Council members voted to place the item on the agenda. In the end, ten ended up voting for, with Russia, the Congo and Qatar voting against. Crisis Group interview, U.S. official, Washington DC, August 2007.

[32] UN Security Council, S/PV.5619, 12 January 2007. Whenever China speaks about Myanmar in the Council, it underlines that it does not consider the country to be a threat to international peace and security. This is the case even if China ultimately agrees on action such as press statements.

[33] Ibid.

[34] Crisis Group interview, Bangkok, July 2007. "China sincerely hopes that Myanmar could have political stability, economic development, ethnic harmony and a well-off situation for its people". "SPDC chairman met Tang Jiaxuan", *People's Daily*, 27 February 2007, http://politics.people.com.cn/GB/1024/5419742.html.

[35] Crisis Group interviews, Beijing, 23 March, 7 July 2009; Washington DC, February and July 2008. The International Federation for Human Rights (FIDH) president expressed disappointment that China and Russia were "signing a blank check to the Burmese military regime, enabling the continuation of blatant human rights violations, affecting all Burmese people and the Southeast Asian region, in almost complete impunity". "Russia/China veto on Myanmar condemned", Human Rights Tribune, 15 January 2007, at www.humanrights-geneva.info/Russia-China-veto-on-Myanmar,1030; Shah Paung, "China, Russia Failed Burma, Says Opposition", *The Irrawaddy*, 15 January 2007; Howard LaFranchi, "Freedom's ring not reaching new ears", *The Christian Science Monitor*, 17 January 2007.

[36] Crisis Group interview, Washington DC, February 2008. By contrast, Chinese authorities in Kunming welcome Security Council initiatives concerning Myanmar. See Section IV.D, "Beijing Policy Undercut by Local Actors".

[37] Diplomats cited Chinese pressure as a major factor in the government's decision. China continues to provide support to the ILO in Myanmar, at the same time publicly defending Myanmar when it comes under criticism by the ILO Governing Body. Crisis Group interviews, UN official, Geneva, 6 February 2009; Bangkok, July 2007; Yangon, February 2009; Beijing, July 2009.

[38] The national convention is the first step of the country's seven-stage roadmap to democracy that is supposed to lead to new elections and what the junta calls a disciplined form of democratic rule. The national convention was formally resumed in May 2004 after an eight-year-long suspension, and in May 2007 it was reconvened to approve guidelines for a new constitution. Myanmar has had no constitution since its 1974 charter was abrogated in 1988.

[39] Stephanie Kleine-Ahlbrandt and Andrew Small, "China's New Dictatorship Diplomacy: Is Beijing Parting with Pariahs?" *Foreign Affairs*, vol. 87, no. 1 (January-February 2008), p. 50.

[40] Crisis Group interview, Washington DC, 15 February 2008.

[41] The talks – during which both sides repeated their standard claims – led nowhere, in part because the Saffron Revolution

2. Beijing's reaction to the Saffron Revolution

When protests broke out following an unannounced hike in fuel prices on 15 August 2007, Beijing was forced to move more quickly than it would have liked in pressuring the Myanmar government. As demonstrations led by monks gathered momentum in late September and the military government followed through on its threat to use force to end them, China faced international criticism and pressure to take a tougher stance.[42]

Beijing both publicly and privately urged restraint on the generals.[43] It supported an 11 October Security Council statement and a 2 October resolution in the UN Human Rights Council deploring the violence against peaceful protesters, a relatively major step.[44] As soon as Beijing realised it was isolated in opposing the statement, it gave in.[45] Before the resolution was adopted, however, Chinese diplomats ensured that it was far softer than the original.[46] Outside of the UN, Beijing called for democratic progress and political dialogue.[47] It urged the government to receive the Secretary-General's special adviser Ibrahim Gambari and grant him access to senior generals and Aung San Suu Kyi.[48] Chinese officials worried that the government might be unable to ensure stability and were relieved to see the relatively swift way the protests were ended.[49] While pushing Myanmar to handle its opposition in a more moderate manner, China ensured that the protests received scant coverage at home.[50]

Since 2007, Chinese influence has failed to provide as much as hoped, with Gambari's diplomatic efforts encountering mostly disappointment against high expectations. Despite Chinese support to the good offices mission,[51] including by facilitating visits by the special adviser and visa arrangements, it was unable to ensure Gambari access to Than Shwe after his third visit.[52] Although Gambari has had access to both the government and the opposition, including Aung San Suu Kyi and the NLD on all his visits, by his fifth visit from 6-10 March 2008

followed shortly thereafter. Crisis Group interviews, Bangkok, July 2007 and January 2009.

[42] The European Parliament's vice-president Edward McMillan-Scott said, "China is the puppet master of Myanmar". Lucia Kubosova, "Call for EU to boycott China Olympics over Myanmar", *EU Observer*, 28 September 2007. The army opened fire on demonstrators, killing both monks and civilians. The number of casualties is unclear. The UN Human Rights Council's Special Rapporteur Paulo Sérgio Pinheiro has estimated that 31 were killed while the Democratic Voice of Burma puts the number at 138, basing its figure on a list compiled by the 88 Student Generation group in Myanmar. Thousands of protesters were also arrested and detained.

[43] Crisis Group interviews, Washington DC, February 2008. A foreign affairs ministry spokeswoman said, "We call on related parties in Myanmar to exercise restraint and solve the current problem properly". MOFA press conference, 27 September 2007, www.china.com.cn/international/txt/2007-09/27/content_8963293.htm.

[44] UN Security Council Presidential Statement, S/PRST/2007/37, 11 October 2007; Human Rights Council, "Human Rights Situation in Myanmar", 5th Special Session. Resolution S-5/1, 2 October 2007.

[45] Crisis Group interview, New York, 10 June 2008. China's aversion to being isolated is linked to its desire to minimise the opprobrium and reputational costs of its actions. Alastair Iain Johnston, *Social States: China in International Institutions, 1980-2000* (Princeton, 2008), pp. 131, 136.

[46] Dropped from the final draft at China's urging were demands for the release of Aung San Suu Kyi; inclusive dialogue "without conditions"; access for international humanitarian organisations; and mention of the important role played by Myanmar's neighbours. Crisis Group interviews, New York, October 2007.

[47] State Councillor Tang Jiaxuan informed Myanmar Foreign Minister Nyan Win, "China whole-heartedly hopes that [Myanmar] will push forward a democracy process that is appropriate for the country". "China urges Myanmar to push forward 'democracy process'", Reuters, 14 September 2007.

[48] From 29 September to 2 October 2008, Gambari visited Yangon where he met Senior General Than Shwe and Aung San Suu Kyi, among others. Beijing was helpful both in securing him a visa and extending his program beyond what was initially permitted by the military government including two meetings with Aung San Suu Kyi. Gambari has been trying to secure further Chinese cooperation in achieving the goals set by his mandate. Crisis Group interviews, New York, 9 October 2007 and 8 January 2009. According to Gambari, "With regard to China, in concrete terms, yes, they have been helpful in getting me a visa for the two times that I went to Myanmar last year". Lalit Kjha, "UN Security Council Condemns Myanmar's Lack of Progress", *The Irrawaddy*, 18 January 2008.

[49] Crisis Group interview, Beijing, February and June 2009.

[50] On 27 September 2007, while China made its first public call for restraint in Myanmar, no mention of the protests appeared on Chinese state television. The day's official newspapers carried only a report by Xinhua on the inside pages. By contrast, Chinese media covered the concurrent Pakistan crisis in hourly detail. The difference in coverage was reportedly due to a belief that the Pakistan crisis was inflicted in a top-down manner, contrasting with the bottom-up nature of events in Myanmar, which were being called a "colour revolution". Crisis Group interview, Beijing, October 2008.

[51] Crisis Group interviews, New York, 10 June 2008 and January 2009; Bangkok, 26 January 2009.

[52] Wang Guangya stated of the fourth visit, "We have noted that the Special Adviser was unable to meet the top leader of Myanmar, which gave rise to various speculations by media. However, in our view, the benchmarks to evaluate whether the visit is a success or not should not be subject to whom had been met or where he has been visited". Statement by H.E. Ambassador Wang Guangya at Security Council Debate on Myanmar, Permanent Mission of the People's Republic of China to the UN, 13 November 2007.

(which took place a month earlier than anticipated[53]), he returned frustrated, having been unable to meet with the top leadership, representatives of the ethnic minorities or certain domestic opposition groups.[54] Some of his suggestions in the aftermath of the demonstrations were followed up, including a relaxation of security measures and the appointment of a liaison minister to start dialogue with Aung San Suu Kyi. But his subsequent proposals for creating a more inclusive constitution and referendum, allowing international observers during the referendum and releasing 1,900 political prisoners were all ignored.[55]

Some observers claim that Beijing's influence in getting Gambari a visa was diminished after it joined action in the UN condemning Myanmar, as Naypyidaw punished Beijing for having given in to the West. According to a Chinese diplomat, "It is not risk-free for China to be part of the Western alliance – these countries are all watching very carefully what China does to them. They say, 'you side with them'. China can undermine its credibility by doing this".[56]

Nevertheless, China continues to provide consistent support to the Secretary-General's good offices and his special adviser and fully endorses the UN's five-point agenda.[57] Beijing prefers a route to UN engagement that does not involve the Security Council. Gambari has been received four times in Beijing at high levels, including by the state councillor and foreign minister.[58] China provided strong support for the Secretary-General's visit to Myanmar in July 2009 and has maintained outspoken participation (albeit at a slightly lower level than others) in supporting the Secretary-General's "Group of Friends of the Secretary-General on Myanmar".[59] Such participation has attracted criticism from the Myanmar government, which complained to China after a meeting of the "Group of Friends" that called on the government to release Aung San Suu Kyi and other political prisoners.[60]

China has also provided significant diplomatic support to the visits of the last two UN special rapporteurs on the human rights situation in Myanmar, who encountered similar obstacles to Gambari.[61] On its overall support to the UN, a Western diplomat remarked, "China has really gone to bat for the UN on several occasions. They tell Burma that they need to be seen to be cooperating with the UN. They really 'turned things over' on the junta on UN issues".[62]

With regard to the seven-step roadmap,[63] China supported a 17 January 2008 Security Council statement expressing regret for the slow progress in meeting objectives set

[53] Myanmar sent a special envoy to Beijing in January 2008 to explain that the visit had been put on hold until May and to update Beijing on the political process. Beijing pressed the government, which ended up issuing a visa for March. Crisis Group interview, Washington DC, 15 February 2008.

[54] See Department of Public Information, press release SC/9278, "Latest visit to Myanmar/Myanmar yielded no immediate tangible outcome, Secretary-General's Special Adviser tells Security Council", UN Security Council 5854th Meeting (PM), 18 March 2008. Myanmar's senior leadership further snubbed the UN by meeting with Thai Prime Minister Samak Sundaravej just a few days later. "Futile diplomacy: Myanmar scorns a U.N. envoy", *Washington Post*, 24 March 2008.

[55] The UN's five-point agenda on Myanmar stipulates: the release of political prisoners including Aung San Suu Kyi; dialogue with Aung San Suu Kyi; a credible political process; avenues for addressing socio-economic conditions; and the regularisation of the good offices role (including UN representation on the ground in Myanmar). See Situation of human rights in Myanmar: Report of the Secretary General, A/63/35617, September 2008, para. 17.

[56] Crisis Group interview, Washington DC, February 2008.

[57] See fn. 55. Crisis Group email correspondence, UN official, 9 September 2009.

[58] Gambari visted Beijing in July 2007, October-November 2007, February 2008 and February 2009.

[59] Crisis Group email correspondence, UN official, 9 September 2009. The Group of Friends, founded in December 2007, was established to hold informal discussions and develop shared approaches to support UN efforts. Its members are Australia, China, the European Union, France, India, Indonesia, Japan, Norway, Russia, Singapore, the Republic of Korea, Thailand, the UK, the U.S. and Vietnam. China has also participated from the outset in an informal regional "focus group" on Myanmar led by Indonesia which includes Myanmar and the UN (and formerly India). Crisis Group Report, *Burma/Myanmar: After the Crackdown*, op. cit., p. 6, fn. 29.

[60] Crisis Group interview, Beijing, August 2009. After meeting with the Group of Friends on 5 August 2009 following his visit to Myanmar, Ban Ki-moon stated: "While noting the recent actions taken by the Government of Myanmar, members of the Group also further encouraged it to work more closely with and respond more positively with the United Nations good offices to address key issues of concern to the international community, especially the release of prisoners, including Daw Aung San Suu Kyi, and the initiation of an all-inclusive dialogue between the Government and the opposition". "Ban briefs Group of Friends on Myanmar on latest developments", UN News Service, 5 August 2009.

[61] Crisis Group interviews, Geneva, 24 November 2008; Beijing, 11 December 2008.

[62] Crisis Group interview, Bangkok, 28 January 2009.

[63] In 2003, the Myanmar government announced a seven-step roadmap to "disciplined democracy", which included the completion of the national convention process, the drafting of a new constitution, the adoption of the constitution through a national referendum, and the holding of elections for the legislative bodies. The roadmap was conceived by Khin Nyunt, who as prime minister gave rise to hope that there might be some liberalisation. He was removed from power in 2004, after which the government announced it was still committed to carrying out the roadmap.

out by the military government in October 2007, including democratic reforms, full respect for human rights and an end to forced labour and the repression of ethnic minorities.[64] On 9 February 2008, the generals announced a timeline for implementing its roadmap, with a nationwide referendum on the draft constitution to be held in May, followed by ratification and then multiparty democratic elections in 2010.[65] China was satisfied by this announcement, which it considered a rare sign of progress.[66]

Beijing supports the roadmap, which it perceives as a viable way to overcome the stalemate and to improve Myanmar's relations with the outside world.[67] It hopes that the process will bring gradual change and eventually achieve reconciliation. While acknowledging that the roadmap is anything but perfect, and can hardly be termed "genuinely democratic", it is "much better than not having such a roadmap".[68] Beijing has been encouraging Myanmar to make it more credible and transparent, at the same time explaining to outsiders that they should give the process a chance; it would be impossible to ask the government to "commit suicide" by giving up its status. China hopes that the roadmap will legitimise the government while reinforcing dialogue to support stability and development. To this end, it simultaneously encourages the participation of opposition and ethnic groups in the elections while pushing the government to accommodate some of their concerns (see Section II.D, "China and the ethnic groups").

3. Ensuring aid after Cyclone Nargis

Cyclone Nargis struck in early May 2008.[69] From Beijing's point of view, the timing – coupled with the military government's response – could not have been worse, coming just three months before the Olympics and at the same time as Myanmar's constitutional referendum. Pressure and global outrage mounted as international agencies and aid workers were denied access to the affected areas by the authorities.[70] U.S. Secretary of State Condoleezza Rice made a direct appeal for China to press the military government to accept more external disaster assistance.[71] China supported another presidential statement that focused on the constitutional referendum,[72] then ended up playing a critical role along with ASEAN member countries in convincing the military government to accept international aid and coaxed it to receive Admiral Timothy J. Keating, Commander of the U.S. Pacific Command at Yangon airport.[73] China regarded this compromise as an "inexpensive" way to reduce international pressure.[74] China then sent Foreign Minister Yang Jiechi to the ASEAN-UN International Pledging Conference on Cyclone Nargis co-chaired by the Secretary-General in Yangon on 25 May 2008. It supported the Secretary-General's personal role in the conference as well as his visit to address the humanitarian situation.[75]

Towards the end of the year, with the spread of the global economic crisis, China started to focus more on its own domestic situation. During a meeting with Than Shwe on 5 December 2008, Chinese Foreign Minister Yang Jiechi urged him to do more for his country.[76] Noting that China was facing costs of its own, from the Olympics, the Sichuan earthquake recovery and the global economic crisis, he said that Beijing would not be in a position to provide endless support to Myanmar. China was concerned about Myanmar's spending on non-priority programs, and warned that the government

[64] "UN council upbraids Burma/Myanmar for slow reforms", Reuters, 17 January 2008.
[65] In early May 2009, despite the humanitarian crisis created by Cyclone Nargis, the government went ahead with the referendum, announcing an approval rate of over 92 per cent on an incredible turnout of over 98 per cent.
[66] Crisis Group interview, Washington DC, February 2008.
[67] Renaud Egreteau & Larry Jagan, "Back to the Old Habits: Isolationism or the Self-Preservation of Myanmar Military Regime", The French Research Institute on Contemporary South East Asia, December 2008, p. 65.
[68] Crisis Group interview, Chinese official, Yangon, March 2009.
[69] See Crisis Group Report, *Burma/Myanmar After Nargis: Time to Normalise Aid Relations*, op. cit.
[70] "Myanmar junta still blocking much cyclone aid", *The New York Times*, 12 May 2008; Kenneth Denby, "Burma junta kicks out aid foreign workers", *The Times*, 15 May 2008.
[71] "Rice says Myanmar crisis 'not a matter of politics'", Agence France-Presse, 8 May 2008; Glenn Kessler and Dan Eggen, "Bush plans call to Chinese leader over Myanmar's stance on aid", *Washington Post*, 10 May 2008.
[72] UN Security Council Presidential Statement, SC/9320, 2 May 2008. While Cyclone Nargis coincided with the constitutional referendum, this presidential statement sought to address the referendum – not the humanitarian situation caused by the cyclone which struck on the same day but whose impact only became clear later. As was the case with the presidential statement during the Saffron Revolution, as soon as China was isolated in the Council, it gave in.
[73] Crisis Group interviews, Western diplomat, Yangon, February 2009; Kunming, March 2009. On 12 May, Keating, along with Henrietta Fore, USAID administrator, and Bill Berger, U.S. Disaster Assistant Team Leader, flew in on the first U.S. relief flight after waiting a week for visas. Susan Cornwell and Paul Eckert, "U.S concerned as its aid leaves Yangon airport", Reuters, 12 May 2008.
[74] Crisis Group interview, April 2009. With the Olympics around the corner, the political cost of justifying the regime's actions were heightened.
[75] Crisis Group email correspondence, UN official, 9 September 2009.
[76] Crisis Group interview, Bangkok, 30 January 2009.

would face problems in failing to ensure economic growth and the delivery of social services.[77] Referring to the 65-year sentences that had just been handed down to pro-democracy activists, Yang apparently said that China also had to deal with such problems, but rather sent such individuals to jail for only three or four years to reduce international attention.[78] This typifies a Chinese method of trying to influence the government – pointing out how Beijing might proceed given similar circumstances.[79] According to one Western diplomat, "The Chinese are actively trying to ensure the regime doesn't go too far. China doesn't want a U.S.-oriented state on its border, but neither does it want the world's pariah on its border".[80]

4. Detention and trial of Aung San Suu Kyi

Myanmar was once again in the headlines in May 2009 when National League for Democracy (NLD) leader Aung San Suu Kyi was put on trial for allegedly violating the terms of her house arrest after an American man swam across a lake to her home and stayed there secretly for two days. International opinion on the trial was unanimously critical.[81] China supported a Security Council press statement expressing concern over the political impact of developments relating to Aung San Suu Kyi.[82] This time, Russia put up the most resistance.[83] News on August 11 of her sentencing to eighteen months under house arrest caused further international outrage. A Chinese official spokesperson said that the world should respect Myanmar's judicial sovereignty.[84] Then at a Security Council meeting to discuss a draft presidential statement circulated by the U.S., UK and France deploring the verdict, a majority of Council members voiced support for the statement, but China said it would oppose it.[85] In a compromise, the Security Council adopted a press statement simply expressing "serious concern" over the verdict and calling for the release of all political prisoners.[86]

In the 9th Asia-Europe foreign ministers meeting on the same day, China expressed its dissatisfaction and "concern about the recent development relating to Daw Aung San Suu Kyi". The ministers "called for the early release of those under detention and the lifting of restrictions placed on political parties".[87] China also joined with the Group of Friends in calling on the government to release Aung San Suu Kyi and other political prisoners.[88] Chinese officials have indicated privately that they would favour a deal, including release of Aung San Suu Kyi and dialogue with the opposition, as long as stability could be preserved and the current political process continued.[89]

C. China and the Opposition

China has for some time been pursuing talks with the democratic opposition, including the NLD.[90] These meetings, which intensified after the 2003 attack on Aung San Suu Kyi and 2004 purge of Khin Nyunt, serve as a mix of intelligence gathering, reassurance and relationship building.[91] While most take place in Kunming, in recent

[77] Ibid.
[78] Apparently, Than Shwe went silent. Ibid.
[79] Crisis Group interview, Beijing, August 2009. According to another diplomat, "We provide very sound advice to the junta, not trying to impose our will. We tell them what is in their best interests. They are not taking our advice". Crisis Group interview, Washington DC, July 2008.
[80] Crisis Group interview, Yangon, 6 February 2009.
[81] David Gollust, "Clinton calls trial of Aung San Suu Kyi outrageous", VOA News, 20 May 2009; "Ban Ki Moon demands release of Aung San Suu Kyi", *The Times*, 21 May 2009.
[82] UNSC Press Statement on Myanmar, SC/9662, 22 May 2009.
[83] The U.S. had initially put forward a "strong" draft that the Chinese agreed to with only very minimal changes. Russia indicated that they would oppose the draft on their own if need be. The Russian position was that the situation did not constitute a threat to international peace and security. China eventually joined Russia in asking for changes, possibly in order not to be seen as siding with the U.S. against Russia and Myanmar. Russia asked for a text that was more or less a repetition of previous statements and without a reference to the release of Aung San Suu Kyi. The result was a much softer and truncated version of a text that China had originally agreed to. Crisis Group interviews, Security Council member state diplomats, New York, 30 June and 2 July 2009.
[84] "Respect Myanmar sovereignty, China says after trial", Reuters, 12 August 2009.
[85] The Chinese argued that a) this was an internal affair not within the purview of the UN Security Council and that such a statement from the Council would interfere with a decision of the national judiciary; and b) such a statement was not constructive and would not help to advance positive progress on the roadmap. Crisis Group interviews, New York, 11-12 August 2009.
[86] UN Security Council Press Statement on Myanmar, SC/9731, 13 August 2009.
[87] "9th Asia-Europe Foreign Minister Meeting Chair's Statement", Hanoi, Vietnam, 26 May 2009, available at www.aseminfoboard.org/Calendar/MinisterialMeetings/?id=228.
[88] See fn. 60.
[89] However, the Chinese are unwilling to be the broker between the SPDC and NLD. They are willing to provide support, but not play a direct role. If ASEAN, or Thailand, for example, took the opportunity to reconcile between groups, China would support it. Crisis Group interviews, New York, July 2009; Beijing, August 2009.
[90] See Kleine-Ahlbrandt and Small, "China's New Dictatorship Diplomacy: Is Beijing Parting with Pariahs?", op. cit., pp. 49-50.
[91] Information sought by the Chinese includes: basic information about the group, how they are funded, what links they have to the U.S. or other Western countries, information on U.S. policy towards Myanmar, information on Thai policy toward Myanmar, existence of links to the NLD, and the groups'

years some opposition representatives have been invited to Beijing. Chinese officials themselves frequently travel to Mae Sot and Chiang Mai in Thailand and Ruili on the Myanmar-China border to maintain contacts.[92] In these interactions, Beijing has tried to convince the opposition that the best way to maximise their impact would be by participating in the 2010 elections.[93] At the same time, it urges the military government to engage in dialogue and reconciliation with opposition groups.[94]

China's value-free diplomacy dictates that it will deal with whatever government is in power.[95] Following the landslide victory by the NLD in the May 1990 election, China's ambassador was the first to welcome the party to power, angering the military.[96] Some in China have expressed discomfort with the possibility of a Western-leaning democratic NLD government.[97] They fear that a democratic government would be able to draw on much broader international support and would work more closely with other democracies (primarily the U.S., but also India and members of ASEAN). (For China's views on a possible U.S.-Myanmar rapprochement, see Section IV, "Implications for International Approaches".) On the other hand, geostrategic realities would ensure that any government in Myanmar would have to maintain good relations with China. As one Chinese official asked, if Aung San Suu Kyi were to come to power, "which capital do you think she would visit first?"[98] In the near term, however, Beijing sees little chance of an opposition government in Myanmar.[99]

D. CHINA AND THE ETHNIC GROUPS

China maintains a balance of power between border ethnic groups and the military government to ensure that neither side gains the upper hand.[100] Given China's own challenges in dealing with minority tensions, it has a clear interest in preventing Myanmar's ethnic groups from gaining full autonomy. China opposes such a precedent because it fears that this would stir up nationalist sentiment among groups on its side of the border.[101] Most groups along the border areas of China and Myanmar are related, such as the Shan and Yunnan's Dai people, the Kachin and Yunnan's Jinpo people, and the Wa on both sides of the border.[102] For centuries they have travelled freely between the two countries and intermingled, often maintaining stronger affinities to their ethnic groups than to national identities.

Yunnan officials and intelligence agents[103] maintain close, but largely informal, contacts with certain ceasefire groups,

stances on various issues with the government. They have also asked the groups' opinions on China's engagement in Myanmar, offering an explanation of the relationship in return. They try to build confidence by venting their own frustration with the SPDC. Chinese officials say that they want Myanmar to copy their model and, if the economic situation improves, further suggest there may be room for some political activities. They have said that they do not want the West to be more involved in the country. The groups are treated very well during trips to Kunming or Beijing, hosted in top hotels and treated to tourist attractions. The opposition groups note that the level of sophistication of the dialogue is much greater in Beijing than in Kunming. Crisis Group interviews, Chiang Mai, 29-30 January 2009.

[92] Ibid.

[93] Crisis Group interviews, Beijing, 18 February 2009; Kunming, 4 March 2009; Yangon, 11 March 2009. At one point, the Chinese asked the NLD through a go-between if Aung San Suu Kyi could be flexible and whether she might be able to accept a role less than head of state, in which she could exercise influence but could also be reconciled with the army's position. Crisis Group interviews, Bangkok, 29 January 2009; Chiang Mai, 30 January 2009.

[94] Crisis Group interviews, Yangon, 19 July 2007; Washington DC, 15 February 2008; Bangkok, 29 January 2009.

[95] Commenting on China's increasing contacts with opposition and rebel groups on his continent, an African diplomat remarked, "the closer the rebels get to the capital the more you can see the Chinese". Crisis Group interview, Beijing, 24 December 2008.

[96] Crisis Group interview, Beijing, August 2009.

[97] Crisis Group interview, Beijing, March 2009. Chinese views on Aung San Suu Kyi are generally negative. They think that she is too stubborn and would be unable to effectively govern the country. According to one Chinese businessman living on the border, "China despises Aung San Suu Kyi. Her husband is an Englishman of Swedish descent and his focus was Tibet, so they dislike her even more". However, another Chinese made a comparison between her and Chairman Mao (brave, smart) and the struggle of the Long March. Crisis Group interviews, Chiang Mai, 30 January 2009; Ruili, 7 March 2009.

[98] According to a Chinese official, even if Aung San Suu Kyi were to come to power, China would not have a problem with a democratic Myanmar. Crisis Group interview, March 2009.

[99] China sees the NLD leadership as very weak, too old and incapable of maintaining stability and coping with the ethnic groups. Crisis Group interview, Beijing, February 2009.

[100] Crisis Group interview, Yangon, 10 March 2009.

[101] Crisis Group interview, Ruili, 7 March 2009.

[102] Xiaolin Guo, "Towards Resolution: China in the Myanmar Issue", Silk Road Paper, Central Asia-Caucasus Institute & Silk Road Studies Program, March 2007.

[103] The central government in Beijing does not directly maintain contacts with ethnic groups along Myanmar's border regions, rather it delegates this to the Yunnan provincial government. This allows Beijing to maintain plausible deniability and avoid inconsistency in its relationship with Myanmar's central government. While some of Yunnan's interests converge with those of Beijing, many do not. This divergence in interests has led to significant tensions between Beijing, local Yunnan governments and businessmen, and provoked tensions in the bilateral relationship between Beijing and Myanmar. See Section IV.D.

including the Kachin, Wa and Kokang.[104] China helps to ensure the survival of these groups by providing economic assistance and allowing the borders to stay open to trade. The income of some ceasefire groups is supplemented by illicit activities targeted at Chinese consumers such as drug trafficking and gambling.[105] China also controls the border crossings on which the groups depend for supplies, transport routes and border trade, all of which is conducted in renminbi regardless of which side of the border. Many of Myanmar's border towns rely on China for essentials such as electricity, water and telecommunications.[106]

China uses its relationship with the ethnic groups as a buffer and a lever in managing its relationship with the government.[107] China's closest relationship is with the Wa, which has the largest army and is the most feared by the generals in Naypyidaw.[108] The Myanmar government has frequently expressed displeasure with China's relations with the ceasefire groups.[109] For example, when General Shwe Mann visited in 2008, he asked the Chinese government for help in persuading the ceasefire groups to surrender their arms. The Chinese reportedly feigned ignorance and skirted the issue.[110] When Chinese Foreign Minister Yang Jiechi went to Myanmar in December 2008 to meet Than Shwe, the latter expressed his dissatisfaction.[111] Than Shwe then reportedly invited nuclear experts from Russia in order to irritate China.[112]

Another important element is China's arms sales.[113] While officials deny that it is China's policy to sell weapons to the Wa, they admit that a few "rogue elements" from the People's Liberation Army (PLA) have done so.[114] One long-time military analyst has noted that given the heavier nature of the equipment the Wa currently possess – 120-mm howitzers, 130-mm field artillery, anti-aircraft artillery and surface-to-air missiles such as the Chinese-made HN-5 MANPADS – the weapons cannot have just "fallen off the back of a truck".[115] Nor is there any prohibition on Chinese state-owned companies selling such arms.[116]

Due to its concern about stability on the border, Beijing played a role in pressuring several ethnic group armies to sign ceasefire agreements with the government in 1989, which allowed them to retain their arms and a degree of autonomy over their areas, known as the special regions.[117]

[104] Crisis Group interviews, Xi Shuang Ban Na, Yunnan, March 2009; Ruili, March 2009; Bangkok, 27 January 2009; Chiang Mai, 29-30 January 2009. The National Democratic Army-Kachin (NDA-K), Kachin Independence Organization (KIO), Shan State Army (SSA), Myanmar National Democratic Alliance Army (Kokang), United Wa State Army (UWSA) and National Democratic Alliance Army-Eastern Shan State (Mongla) control areas adjoining China's Yunnan province. Official contacts are also held. For example, district and county level Chinese officials as well as a representative of the Yunnan Foreign Affairs office attended the 17 April 2009 Wa celebration in Panghsang of the 20th anniversary of the coup against the Communist Party of Burma. On the occasion, Bao You-Xiang, a UWSA commander and the chairman of its political wing, expressed gratitude for China's twenty years of support. Crisis Group interview, Ruili, 8 June 2009; Wai Moe, "UWSA leader calls for 'solid, united' Wa State", *The Irrawaddy*, 17 April 2009.

[105] Crisis Group interviews, Xi Shuang Ban Na, Yunnan, March 2009; Ruili, March 2009.

[106] Should the Chinese government ever wish to completely cut them off by closing the borders, it could. Crisis Group interview, Ruili, 5 March 2009.

[107] Crisis Group interviews, Chiang Mai, 29 January 2009; Ruili, 5 March 2009. For instance, while Chinese officials and businessmen have access to ceasefire regions, Burmese officials do not and must ask for their help to access to these areas.

[108] See Crisis Group Report, *Myanmar Backgrounder: Ethnic Minority Politics*, op. cit.; Tom Kramer, "The United Wa State Party: Narco-Army of Ethnic Nationalist Party?" East-West Center, policy studies no. 38, 2007. The UWSA has an estimated 15,000-20,000 fighters, the National Democratic Alliance Army-Eastern Shan State (NDAA-ESS) around 2,500, the SSA-N up to 10,000 men, and the KIO/Army between 3,000 and 5,000 soldiers in Kachin State. Brian McCartan, "Democracy plan fuels war in Myanmar", *The Asia Times*, 2 February 2009.

[109] Crisis Group interview, Kunming, 4 March 2009. Chinese influence and cross-border links in the borderlands have complicated the military's pursuit of state and nation building. Jurgen Haacke, "China's role in the pursuit of security by Myanmar's State Peace and Development Council: Boon and Bane?" *The Pacific Review*, vol. 22, no. 5 (2009, forthcoming).

[110] Maj. Aung Lunn Htut, "The Myanmar people should not hesitate on their country's cause", 29 May 2009. Document on file with Crisis Group. Aung Lynn Htut served in the Myanmar army's Light Infantry Battalion No. 81 from 1979 to 1983 and then as a major in the military intelligence service. After serving for five years as deputy chief of mission at the Myanmar embassy in Washington DC, he defected to the U.S. in 2005.

[111] Ibid.

[112] Ibid.

[113] For information on Chinese arms sales to the Myanmar government, see Section III.C.2.

[114] Crisis Group interview, Kunming, 4 March 2009.

[115] Crisis Group interview, Chiang Mai, 29 January 2009. *Jane's Defense Weekly* asserts that the military build-up of the UWSA has been supported by China, from whom the UWSA has acquired new T-81 assault rifles, heavy machine guns, and mortars. Tony Davis and Edo Asif, "UWSA prepares for confrontation", *Jane's Defense Weekly*, 25 October 2006; Tony Davis, "Lords of war: Running the arms trafficking industry", *Jane's Intelligence Review*, 18 April 2008.

[116] Crisis Group interview, Beijing, 29 January 2009.

[117] The ceasefire agreements, which were never meant to be a political solution to the civil war, have not brought about

However, as the 2010 elections approach, serious challenges to border stability are expected, particularly given the groups' dissatisfaction with the constitution and the government's determination to follow through with its roadmap.[118] In April 2009, the government proposed a plan to ceasefire groups to surrender their arms and transform into political parties for the electoral process.[119] Under this plan, the armed groups would become border guard forces. None of the ethnic ceasefire groups would retain the right to manage their day-to-day affairs and their commands would either share or be subordinated to the military's regional commanders.[120] The ethnic groups unsurprisingly rejected the proposal.

The ceasefire groups remain highly distrustful of the generals in Naypyidaw and are unwilling to surrender their weapons because they believe that without them it will be impossible to negotiate a final settlement on acceptable terms.[121] In a December 2008 letter addressed to President Hu Jintao from Wa and Kachin leaders, they appealed for investment and aid, and asked China to pass along the message to the generals that the 2010 election should ensure that the leaders of the special regions are a part of the new government.[122]

Their main demands, which are unlikely to be met, include the right to retain their arms, militias and policing role; a degree of autonomy on issues such as language and education; and more equitable distribution of the profits from natural resources. To prevent a return to fighting, China has been encouraging both the government and the ethnic groups to find better ways to deal with their differences. It has urged the generals to adopt a more inclusive political process that takes into account some of the groups' demands.[123] It has urged the ethnic groups to engage in the political process and not to return to fighting.[124] Nevertheless, as of May, tensions increased and clashes broke out between the army and ethnic groups along both the Chinese and Thai borders.[125] In June, the Myanmar army, together with the Democratic Kayin Buddhist Army, launched an assault on the Karen National Union, resulting in the flight of thousands of refugees to Thailand.[126]

peace or a political settlement. The agreements merely delayed a political resolution until a later date, which is now approaching. For more information see Crisis Group Reports, *Myanmar Backgrounder: Ethnic Minority Politics* and *Myanmar: Towards the Elections*, both op. cit.; Win Min and Zaw Oo, "Assessing Myanmar's Ceasefire Accords", Institute of Southeast Asian Studies, 30 September 2007.

[118] In December 2007 and January 2008, when the government tried to give out temporary national ID cards in the Wa region as part of voter registration process, Wa leaders said accepting them would be tantamount to surrender. Crisis Group interview, Yangon, 3 February 2009.

[119] Crisis Group interview, Ruili, 7 March 2009; Brian McCartan, "Democracy plan fuels war in Myanmar", *Asia Times* (online), 2 February 2009; Tom Kramer, "The Wa-Burmese ceasefire looks shakier", *The Nation*, 24 April 2009; Thomas Fuller, "Ethnic groups in Myanmar hope for peace, but gird for fight", *The New York Times*, 11 May 2009; "Ceasefire groups in Shan State face renewed pressure to surrender", *Mizzima News*, 4 September 2008.

[120] On 28 April 2009, simultaneous meetings were held between Myanmar military commanders and representatives of every major ethnic ceasefire army in the country's north and north east. The ethnic insurgents were all given the same three options: surrender; become a border guard force under the Myanmar army; or elderly leaders must retire and establish a political party to contest the 2010 elections. Brian McCartan, "China drawn into Myanmar's border strife", *The Asia Times*, 27 May 2009; Brian McCartan, "Democracy plan fuels war in Myanmar", *The Asia Times*, 2 February 2009; Min Lwin, "Junta Commanders Court Ceasefire Groups", *The Irrawaddy*, 29 April 2009; Wai Moe, "Generals call the ceasefire groups' hands", *The Irrawaddy*, 8 May 2009.

[121] There are other reasons for the hesitation to surrender arms. Karen Peace Army (KPA) leaders in northern Shan State, for example, see the constitution as a threat, given that they require arms to protect poppy growers and extort money from the local population. Crisis Group interview, Yangon, 3 February 2009.

[122] The Wa and the Kachin also asked for the normalisation of border trade, the opening of the border, expansion of the scale of crop substitution, more infrastructure construction, human resources training, and welcomed Chinese companies to explore and develop natural resources in the special regions. Letter from the Wa and Kachin to President Hu Jintao, document on record with Crisis Group, December 2008.

[123] China has held separate meetings with Myanmar officials and ethnic armed groups in recent months. At one meeting, Myanmar officials reportedly told their Chinese counterparts that the armed groups could be a potential threat to the gas and oil pipelines deal that Beijing and Naypyidaw signed last year. For their part, representatives of the armed ethnic groups told Chinese officials that they were unhappy with the new constitution, which calls for the disarmament of ceasefire groups in the post-election period. Wai Moe, "Shan State 'extremely unstable': Researchers", *The Irrawaddy*, 9 April 2009.

[124] Ibid.

[125] "Rebel forces shoot, kill 12 Burmese soldiers", *Bangkok Post*, 5 May 2009; "KIA troops take to forests for possible war with Burmese Army", *Kachin News Group*, 16 June 2009; Hseng Khio Fah, "Wa leaders meet on Thai-Burma border", *Shan Herald*, 23 June 2009; Hseng Khio Fah, "Intensive recruiting for army in Shan State", *Shan Herald*, 22 July 2009.

[126] Upwards of 4,000 fleeing villagers crossed into Thailand, joining camps holding more than 120,000 refugees. Thomas Fuller, "Myanmar military gains on rebels as villagers flee to safety", *International Herald Tribune*, 20 August 2009. This situation on the Thai-Myanmar border is an ongoing source of friction between the two countries.

China is now in a difficult position. It has been unable to persuade the Myanmar government to refrain from launching fresh offensives against the ethnic groups. Beijing was not even forewarned about the late August raid against the Myanmar National Democratic Alliance Army (MNDAA), a Kokang ceasefire group. During his visit to China in June 2009, Chinese officials told General Maung Aye to handle border area conflicts among the ethnic ceasefire groups peacefully, and in early August Yunnan officials again warned a military commander not to create instability in Shan State.[127] As tensions between the Burmese army and MNDAA increased in early August, a first wave of refugees fled to China.[128] When fighting erupted between the MNDAA and a Kokang faction, the United Kokang State Army, which is allied with the Myanmar army, an estimated 37,000 Kokang and Chinese residents also fled across the border.[129] In response, China deployed 700 troops to the border[130] and launched a rapid diplomatic offensive, sending its public security minister, Meng Jianzhu, to the region.[131] After the Myanmar army took control of the Kokang capital of Laogai, China sent its PLA chief of staff, General Chen Bingde, to the border to reiterate its position to senior Burmese military commanders. The meeting was inconclusive.[132]

Tensions continue to rise, and the possibility of conflict between the Myanmar army and the remaining ethnic groups is the highest it has been in twenty years. Despite repeated calls by China's foreign ministry urging Myanmar to safeguard the stability of its border area and protect the safety and legal rights of Chinese citizens in the country,[133] the Myanmar army has sent reinforcements into Wa territory.[134] Thousands of Chinese and Myanmar civilians have also fled in anticipation of further clashes.[135] Should the Myanmar army launch attacks against the Wa and/or Kachin, in addition to armed combatants travelling over the border, China would have to deal with another humanitarian crisis on its border.[136] Yet it is unclear whether Beijing will be able to dissuade the generals from undertaking further offensives.

[127] China indicated to both the ethnic rebels as well as to the military government that it was opposed to any fresh offensives along the border, and that the rebels could not expect any backing if the Myanmar army attacked them. Crisis Group interview, Beijing, September 2009; Crisis Group correspondence, 18 August 2009; "Junta's ploy: Push Kokang to shoot first", Shan Herald Agency, 14 August 2009; Lawi Weng, "China warns commander to avoid instability in Shan state", *The Irrawaddy*, 14 August 2009.

[128] "Thousands flood into China after Myanmar army standoff", Reuters, 26 August 2009.

[129] At the latest reports, almost all of the people in Laogai have fled into China's Mansan Township. Thousands of Burmese army troops are reportedly taking positions in Kokang area, and security from Kunlong and Laogai has been tightened by the Burmese military. Lawi Weng, "China warns commander to avoid instability in Shan state", *The Irrawaddy*, 14 August 2009; Hseng Khio Fah, "Tension sparks people to flee into China", Shan Herald Agency, 24 August 2009; "缅甸境内武装对峙重创中缅边贸 华商排长队逃离"["Sino-Myanmar border trade hit hard by the military confrontation, Chinese businessmen fleeing the country"]，经济参考报 [Economic Observer], 25 August 2009.

[130] "PLA moves to the Kokang border", Shan Herald Agency, 25 August 2009.

[131] Qiu Yongzheng and Qiu Wei, "Myanmar conflict subsiding", *Global Times*, 31 August 2009.

[132] "Top Chinese and Burmese military officers in one-day meet", Kachin News Group, 2 September 2009.

[133] "China says Myanmar promises border stability", Associated Press, 1 September 2009.

[134] "Another 3,000 Burmese civilians head for China border", Kachin News, 1 September 2009.

[135] Ibid; "Transport fare in Panghsang increased, high demand", *Shan Herald*, 4 September 2009.

[136] Even as the Chinese government encouraged people to return to Myanmar on 2 September, many refugees expressed fear of returning home with the Myanmar army in control. "China says Myanmar promises border stability", Associated Press, 1 September 2009.

III. DRIVERS OF CHINESE POLICY

A. BORDER STABILITY

China's foremost concern with regard to Myanmar is to ensure the stability of its shared border.[137] Nothing makes China's leadership as nervous as regional or border disputes with the potential to incite internal instability.[138] The flight of more than 30,000 refugees to China during the August 2009 conflict in Myanmar's Shan State underlined this fear.[139] The various illicit activities which take place along the border only contribute to instability.

1. Narcotics

Myanmar served as a passageway for opium and heroin from the Golden Triangle in the 1980s, bringing drug addiction into China's southern provinces and producing China's first HIV epidemic (see below). Now, more than 95 per cent of the heroin sold in China comes from this region.[140] Drugs enter Yunnan through the border, from where they are trafficked along established routes to Sichuan, Tibet, Gansu, Guangdong and as far as Shanghai.[141] Yunnan is the key to arresting the influx of drugs, and the central government expends significant efforts to try to ensure that local governments address this problem.

While poppy cultivation and opium production in Myanmar decreased in mid-2000, a marked rise has occurred in the production of amphetamine-type stimulants (ATS) entering China from Myanmar.[142] The spread of ATS in China has been fast and far-reaching, particularly in Yunnan, first ravaged by heroin addiction.[143] According to statistics of the 1.1 million registered drug users in the province, the use of "designer drugs" increased from 1.7 per cent in 2004 to 11.1 per cent in 2007.[144] The age of narcotics users has rapidly dropped.[145]

The central government considers problems related to drug abuse as potential challenges to social stability.[146] Drug use and crime are directly correlated. Armed confrontations between drug dealers and Chinese police are common in border areas, with drug dealers equipped with grenades, shot guns, and often machine guns.[147] In Yun-

[137] See fn. 10.
[138] Wen Liao, "China's Black Cat, White Cat Diplomacy", *Foreign Policy*, 10 July 2009.
[139] For more on this issue, see Section II.D.
[140] Tom Kramer, Martin Jelsma and Tom Blickman, "Withdrawal Symptoms in the Golden Triangle: A Drugs Market in Disarray", Transnational Institute, Amsterdam, January 2009; Lee Chen Yang, "21 世纪初的金三角毒品问题及其对我国的影响"["Golden Triangle Drug Issue and Its Implication for China"], 2 August 2006, Government Website of Yunnan, www.ynjd.gov.cn/pubnews/doc/read/yxwx/63634825.176206202/index.asp.
[141] Crisis Group interviews, Hong Kong, 27 March 2009; Beijing, 23 July 2009.
[142] The past five years have seen significant declines in poppy cultivation and opium production in Myanmar's Shan state due to Chinese and Myanmar government efforts to crack down on opium production, and even more significantly the opium ban by some ceasefire groups in key opium cultivating areas. Various sources claim that the opium bans have simply resulted in opium cultivation being moved to other regions in Shan state or that these groups have merely moved into methamphetamine production. Moreover, a 2008 United Nations Office on Drugs and Crime (UNODC) report has warned that though there has been a dramatic fall in the area under poppy cultivation and opium production in the past few years, there has been a reversal in the past two years due to falling prices of alternative crops such as maize, tea, rubber and fruit, soaring market prices for opium, and increasing political instability, which has lured former poppy growers back into opium cultivation. For a comprehensive study of the narcotics trade in the Golden Triangle, see Kramer, Jelsma and Blickman, "Withdrawal Symptoms in the Golden Triangle: A Drugs Market in Disarray", op. cit.; Larry Jagan, "Eradicating opium has become a pipe dream", *Bangkok Post*, 15 February 2009; "Opium Poppy Cultivation in South East Asia", UNODC Report, December 2008, p. 11.
[143] "Drug-ravaged province to open 22 new methadone clinics in southwest China", Xinhua, 11 January 2007; Kramer, Jelsma and Blickman, "Withdrawal Symptoms in the Golden Triangle: A Drug Market in Dismay", op. cit.
[144] These drugs include methamphetamine, ecstasy and ketamine. Kramer, Jelsma and Blickman, "Withdrawal Symptoms in the Golden Triangle: A Drug Market in Dismay", op. cit., p. 64; "Opium Poppy Cultivation in South East Asia", UNODC Report, op. cit., p. 11.
[145] According to a government study, 72 per cent of drug users in China are under the age of 30. Lee Chen Yang "21 世纪初的金三角毒品问题及其对我国的影响"["The Golden Triangle Drug Problem and Its Implications for China"], Government Website of Yunnan Provincial Government, 2 August 2006, at www.ynjd.gov.cn/pubnews/doc/read/yxwx/63634825.176206202/index.asp.
[146] Drug users are seen as are seen as burdens on society and economic liabilities. Crisis Group interview, Beijing, 26 July 2009. Furthermore, Chinese have a historical intolerance of drugs. During the latter part of the eighteenth and nineteenth century, opium addiction had become widespread in China, particularly in coastal cities, due to British merchant ships which plied their trade. Chinese authorities efforts to rid the country of the drug led to the two Opium Wars. The experience left an indelible mark on the Chinese psyche regarding the dangers of drug addiction.
[147] Drug trafficking is a capital offence in China, and drug dealers usually choose to fight to the death rather than surrender. "警察讲述危险禁毒人生:力量悬殊多次放走运毒者" ["Police tell the story of the war on drugs"], *New Beijing Newspaper*, 26 June 2007. In Yunnan alone, from 1982 to 2008, 40 narcotics police were killed and more than 200 wounded in the

nan's south-west border county of De Hong, more than 60 per cent of criminal offences are drug-related.[148]

China has engaged in aggressive efforts to combat transnational drug trafficking, launching a three-year "People's War against Drugs" in 2005.[149] A law was passed requiring local authorities to include anti-narcotics campaigns into their overall plans for social and economic development.[150] When meeting with his Burmese counterpart Soe Win in 2006, Premier Wen Jiabao discussed tougher action against cross-border drug trafficking.[151] That same year, China invested 100 million RMB ($12 million) to support border guards, railway, civil aviation, customs and postal services in their efforts to prevent drugs from entering the country.[152] China launched a substantial crop substitution program in Myanmar in 2006.[153] Chinese troops also periodically tighten checks at border transit points and along major roads to the border.

However, these efforts have mostly been ineffective due to widespread corruption among local narcotics authorities as well as the Myanmar government and ceasefire groups.[154] Drug traffickers with strong ties to local authorities are protected, while the others can usually bribe their way to freedom.[155] While most cases of corruption in China involve lower-level district and county officials, the quantity of drugs trafficked within China raises suspicions that high-level corruption is a factor in certain provinces bordering drug-producing regions, such as Yunnan, Guangdong and Fujian.[156]

2. HIV/AIDS

Intravenous drug use and commercial sex have fuelled the spread of HIV/AIDS in Yunnan. The border town of Ruili is known as the "ground zero" of China's AIDS epidemic.[157] An estimated 85,000 people are infected in Yunnan alone,[158] with 90 per cent of drug users infected in certain places.[159] Most worrying is that infections have spread beyond high-risk populations and are rates rising in the general population. The phenomenon has been driven by increasing migration and improved road transport within and across the border, carrying the virus further into China and back into Myanmar, particularly along trafficking and labour migration routes.[160] It is also being spread by high-risk behaviour and persistent lack of knowledge about HIV prevention.[161] In a government report published in February 2009, figures showed AIDS to be the leading cause of death among infectious diseases in the country,[162] with an estimated 700,000 people in China infected as of October 2007.[163] The UN has warned that China could have ten million HIV cases by 2010 unless it takes stronger steps to educate the public and fight the epidemic.[164]

If China is to effectively tackle the problem within its borders, it must also enlist the Myanmar government to

line of duty. Pang Li, "China's thirty years war on drugs", www.china.org.cn, 1 November 2008, at www.china.org.cn/china/features/content_16699091.htm. See also Jagan, "Eradicating opium has become a pipe dream", op. cit.; Brian McCartan, "Manhunt is on for Mekong Robin Hood", *The Asia Times*, 7 April 2009.

[148] "德宏打响禁毒'人民战争'" ["People's War on Drugs in De Hong"], Government Website of De Hong, 26 June 2006, at www.ypncc.gov.cn/pubnews/doc/read/yxwx/149918100.173003891/index.asp.

[149] 三年禁毒人民战争, launched in April 2005 by Hu Jintao and Wen Jiabao, www.gov.cn/wszb/zhibo250/content_1026902.htm

[150] Pang Li, "China's thirty years war on drugs", op. cit.

[151] Khun Sam, "The Latest Casualties in China's War on Drugs", *The Irrawaddy*, 29 March 2007.

[152] "Anti-drug work should be a long-term task", Xinhua, 25 June 2008.

[153] See Appendix D.

[154] "Hard to be innocent in Burma", *Shan Herald*, 25 June 2008.

[155] Khun Sam, "The Latest Casualties in China's War on Drugs", *The Irrawaddy*, 29 March 2007; Crisis Group interview, Ruili, 7 March 2009.

[156] 2006 INCSR Volume I: Drug and Chemical Control, U.S. State Department, U.S. Embassy of Beijing, http://beijing.usembassy-china.org.cn/incsr06_chn.html.

[157] Wang Zhuoqiong, "A new weapon in the war to halt HIV", *China Daily*, 19 February 2009; Khun Sam, "The latest casualties in China's war on drugs," *The Irrawaddy*, 29 March 2007.

[158] Wang Zhuoqiong, "A new weapon in the war to halt HIV", op. cit.

[159] Kramer, Jelsma and Blickman, "Withdrawal Symptoms in the Golden Triangle: A Drug Market in Dismay", op. cit., p. 76.

[160] The massive drain of a growing HIV/AIDS epidemic on China's resources could set back its economic development by years. David Arnott, "China–Myanmar relations" in "Challenges to Democratisation in Myanmar: Perspectives on Multilateral and Bilateral Responses", Institute for Democracy and Electoral Assistance, 2003. See also 2008 Report on the Global AIDS Epidemic, UNAIDS.

[161] Crisis Group interview, Aaron Diamond AIDS Center, Kunming, 3 March 2009.

[162] 7,000 people died in the first nine months of 2008. Malcolm Moore, "China facing HIV 'plague' as new cases leap 45 per cent", *The Telegraph*, 30 March 2009.

[163] David Arnott, "China–Myanmar relations" in "Challenges to Democratization in Myanmar: Perspectives on Multilateral and Bilateral Responses", op. cit.

[164] Ibid; Clifford Coonan, "China admits that cases of HIV/Aids have risen 45 per cent", *The Independent*, 23 February 2008. Based on 2007 populations and HIV rates per hundred thousand, Chinese rates of infection are still relatively low, at 52.629; compared with Myanmar, 502.531; India, 209.059; Thailand, 931.393; Japan, 7.541; U.S., 394.964; France, 218.552; and Germany, 64.344. Information available at www.globalhealthfacts.org.

address the epidemic on its territory.[165] The military government has finally acknowledged the existence of the problem, but accords it a very low priority.[166] Due to its sparse presence in the border regions, its capacity to address the issue remains very limited. At the same time, foreign donors are largely absent.

3. Gambling

The casinos along the Myanmar side of the border – some run by the ethnic groups and some by Chinese businessmen[167] – have been associated with widespread illicit activity and have long drawn in Chinese government officials, some gambling with state funds.[168] Efforts by Beijing to close them down have been unsuccessful.[169] Gambling has led to the kidnapping, torture and murder of gamblers unable to repay their debts, including businessmen and the sons of high-ranking government officials. A series of such abductions made headlines in early 2009. The Yunnan government responded by cutting off water, telecommunications, power and roads to the Myanmar town of Maijayang to pressure the local authorities to shut it down.[170] Chinese troops have closed border crossings to casino towns and raided casinos across the border, arresting and fining all Chinese, including casino operators and gamblers.[171] The foreign ministry in Beijing has also taken the unusual measure of issuing a statement warning Chinese nationals against going to Myanmar to gamble due to the risk of scams and kidnappings.[172]

No shortage of formal agreements have been concluded between the Chinese and Myanmar governments to address cross-border issues, including memoranda of understanding on narcotics control and illegal logging.[173] But illicit activities continue unabated. Ethnic groups depend on them as a source of revenue in their struggle against what they perceive as a hostile central government. Many in the Myanmar army also profit considerably from these activities. While publicly avowing to wage war on illicit activities, the military government looks the other way, fearing that implementation might provoke violence.[174] As one Wa commander said, "Relations between us is like an axe without the handle and vice versa. As the handle, they used to manipulate us, the axe, in the past. But they can no longer enjoy that privilege".[175]

[165] See Crisis Group Issues Report N°1, *HIV/AIDS as a Security Issue*, 19 June 2001; Crisis Group Briefing, *Myanmar: Update on HIV/AIDS Policy*, op. cit.

[166] Myanmar has one of the most serious AIDS epidemics in Asia. It also spends the least amount of any country on its national health budget – just 0.3 percent of GDP, of which a small amount goes toward AIDS. For more on the AIDS/HIV epidemic in Myanmar, see Crisis Group Briefing, *Myanmar: Update on HIV/AIDS Policy*, op. cit.; "Out of Control 2: the HIV/AIDS Epidemic in Myanmar", Southeast Asia Information Network (SAIN),; Chelala Cesar and Beyrer Chris, "Drug use and HIV/AIDS in Myanmar; statistical data included", *The Lancet*, 25 September 1999.

[167] For example, Maijayang Casino, one of the largest casinos in the border area before its closure during a March 2009 raid, was owned by Chinese businessmen in Maijayang border business village in an area controlled by the KIO. Nawdin Lahpai, "The dark world of Chinese casinos on Sino-Myanmar border", Kachin News Group, 22 January 2009, at www.bnionline.net/news/kng/5731-the-dark-world-of-chinese-casinos-on-sino-Myanmar-border-special.html.

[168] Crisis Group interview, Special Region 4 of Shan State East, March 2009. In 2004, Wu Guanzheng, a member of the Politburo of the CCP Central Committee for Discipline Inspection, stated that the practice infringed on the party's governing capacity. More than 40 opinions on the issue were then issued by the government. In 2005, the central government launched an anti-gambling campaign and shut some of them down. "大规模禁赌决策内幕：中央领导批示 40 多次" ["Decision-Making on Anti-Gambling Campaign: Over 40 Guidelines from the Central Leaders"], 瞭望东方周刊 [*LiaoWang Eastern Weekly*], 9 February 2009, at www.city.china.com.cn/chinese/law/783759.htm.

[169] This campaign was unsuccessful, with casinos reopening for business in areas slightly further from the border. Business is facilitated by local Chinese businessmen who smuggle gamblers across the border.

[170] "All young people kidnapped to Myanmar released", Xinhua, 23 January 2009; "China cuts off tele-communication and electricity in KIO's area over casino fiasco", Kachin News Group, 6 February 2009.

[171] Crisis Group interview, Ruili, 6 March 2009; "中国警方清剿边境赌城迈扎央:参赌者均为中国人" ["Chinese police cleared border casino town Maizhayang: Gamblers are all Chinese"], *NanDu Weekly*, 17 March 2009, http://news.sina.com.cn/c/sd/2009-03-17/101117423397.shtml.

[172] "China warns of kidnappings at Myanmar casinos", Javno, 25 February 2009.

[173] Commitments have been made at high levels to work together to fight cross-border crimes such as drug trafficking, smuggling and illegal border-crossing. Chinese authorities also conduct training workshops for Myanmar law enforcement personnel in drug trafficking. China and Myanmar Bilateral Relations, Xinhua, 23 October 2003, at http://news.xinhuanet.com/english/2006-10/12/content_5195560.htm; "China, Myanmar to step up anti-drugs intelligence exchange", Xinhua, 9 March 2002.

[174] For example, a fifteen-year drug eradication program was launched in 1999 with the goal that Myanmar be completely free of narcotics by 2014. "Message from Chairman of the Central Committee for Drug Abuse Control Minister for Home Affairs Col Tin Hlaing on International Day Against Drug Abuse and Illicit Trafficking", *The New Light of Myanmar*, 26 June 2003.

[175] Hseng Khio Fah, "Wa leaders meet on Thai-Burma border", Shan Herald Agency, 23 June 2009.

B. ECONOMIC CALCULATIONS

Economic relations are another key component of China's policy toward Myanmar. China's export-oriented economy benefits from a very limited coastline for such a large country. Coupled with a vast wealth disparity between coastal areas and the interior – which the government needs to equalise to retain legitimacy – Myanmar is an important outlet for the economic development of interior provinces, in particular Yunnan and Sichuan. Beijing also views the country as a potential source of and trans-shipment route for energy in the case of interruption of shipping through the Malacca Strait.

1. Chinese investment and economic assistance

The greatest areas of cooperation between China and Myanmar are in mining, oil, gas and hydropower.[176] Additionally, Myanmar has been a major recipient of economic assistance over the past decade, generally provided in the form of grants, interest-free loans, concessional loans or debt relief.[177] China has also provided assistance in the construction of plants and equipment, investment in mineral exploration, hydropower, oil and gas production, and agricultural projects.[178] Chinese economic assistance and cooperation programs are usually tied to Chinese state-owned enterprises, and are therefore often indistinguishable from state commercial investments. This makes it impossible to account for the full extent of China's economic assistance and investments in Myanmar. Nor do official figures reflect the reality of the economic relationship between the two countries: Chinese investments are grossly underestimated by Myanmar's official figures and, to a lesser extent, Chinese official figures.[179]

Infrastructure development is another significant aspect of economic cooperation. Backed by low-interest loans and export credits, Chinese companies are building roads, dams, bridges and ports.[180] Chinese enterprises are building dams all over Myanmar to increase electric power generation, the largest project being the 7,100 megawatt (MW) Tasang Dam on the Salween River, which the Asian Development Bank will integrate into the Greater Mekong sub-region power grid.[181] When completed, it will be the highest dam in South East Asia, taller than the Three Gorges. In 2006, Sinohydro signed a memorandum of understanding (MOU) with Myanmar for the Hat Gyi Dam along the Thai border. In April 2007, Farsighted Group and China Gold Water Resources Co. signed MOUs for a hydropower project on the upper Salween.[182] While these dams provide thousands of megawatts of electricity generating capability, most of the energy is to be sent to Thailand and China, bringing little benefit to the people of Myanmar.[183]

In return for its investment in infrastructure, Myanmar has granted China privileges in the exploitation of oil and gas.[184] This forms part of China's resource-driven "go

[176] Myanmar's foreign investment in 2008 reached $975 million. The top investors are Thailand, followed by Britain and Singapore. "Statistics: Myanmar foreign investment rises sharply in 2008", Xinhua, 18 March 2009.

[177] China is not a member country of the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD), and so does not disclose the full extent of its assistance programs, and the military government stays similarly silent on the assistance it receives.

[178] David Steinberg, "Myanmar: Feel-Good U.S. Sanctions Wrongheaded", 2004, at www.narinjara.com/Reports/BReport.ASP.

[179] Various factors make it difficult to accurately calculate the total amount of Chinese direct investment in Myanmar. Firstly, investment figures compiled by the Myanmar government include only investments approved by the Myanmar Investment Commission (MIC), only a fraction of which go forward, and no statistics exist for disinvestment. However, many of the small and medium Chinese-financed projects do not go through the MIC and so are not reflected in its figures. A large number of Chinese investments and business ventures are in the names of relatives of Chinese businessmen who hold Myanmar citizenship. Moreover, the military government is obsessed with secrecy, especially regarding investment, money and business deals made by the military.

[180] For example, the Ayeyarwaddy Transportation Project provides a transport line from Yunnan to Thilawa Port in Yangon. The project, which began in October 1999, consists of constructing a container port near Bhamo, upgrading the road from the new container port to Muse/Lwejel on the Chinese border, and dredging the river to secure a vessel lane. Toshihiro Kudo, "Myanmar's Economic Relations with China: Can China Support the Myanmar Economy?", Economic and Technical Cooperation Studies Group, Inter-Disciplinary Studies Center, Japan, discussion paper no. 66, July 2006.

[181] There are known to be at least 45 Chinese companies involved in 63 hydropower projects throughout Myanmar. "China in Myanmar: The increasing investment of Chinese multinational corporations in Myanmar's hydropower, oil & gas, and mining sectors", Earthrights International, Myanmar Project, updated September 2008; Thailand comes a distant second with three firms engaged in dam work. Myanmar Rivers Network, www.Myanmarriversnetwork.org.

[182] "China in Myanmar: The increasing investment of Chinese multinational corporations", Earthrights International, op. cit.

[183] Myanmar Rivers Network, op. cit; "Monsoon leave over, Chinese workers back in Myitsone project", Kachin News, 11 November 2008.

[184] As of January 2009, Burma's proven reserves of crude oil were 50 million barrels and its natural gas reserves estimated to range from 283 billion cubic metres (Bcm) to 600 Bcm. This is according to *Oil & Gas Journal*, though another reputable industry publication, *World Oil*, put their estimate of Myanmar's proven reserves at year-end 2006 at 197 million barrels. On a global scale, this is quite small. Neighbouring

out" strategy, which has encouraged energy companies to secure equity investments abroad.[185] This policy reflects China's perception of its vulnerability in accessing energy supplies. By providing generous government support including preferential loans, it also helps Chinese state-owned companies become more competitive with established multinationals. The "go out" strategy has enjoyed continued state support as this sense of insecurity has been accentuated by price rises and fears about disruptions in the supply of oil from key supply states;[186] acute local fuel shortages; and concerns about access to Western markets.[187] (For information on the pipeline being constructed from Kyaukphyu (Sittwe) to Kunming, see Section III.C.1.) Though Myanmar is not a major energy supplier to China, Chinese state oil companies and the government have demonstrated increased interest in Myanmar's energy resources in recent years. For example, CNPC, Sinopec and CNOOC have all started oil exploration projects.[188] China has competed fiercely with other countries such as Korea and India to secure access to potential reserves of gas off the west coast.

Chinese companies are also heavily invested in Myanmar's growing mining sector.[189] The joint Tagaung Taung nickel deposit, the country's largest mining project, was approved by the Myanmar government in September 2008.[190] The $800-million project, financed by Chinese state banks, has been called "one of the greatest collaborative efforts in the history of Sino-Burmese mining.[191] Other Chinese mining companies with a presence in Myanmar include Northern Star, Sea Sun Star and the Standing Company Limited, involved in numerous smaller-scale mining projects in Kachin and Shan States.[192]

2. Yunnan and the "Go West" campaign

Located on China's south-west frontier, Yunnan is the most influential provincial player in China's Myanmar policy. Bordering Laos and Vietnam as well as Myanmar, Yunnan serves as the gateway for China's economic interactions with South East Asia and South Asia.[193] Promoting the economic development of China's interior western provinces has been a primary objective of the central government since the launch of the "Go West" campaign in early 2000.[194] The campaign aims to eliminate poverty and close the wide economic gap between China's coastal provinces and the western provinces within 50 years. Yunnan's GDP per capita ranking has lingered at the bottom for many years, and in 2007 its economic competitiveness ranked in the bottom five among China's 31 provinces.[195] To promote Yunnan's

Thailand's oil reserves are several times that of Myanmar. However, proven reserves means reserves that have a 90 per cent probability of being there under current economic and technological conditions. Myanmar may have larger oil reserves that are so far unproven. The government has claimed higher reserves figures of as much as 3.2 billion barrels.

[185] In 1999, the Central Committee of the Communist Party announced the "go out" (走出去, *zouchuqu*) strategy, offering investment incentives for companies, including reform and liberalisation of regulatory systems, financial regimes and administrative rules. Xu Xiaojie, "Chinese NOCs' Overseas Strategies: Background, Comparison and Remarks", The James A. Baker III Institute for Public Policy, Rice University, March 2007. For more information, see Crisis Group Report, *China's Thirst for Oil*, Section III, "How and Where China Invests", op. cit.

[186] Such as Iran, Iraq, Saudi Arabia, Nigeria and Venezuela.

[187] For more information, see Crisis Group Report, *China's Thirst for Oil*, op. cit.

[188] "China in Myanmar: The increasing investment of Chinese multinational corporations", op. cit.

[189] According to Myanmar's Central Statistical Organisation, there was a sharp increase in foreign investment in the mining sector to $861 million in 2008, drawing more than 88 per cent of foreign investment in 2008. Of this amount, 99 per cent, or over $856 million, came from China. "Statistics: Myanmar foreign investment rises sharply in 2008", Xinhua, 18 March 2009. However, China's total mining investments, including those not reported to the MIC, are likely to be higher because many mining projects are small in scale and therefore are less visible, attracting less publicity.

[190] The project is run by state-owned China Non-Ferrous Metal Group (CNMC) in cooperation with the Third Mining Company of Myanmar's Ministry of Mining. The general manager of CNMC said that the project would lift Myanmar's gross domestic product by more than 2 per cent, and upon completion, would have an annual production capacity of 80,000 tons of nickel iron. "China group says US$800 million Myanmar mine on track", *Mining Journal*, 22 April 2009.

[191] The project has received "the highest levels of attention from Myanmar and Chinese government leaders". Ibid.

[192] Other major projects include the Mwetaung nickel deposit in Sagaing Division; the undeveloped Letpadaung copper deposit, which is the third deposit of the Monywa Copper Project in Monywa, Sagaing Division; the Mount Popa Coal Coke Mine & Plant in Mandalay Division; and the Tigyit Coal Fired Power Plants and Mine in Tigyit, Pin Laung Township, Shan State. "China in Myanmar: The increasing investment of Chinese multinational corporations", op. cit.

[193] "2007 年中国省域综合经济竞争力"["Provincial Economic Competitiveness Survey 2007"], Xinhua, 10 March 2009.

[194] China launched the "Go West" (西部大开发, *xibu dakaifa*) campaign in 2000 to reduce regional disparities by promoting the development of six provinces (Gansu, Guizhou, Qinghai, Shaanxi, Sichuan and Yunnan), five autonomous regions (Guangxi, Inner Mongolia, Ningxia, Tibet and Xinjiang), and one municipality (Chongqing) in Western China. "China's premier invites foreigners to invest", *Asia Pulse*, 16 March 2000. State Council Information Office, available at www.chinawest.gov.cn/english; "Premier Wen Urges to Step up Effort to Build West", *People's Daily*, 11 June 2003.

[195] "2007 年中国省域综合经济竞争力" ["2007 Provincial Economic Competitiveness Survey"] Xinhua, 10 March 2009.

economic development, Beijing has granted Yunnan significant autonomy in managing border relations.[196]

Myanmar is currently Yunnan's largest trading partner among the ASEAN countries. In 2008, the Yunnan-Myanmar trade volume reached $1.19 billion,[197] almost half of China and Myanmar's total trade of $2.4 billion.[198]

C. STRATEGIC INTERESTS

1. The "Malacca dilemma" and the Indian Ocean

Equally important to China is its desire to expand its strategic presence into the Indian Ocean and protect its sea lines of communication threatened by the "Malacca dilemma". According to Chinese analysts, an over-reliance on the strait poses two threats: piracy and maritime terrorism in the region and the attempts of powerful states, notably the U.S., to dominate the strait through joint naval exercises with India and Japan and through such programs as the Container Security Initiative, the Proliferation Security Initiative and the Regional Maritime Security Initiative.[199] In a November 2003 speech to the Chinese Communist Party (CCP) leadership, President Hu Jintao hinted that "certain major powers" were bent on controlling the strait, and called for the adoption of new strategies to mitigate the perceived vulnerability.[200] Following longstanding calls by Chinese strategists for a blue water navy that can protect maritime interests and support long-distance operations,[201] the government has ordered the navy to prioritise the development of an ocean security strategy.[202]

China has helped develop port facilities in cities stretching from the South China Sea through the Straits of Malacca, across the Indian Ocean, on towards the Persian Gulf: Gwadar, Pakistan; Chittagong, Bangladesh; Hambantota, Sri Lanka; Sittwe and Kyaukphyu, Myanmar; Laem Chabang, Thailand; and Sihanoukville, Cambodia.[203] The trajectory of these ports has given rise to the "string of pearls" theory according to which China is increasing access to foreign ports and airfields and developing special diplomatic and strategic relationships in order to project its power overseas and protect its oil shipments.[204] Within Myanmar itself, China has provided assistance in the construction of radar, communications upgrade, and refuelling facilities at ports in Hainggyi, Coco, Sittwe, Zadetkyi Kyun, Myeik and Kyaukphyu.[205]

[196] Crisis Group interviews, Beijing, Kunming, Yangon, February-March 2009.

[197] "2008 年云南对东盟贸易回落" ["Yunnan trade with ASEAN dropped in 2008"], Xinhua, 25 January 2009.

[198] "2007/08 财年中缅贸易额比上年增 60%" ["China-Myanmar Bilateral Trade Rose 60 per cent in 2007-08 Fiscal Year"], Ministry of Commerce, 27 November 2008, http://mm.mofcom.gov.cn/aarticle/zxhz/tjsj/200811/20081105878917.html. China's main exports to Myanmar include textiles, chemical raw materials, machinery and medicines, while the main imports from Myanmar include agricultural products such as rice and fruits, seafood, timber, gems, minerals and livestock products.

[199] Xuegang Zhang, "China's energy corridors in Southeast Asia", Jamestown Foundation, China Brief, vol. 8, no. 3 (2008), www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=4693; Zhang Xuegang, "Southeast Asia and energy: gateway to stability", *China Security*, vol. 3, no. 2 (2007), pp. 18-35, www.wsichina.org/cs6_2.pdf; Marc Lanteigne, "China's maritime security and the Malacca dilemma, *Asian Security*, vol. 4, no. 2 (2008), pp. 143-161; You Ji, "Dealing with the Malacca Dilemma: China's effort to protect its energy supply", *Strategic Analysis*, vol. 31, no. 3 (2007), pp. 467-489.

[200] Ian Storey, "China's 'Malacca Dilemma'", Jamestown Foundation, China Brief, vol. 6, no. 8 (April 2006).

[201] 郝廷兵 (PLA Navy) [Hao Tingbing] and 杨志荣 (PLA Navy) [Yang Zhirong], "海上力量与中华民族的伟大复兴" ["Sea Power and the Chinese Nation's Mighty Resurgence"], National Defence University, Beijing, 2005; 顾祖华 [Gu Zuhua], "维护海上石油安全须有强大海上编队" [In Order to Safeguard Energy Security, A Massive Naval Fleet is Necessary], 当代海军 [Modern Navy], August 2004; "中国海军发展战略设"[China's Naval Development Strategy]，纪念中国海军成立 60 周年 [Commemorating the 60th Anniversary of the PLAN's Establishment], 22 April 2009, at http://blog.chinamil.com.cn/user1/sgk8390756/archives/2009/443062.html.

[202] According to China's 2008 White Paper on National Defence: "Since the beginning of the new century … the Navy has been striving to improve in an all-round way its capabilities of integrated offshore operations, strategic deterrence and strategic counterattacks, and to gradually develop its capabilities of conducting cooperation in distant waters and countering non-traditional security threats". White Paper on China's National Defence in 2008, Information Office of the State Council, January 2009; "Chinese navy spells out long-range ambitions", Reuters, 15 April 2009.

[203] Chris Devonshire-Ellis, "China's String of Pearls Strategy", China Briefing, 18 March 2009.

[204] The "string of pearls" strategy first appeared in the internal report "Energy Futures in Asia" produced by defence contractor Booz Allen Hamilton for Defense Secretary Donald H. Rumsfeld. Though Chinese officials deny that there is such a strategy, Chinese scholars are nonetheless forbidden to publish about it. Bill Gertz, "China builds up strategic sea lanes", *The Washington Times*, 17 January 2005; Andrew Erickson, "Chinese Naval Analysts Consider the Energy Security Question", paper presented at the annual meeting of the American Political Science Association, Chicago, Illinois, 30 August 2007.

[205] Ravi V. Sharada Prasad, "The String of Pearls", *Indian Express*, 27 April 2009; "China eyeing base in Bay of Bengal?" *Asianews*, 10 September 2008.

China may make use of these ports for commercial and other reasons (subject to permission), but they are not naval bases designed to support PLA Navy deployments into the Indian Ocean, as some Indian analysts and "China threat" proponents have claimed.[206] India has issued alarming reports about Chinese military intentions in the region, for example, going so far as to assert that China established a large Chinese signals intelligence (SIGINT) station on Myanmar's Great Coco Island to monitor Indian naval activity in the Andaman and Nicobar Islands. While this was later proven untrue,[207] it was a factor that led to India's decision in 1993 to reverse its critical policy and strengthen ties with Myanmar.[208] India has made diplomatic and public representations to Myanmar to express concerns over growing Chinese presence in the region.[209] It is also aggressively pushing forward with its own plans for military expansion – with a particular emphasis on warships – to counter China's influence in the region.[210]

In addition to developing port facilities, Chinese companies are building oil and gas pipelines from the Myanmar south-western port of Kyaukphyu to Kunming.[211] While Myanmar will not supply its own crude oil to China through the pipeline, it will transport oil from the Middle East and Africa, bypassing the Straits of Malacca, through which nearly 80 per cent of China's imported oil must pass.[212] Proponents of the pipeline argue that it will reduce China's reliance on the strait for oil transportation by at least one third,[213] reducing shipping time from Africa and the Persian Gulf, providing easier access to crude oil for new inland refineries.[214] Given the pipeline's projected path through territory controlled by ethnic groups, China's interests in Myanmar's stability have grown commensurately.[215]

[206] "Myanmar's Chinese Connection", *International Defense Review*, November 1994. For information on the "China threat" theory, see 李小华 [Li Xiaohua], "解析'中国威胁论'与'中国崩溃论'的神话" ["Analysis of the Myths of the 'China Threat Theory' and the 'China Collapse Theory'"], *当代亚太* [*Contemporary Asia-Pacific Studies*], no. 7 (1999). For more on image-building as a response to the China threat theories, see Simon Rabinovitch, "The Rise of an Image-Conscious China", *China Security*, vol. 4, no. 3 (Summer 2008), pp. 33-47.

[207] India's chief of naval staff withdrew the claim, stating that India had "firm information that there is no listening post, radar or surveillance station belonging to the Chinese on Coco Islands". "No report of anti-India activity at Coco Island", Indiainfo.com, 25 August 2005; Andrew Selth, "Myanmar's Coco Islands: rumours and realities in the Indian Ocean", Southeast Asia Research Centre, working paper series no. 101, November 2008.

[208] For more information on India's Myanmar policy, see Section V.B, "Exploiting Bilateral Competition".

[209] India's navy chief has expressed concern that "each pearl in the string is a link in a chain of the Chinese maritime presence". Indian intelligence officials express further fears that Chinese-built ports will be used as naval bases to control the "world energy jugular" and interdict Indian ships. "Myanmar's Chinese Connection", *International Defense Review*, November 1994; "Gwadar port has strategic implications for India: Navy chief", Intellibriefs, 22 January 2008, at http://intellibriefs.blogspot.com/2008/01/gwadar-port-has-strategic-implications.html. An Indian analyst and government adviser at the Institute for Defence Studies in New Delhi has said that a permanent Chinese naval presence in the Indian Ocean would be a "red line" for India. David Blair, "India 'must not show weakness to China'", *The Telegraph*, 16 September 2008; "China eyeing base in Bay of Bengal?" op. cit.

[210] In February 2009 the Indian government said its defence budget would increase by 34 per cent to 1.4 trillion rupees ($30 billion). India has announced plans to have a fleet of aircraft carriers and nuclear submarines at sea in the next decade and recently tested nuclear-capable missiles that put China's major cities well within range. It is also reopening air force bases near the Chinese border. The Indian navy has stepped up its joint exercises with the U.S. navy and bought an American warship, the 36-year-old USS Trenton (re-christened INS Jalashwa), in 2007. Gavin Rabinowitz, "Hambantota harbour and Indo-China ocean war", *The Sunday Times*, 8 June 2008; Siddharth Srivastava, "India's nuclear submarine plan surfaces", *The Asia Times*, 20 February 2009.

[211] China's National Development and Reform Commission (NDRC) approved the plan to construct a crude oil pipeline to Yunnan province in April 2006. Work on the pipeline began the first part of 2009 and it is expected to be completed by 2013. The oil and gas pipelines will stretch from Myanmar's deepwater port at Sittwe through Mandalay to the Chinese border city of Ruili, and then on to Kunming. Sinopec, the contractor on the pipeline, will invest over $1 billion as well as provide an $83 million loan to Myanmar for the pipeline. Simon Wardell, "Chinese Government Reportedly Approves Myanmar-China Crude Pipeline Plans", Global Insight Daily Analysis, 17 April 2006.

[212] Prof. James Holmes, U.S. Naval War College, "China's Energy Consumption and Opportunities for U.S.-China Cooperation To Address the Effects of China's Energy Use", Testimony before the U.S.-China Economic and Security Review Commission, 14 June 2007, at www.uscc.gov/hearings/2007hearings/transcripts/june_14_15/holmes_prepared_remarks.pdf; Sudha Ramachandran, "China secures Myanmar energy route", *The Asia Times*, 3 April 2009.

[213] Zhang, "Southeast Asia and energy", op. cit.

[214] This pipeline would shorten the import route by about 1,200 km. Chen Zhaohe, "从能源角度探析中国对外战略" ["Interpreting Chinese Foreign Strategy from Energy Perspective"], 15 April 2009, at www.studa.net/guoji/090415/15520382.html.

[215] Crisis Group interview, Kunming, 5 March 2009. See also, "Myanmar activists urge China to halt pipeline project", Reuters, 7 September 2009. Although the precise path of the pipeline has not been made public, it must traverse Shan States, substantial parts of which are controlled by ethnic groups.

2. Arms sales and technical assistance[216]

At the end of the 1980s, the Myanmar government turned to Beijing to help fulfil its ambitious plan to enlarge and modernise its armed forces.[217] Currently the largest supplier of weapons to Myanmar,[218] the PLA also provides the Burmese army with training in the technical use of weapons and weapon systems.[219] Goods bought from China over the years have included armoured personnel carriers, tanks, fighter aircraft, radar systems, ammunition, surface-to-air missiles and short-range air-to-air missile systems.[220] Much of the weaponry, such as an August 2008 batch of 200 military trucks, were observed crossing into Myanmar through Ruili on the China-Myanmar border.[221] When opposition and ethnic groups have questioned Chinese officials about arms sales, they replied that China only provides major military equipment, not small arms: "the heavy weapons that cannot kill your people".[222]

Since the mid-1990s the generals have diversified their weapons suppliers. This was partially a response to dissatisfaction with the quality of Chinese military weaponry,[223] but also due to the belief that it would be better to rely on numerous sources in case one supplier cut them off.[224] Currently, the government continues to buy low-level equipment such as trucks and ammunition primarily to maintain good neighbourly relations, but also because China offers a better price – at times almost half market rate.[225] (For information on other suppliers, see Section V.B, "Exploiting Bilateral Competition".)

Chinese arms sales to Myanmar satisfy several strategic motivations. They reinforce the bilateral relationship, strengthening China's foothold in and possible access to the Indian Ocean while putting it in a better position to protect its sea lines of communication. Second, arms sales to Myanmar – like to Pakistan – complicate India's security environment.[226] However, the Chinese take into consideration the regional balance of power and concerns of Myanmar's other neighbours, in particular Bangladesh and Thailand, when determining what to sell. According to a Chinese official, "We do not just give them whatever they want".[227]

[216] For information on reports of Chinese weapons reaching the ethnic groups, see Section II.D.

[217] Restrictions on selling military equipment to Myanmar are self-imposed. The tightest embargoes are maintained by the U.S. and EU, while several other nations, such as South Korea, have informal or less sweeping sanctions. The U.S. and EU restrictions ban sales and re-sales of virtually all military-related equipment to Myanmar, but it is difficult to stop third parties from selling used equipment and licensed technology. Grant Peck, "Arms easy to buy for Myanmar junta", Associated Press, 12 October 2007.

[218] Most of the weapons sales occur through barter deals or interest-free loans. "Myanmar: Ongoing Misuse of Arms Transfer", International Action Network on Small Arms, 27 November 2008, www.iansa.org/un/documents/CaseStudy-Myanmar.doc.

[219] Crisis Group interview, Ruili, 5 March 2009.

[220] China does not regularly report its arms transfers to the UN Register on Conventional Arms and does not publicise information about its arms transfers.

[221] "200 more military trucks delivered from China", *Democratic Voice of Myanmar*, 26 August 2008.

[222] The groups replied that these are arms nonetheless and they threaten and suppress the people. Crisis Group interview, Chiang Mai, 30 January 2009.

[223] Crisis Group interview, Ruili, 5 March 2009.

[224] Ibid; Michael Black and William Couchaux, "Myanmar Finds Willing Arms Suppliers in Energy-Hungry Neighbors", *World Politics Review*, 3 January 2007.

[225] Crisis Group interview, Ruili, 5 March 2009; Myo Gyi, "China provides more military trucks to Burma", *Mizzima News*, 14 January 2009.

[226] Daniel Byman and Roger Cliff, "Explaining China's Arms Transfers", China's Arms Sales Motivations and Implications, RAND, 2003.

[227] Crisis Group interview, Yangon, March 2009.

IV. RISKS OF CHINESE POLICY

Beijing's policies in Myanmar present challenges to its own interests in the country. Not only is Beijing increasingly doubtful about the military government's ability to maintain stability on the border, but the generals' mismanagement of their country is compromising Chinese economic interests. An assessment of the risks presented by current Chinese policy shows that it is firmly in China's interests to prod the Myanmar government toward meaningful economic and political reform.

A. WEAK GOVERNANCE IN MYANMAR

In addition to expanding border trade and gas pipelines, China has broader aspirations for an open market economy in Myanmar where Chinese businesses can sell more of their goods. Yet excessively weak governance in the country continues to undercut political and social stability, which in turn impacts Chinese investments. The military government's failure to implement an effective economic development plan and other reforms significantly limits commercial potential and reduces confidence in the investment environment.[228] After meeting with Myanmar's leadership in June 2009, Singapore's former Prime Minister Goh Chok Tong indicated that Singapore investors are likely to wait until after Myanmar's 2010 elections before significantly expanding their investments there.[229] Chinese investors share these concerns.[230] In 2005, the China Export and Credit Insurance Corporation (SINOSURE) placed Myanmar in the most risky category for investment.[231] Small Chinese businesses are ready to invest more fully in Myanmar, depending on how the next steps go.

Yunnan officials express significant frustration with the repeated delay or non-implementation of cross-border cooperation agreements by the Myanmar government.[232] Most of the problems can be linked to a fundamental lack of knowledge and expertise on economic planning and policy. For instance, at China's encouragement, Myanmar's government announced in 2007 that it would enact a new special economic zones (SEZ) law by the end of the year.[233] Several Burmese entrepreneurs were consulted with regard to the drafting of the law.[234] However, once work began on the specifics of the law, confusion emerged about the required use of foreign currency. At one meeting, a participant said, "But we are in Myanmar; we are not supposed to use foreign currency".[235] The deal evaporated, more due to a lack of understanding of the SEZ concept and economic expertise than any political consideration.[236]

For now, China is content to focus on infrastructure projects in Myanmar to be eventually repaid by the military government.[237] Absent funds to repay the debt, China counts on being reimbursed with resources.[238] However, given the current political climate, the repayment of loans through resource extraction is not guaranteed either. Many of Myanmar's natural resources are located in areas currently controlled by ethnic groups, whose cooperation must be secured.

From a day-to-day perspective, corruption, the weak judicial system,[239] lack of transparency[240] and accountability as well as other governance issues make it difficult for Chinese to do business in Myanmar. Chinese businessmen struggle with how to properly "handle"

[228] Crisis Group interview, Beijing, 24 February 2009.
[229] "Singapore investors wait on Myanmar polls", Associated Press, 12 June 2009.
[230] Chinese investors in Vietnam, for example, are watching closely to see whether they should transfer their investments should the situation improve. Crisis Group interview, Bangkok, 27 January 2009.
[231] Myanmar was given an eight out of nine ranking, where one indicating the safest countries for investment and nine the riskiest. Toshihiro Kudo, "Myanmar's economic relations with China: who benefits and who pays?", in Monique Skidmore and Trevor Wilson (eds.), *Dictatorship, disorder and decline in Myanmar* (Canberra, 2008).
[232] Crisis Group interviews, Kunming, Xi Shuang Ban Na, 2, 6 March 2009; Ruili, 5 March 2009; telephone interview, 3 April 2009.
[233] "Myanmar on road to establishing special economic zones", Xinhua, 13 March 2007; "Myanmar to set up six special economic zones", Xinhua, 14 August 2007.
[234] Ibid.
[235] Crisis Group interview, Yangon, 2 February 2009.
[236] Ibid.
[237] Crisis Group interview, Yangon, 12 March 2009.
[238] Crisis Group interviews, Yangon, 11-12 March 2009.
[239] "In Myanmar, law enforcement officials, particularly at the regional and local levels, have limited expertise in laws and enforcement techniques, particularly with regard to more complex issues such as money laundering, human trafficking and corruption. Similarly, judges and prosecutors have limited technical skills to implement new legal provisions in areas ranging from mutual legal assistance to institutionalised corruption. Furthermore, salaries are often low, providing an incentive for some officials, and indeed members of the general population, to participate in corrupt practices". UNODC website on Myanmar, 2007, www.unodc.org/myanmar/en/corruption.html.
[240] According to the 2008 Corruption Perception Index published by Transparency International, Myanmar ranks 178th among all the 180 countries in the world, on par with Iraq and above only Somalia. 2008 Corruption Perception Index, Transparency International, 2008 www.transparency.org/news_room/in_focus/2008/cpi2008/cpi_2008_table.

Myanmar officials, and complain that their appetite for bribes is much worse than that of Chinese officials.[241]

B. THE COST OF INVOLVEMENT IN EXTRACTIVE RESOURCES

Chinese investments and economic assistance support short-term Chinese strategic interests as well as prop up the government in Myanmar. Because they are for the most part based on the extraction and export of natural resources, they have not promoted wider economic development. Chinese companies pay little attention to the sustainability of Myanmar's export commodities or to their environmental impact.[242] With regard to logging, environmentalists have warned that unless effective controls are implemented, Myanmar will lose one of its major exports in the near future.[243] (See Appendix D.)

The lack of transparency and available information on land acquisition, environmental impact and displacement caused by Chinese hydropower and mining projects as well as oil and gas explorations underscore the concerns of environmental and human rights groups. Chinese companies that operate abroad often do not conduct the required assessments that are standard for international operations.[244]

Chinese infrastructure and construction projects are often accompanied by increased military presence in project areas, frequently leading to large scale forced labour, forced relocation and human rights abuses.[245] Consisting of mainly mining and hydropower projects, they have provoked widespread resentment and anger towards investors – and China in general.[246] Local Chinese businessmen openly admit that what they are doing is no better than previous colonial powers.[247]

For the most part, large construction and infrastructure projects within Myanmar are carried out by bringing in thousands of labourers from China.[248] Few benefits accrue to the local population. Occasionally, locals are employed as short-term workers, but they are warned not to report any information about project activities to others.[249]

Policymakers in Beijing are slowly beginning to acknowledge that these policies are not sustainable.[250] The Chinese Academy for Environmental Planning (CAEP) is now working with the Global Environmental Institute (GEI) and the University of International Business and Economics to draft more stringent environmental standards for Chinese companies to improve their environmental impact overseas.[251] This is a useful first step, but Beijing needs to ensure that Chinese companies at the local and provincial levels actually adhere to these guidelines. Beijing needs to exert greater control, whether by increasing penalties, suspending or rescinding licenses to operate, or issuing a "black list" of offenders.[252]

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[241] One Myanmar businessman observed, "With enough money and the right connections, almost any business venture is possible in Myanmar." Crisis Group interviews, Ruili, 5 March 2009; Yangon, 12 March 2009.

[242] For instance, wild animals in Kachin state such as reptiles, birds, as well as leopards and tigers in danger of extinction, are known to be exported to China, where the demand is high for exotic animals. Local environmentalists report that Kachin state authorities have not shown any concern for the damage being caused to the ecology and the environment in Myanmar by the rampant capture and export of wild animals to China. "Thousands of snakes exported to China as food seized", Kachin News Group, 6 December 2008.

[243] Toshihiro Kudo, "Myanmar's economic relations with China: who benefits and who pays?", op. cit.

[244] A report recently released by Arakan Oil Watch (AOW) noted that seismic and oil explorations by a consortium led by CNOOC had deeply scarred the land on Ramree Island, home to about 400,000 people, and made land uninhabitable. Marwaan Macan-Markar, "Myanmar: China's Thirst for Oil Ignores Environment, Rights", IPS News, 31 October 2008. Parts of Kachin state where dam projects are currently underway also face the prospect of "irrevocable damage" to the environment and ecosystem. Shyamal Sarkar, "Kachin hydropower projects to spell doom", Kachin News Group, 31 January 2008.

[245] See Shyamal Sarkar, "Kachin hydropower projects to spell doom", Kachin News Group, 31 January 2008; Myanmar Rivers Network, at www.myanmarriversnetwork.org; letter from activists protesting the Tasang dam to Khalid Rahman, Director of Infrastructure Division, Mekong Region, Asian Development Bank, 9 October 2005, at www.shanland.org/oldversion/index-2067.htm; "A Choice for China: Ending the destruction of Myanmar's northern frontier forests", Global Witness, October 2005; "Forced labor continues in Arakan", *The Irrawaddy*, 3 August 2006; "Abuses rampant along gas pipeline", *The Irrawaddy*, 7 May 2009.

[246] Crisis Group interview, Yangon, 6 February 2009.

[247] Crisis Group interviews, Xi Shuang Ban Na, March 2009.

[248] "Construction projects help to boost our employment, our big construction companies, as well as the export of Chinese technologies and machines". Crisis Group interview, Yangon, 11 March 2009.

[249] Nawdin Lahpai, "Saviours sought to halt Irrawaddy River dam project", Kachin News Group, 14 March 2009; "Over 1,000 Chinese workers in Myanmar's Chipwi hydropower project", Kachin News Group, 13 January 2009; "Camps for 15,000 Chinese labourers at Irrawaddy River hydropower project", Kachin News Group, 4 March 2009.

[250] Crisis Group interviews, Beijing, May-June 2009.

[251] "Environmental guidelines for firms investing abroad", *China Daily*, 12 September 2008.

[252] China's State Environmental Protection Administration (SEPA) issues a blacklist of the country's top 30 polluters that have failed environmental assessments or failed to im-

C. RESENTMENT TOWARDS CHINA

China's political and economic support of Myanmar has generated resentment in opposition parties and ethnic groups, as well as in the general public. China is seen as propping up an abusive, authoritarian government.[253] Following the January 2007 Security Council veto, many in Myanmar have looked even more unfavourably on China and Chinese people.[254] Some in China consider close ties with Myanmar to be a double-edged sword, and that if the current policies continue, there could be backlash against China in Myanmar.

Resentment towards ethnic Chinese living in Myanmar is rising.[255] The safety of ethnic Burmese-Chinese and the thousands of recent Chinese immigrants is a prominent concern of the Chinese government. Given the history of anti-Chinese sentiment and prevalence of policies that discriminate against them,[256] it is likely that they would be targeted in an outbreak of violence in Myanmar, as they have been in the past.[257]

Beginning in the early 1960s, the government in Myanmar introduced the Burmese Way to Socialism, a staunchly anti-foreign ideology that introduced state control of the economy by nationalising private enterprises, targeting Indian, Chinese, Anglo-Burmese and Western businesses.[258] These "foreigners" were "encouraged" to leave.[259] Similar nationalistic and protectionist tendencies persist today in unfavourable policies towards Chinese businesses.[260] Chinese have difficulties operating businesses, and Burmese can drive them out of business and transfer ownership and franchise to businesses owned by families of government officials.[261]

Burmese of Chinese origin and those Chinese who have more recently migrated from Yunnan are viewed as two distinct groups. The recent immigrants are seen as the "top of the chain", and are widely resented by Burmese and often Burmese Chinese as well.[262] The new immi-

plement green regulations. They are barred from receiving bank loans. Sun Xiaohua, "Blacklist of polluters distributed", *China Daily*, 31 July 2007; "China sets up pollution blacklist", BBC, 30 July 2007; Crisis Group interview, Beijing, 28 July 2009.

[253] "Chinese officials say they want a prosperous and democratic Myanmar, but their actions do not show this. They only care about the government to government relationship; they are not looking out for the people. They have told me that they know the government is not supported by the people. They know how corrupt the government is. But China still profits". Crisis Group interview, Ruili, 7 March 2009.

[254] Crisis Group interview, Ruili, 7 March 2009; Mandalay, 10 February 2009.

[255] Ethnic Chinese officially comprise 3 per cent of the population, but the percentage is believed to be higher due to intermarriage and widespread discrimination against minorities. Crisis Group interview, Ruili, 5 March 2009. It is impossible to give an accurate count of how many Burmese of Chinese origin, or Chinese nationals live in Myanmar. The government of Burma does not recognise Burmese Chinese, Panthay, Burmese Indians, Anglo-Burmese or Rohingya as being among the list of 135 officially recognised ethnic groups. No one, not even the Burmese, really knows how many Chinese are now resident in Myanmar. In the last census of 1983, there were several hundred thousand listed, although the criteria for such a categorisation was obscure, and there is an extensive Sino-Burman population of unknown size but considerable influence (witness, for example, General Ne Win, Brigadier Aung Gyi). According to statistics supplied by the Chinese embassy in Myanmar, there are 2.3 million Chinese in Myanmar while other estimates put the figure at 3 million. Senior Burmese officials have noted the marked influx of Chinese from Yunnan Province who are both conspicuous and relatively wealthy compared to the poverty of the average Burmese. Some estimates by highly placed Burmese officials indicate there may be two million Chinese illegally in Myanmar and perhaps half a million Chinese registered with the government. This would be about 5 per cent of the population. David Steinberg, "Burma/Myanmar: The Chinese Dilemma", e-International Relations, 20 February 2008, at www.e.ir.info.

[256] Ethnic Burmese-Chinese (and Burmese-Indians) in Myanmar are subject to various forms of discrimination by the government. They do not have full citizenship rights which inter alia prevents them from enrolling in higher education institutions, such as medical and technical colleges. Most depend on remittances from family members living abroad. Crisis Group interview, Ruili, 7 March 2009.

[257] Crisis Group interviews, Yangon, February 2009; Ruili, 7 March 2009.

[258] Fred Von Der Mehden, "The Burmese Way to Socialism", *Asian Survey*, vol. 3, no. 3 (April 1963), pp. 129-135, cited in Egreteau and Jagan, "Back to the Old Habits: Isolationism or the self-preservation of Burma's military regime", op. cit.

[259] By the end of the 1960s, an estimated 100,000 Chinese as well as 400,000 Indians and Ango-Burmans had left Myanmar due to widespread discrimination. Mya Than, "Ethnic Chinese in Myanmar and their Identity" in Leo Suryadinata (ed.), *Ethnic Chinese as Southeast Asians* (New York, 1997); Thant Myint-U "What to do about Burma", *London Review of Books*, 8 February 2007.

[260] Crisis Group interviews, Yangon and Mandalay, February 2009; Ruili, 7 March 2009.

[261] Crisis Group interviews, Mandalay, 10 February 2009; Beijing, 30 April 2009. This phenomenon is particularly popular in the jade and logging industry. Local officials develop policies that favour local Burmese and drive non-citizen Chinese businessmen out of business, then sell these businesses or franchise them to people chosen by government officials.

[262] Many Burmese-Chinese feel more Burmese than Chinese, and have little sympathy for the more newly immigrated Chinese from Yunnan. Crisis Group interviews, Yangon, 2-3 February 2009; Mandalay, 10 February 2009. There are three types of Chinese in Burma, listed from poorest to the richest: those who have lived in the country since the Mandalese kings, coming mostly from Fujian and Guangzhou; those that

grants in particular make few efforts to integrate into local society, frequenting mostly Chinese establishments and living – to the greatest extent possible – an entirely Chinese way of life.[263] Adding further to local resentment is the widespread practice of recent Chinese immigrants buying citizenship cards from corrupt officials.[264]

Myanmar citizens in the north see China as an economic ogre, to which their government is selling their country.[265] Central Mandalay has been dubbed a "Chinatown," where Burmese feel outnumbered.[266] Mandarin is widely spoken and an increasing number of signs are written in Chinese.[267] Burmese feel that they are being pushed from the prime areas of town,[268] and that they are second-class citizens in their own country.[269] Indeed, most businesses in almost all of Myanmar's major cities have some form of Chinese investment.[270] It has been estimated that 60 per cent of Myanmar's economy is in Chinese hands, taking into account the holdings of both ethnic Burmese-Chinese as well as more recent immigrants.[271] According to a Myanmar citizen, "Burma is the backyard of China".[272]

While it is now possible to acquire cheap Chinese products otherwise unavailable in Myanmar, many are dissatisfied with their quality.[273] Furthermore, once the products make it to the cities in Myanmar's interior, they are prohibitively expensive due to the accumulation of bribes and fees.[274] According to a Burmese shopkeeper in Ruili, "After 100 years of colonisation by the British, we had so many things left, but after twenty years of colonisation by China, we have nothing".[275]

D. BEIJING POLICY UNDERCUT BY LOCAL ACTORS

In many cases, China's goals of stability and development are being undercut by the actions of local actors. While several of Yunnan's interests and perspectives converge with those of Beijing, including the need to develop the province economically, Kunming has stronger incentives than Beijing to deepen relations with Myanmar and often goes too far in single-mindedly pursuing its own economic interests.[276] Operating under the Chinese adage, "heaven is high and the emperor is far away", local actors (many commercial) regard Beijing as "ignorant" of local needs, making local "adaptation" of policies "smart and necessary".[277]

This practice, from Beijing's perspective, is "unhealthy", undermining Beijing's policy of good neighbourly relations and its international reputation.[278] Tensions between Beijing and Kunming surface when Beijing is called to account for illicit activities of its local businessmen and officials, the extent of which it is often unaware.[279] Operations by Chinese logging companies, for example, approved by the Yunnan provincial government or local governments without Beijing's knowledge, have led to friction between Beijing and Naypyidaw.[280] Local Chinese companies have also significantly undermined Beijing's crop substitution policy. (See Appendix D for the cases of logging and crop substitution). In addition to increasing Myanmar's suspicions about

immigrated to Burma after 1949, when Taiwan withdrew its troops from Shan state; and the most recent wave of Chinese businessmen coming from Yunnan and other Chinese provinces since the 1990s. "Long friendship between China and Myanmar", "福建侨联" [Fujian Qiaolian] available at www.fjql.org/cgzn/jyzt/y19.htm.

[263] Even older groups of Chinese immigrants tend to live in Chinese enclaves.

[264] Crisis Group interviews, Mandalay, 10 February 2009; Ruili, 7 March 2009.

[265] A common sentiment is that everything in Myanmar is in the hands of cronies and Chinese. Crisis Group interviews, Yangon, 4 February 2009; Ruili, 7 March 2009.

[266] On the edge of town, many tall buildings built by Chinese are often empty while their owners are buying things in Taiwan and Yunnan. Crisis Group interview, Mandalay, 10 February 2009.

[267] Crisis Group interviews, Myanmar and Yunnan, February-March 2009; "If you want to see and hear Burmese, you should go outside of Mandalay", a famous Burmese cartoonist commented in one of his drawings. Wai Moe, "Myanmar crackdown could be convenient for China", *The Irrawaddy*, 27 November 2008.

[268] Crisis Group interview, Mandalay, 10 February 2009.

[269] Crisis Group interviews, Yangon, 2-3 February 2009; Mandalay, 10 February 2009.

[270] Maung Aung Myoe, "Sino-Myanmar Economic Relations Since 1988", Asia Research Institute, National University of Singapore, working paper series no. 86, April 2007.

[271] Crisis Group interview, Ruili, 5 March 2009. For more on Chinese investments in Myanmar, see Section III.B.1 and Appendix C.

[272] Crisis Group interview, Yangon, 2 February 2009.

[273] "Most of the products for export to Myanmar are made in Yunnan, not the special economic zones, so their quality is inferior. The special economic zones only export to the West". Crisis Group interview, Mandalay, 10 February 2009.

[274] For example, in Ruili, a Chinese made motorcycle costs 2,000 CNY. But by the time it gets to Yangon, it will sell for 6,000-7,000 CNY. Crisis Group interview, Ruili, 7 March 2009.

[275] Crisis Group interview, Ruili, 5 March 2009.

[276] Kunming has a pronounced desire to become an "international corridor" and "continental bridge". Crisis Group interview, Kunming, 2 March 2009.

[277] Crisis Group interviews, China-Myanmar border, March 2009.

[278] Crisis Group interview, Beijing, 23 July 2009.

[279] Crisis Group interview, Beijing, August 2009. See also Appendix D.

[280] Crisis Group interview, Yangon, 12 March 2009.

China's strategic intentions, these activities damage China's reputation among local Burmese.[281]

Many of Myanmar's natural resources – minerals, oil and gas, timber – are located in the special regions controlled by ethnic groups, leading to tensions between the government, ethnic groups and Chinese investors. In the past, ethnic groups directly negotiated projects with Yunnan businessmen for timber and mineral resources, but Naypyidaw has since imposed the requirement that all projects be approved by the government and include a government representative. However local Chinese businessmen still continue to independently negotiate deals with ceasefire groups in the special regions,[282] aggravating tensions between Beijing and Kunming and creating problems for Beijing's bilateral relationship with Myanmar.

Kunming authorities have expressed satisfaction with Security Council initiatives against Myanmar that pressure the military government.[283] They prefer a weak central government in Myanmar with fewer controls over economic and commercial activities, allowing them to engage with local actors with fewer constraints. Anything that weakens the power of the military government, therefore, is welcomed.[284]

[281] Crisis Group interview, Yangon, March 2009.
[282] Ibid.
[283] Crisis Group interview, Beijing, July 2009.
[284] Ibid.

V. LIMITS TO CHINESE INFLUENCE

The view that China could force political change in Myanmar if only it were willing to use its influence is overstated. Beijing can extract certain minor concessions, but they have never led to fundamental changes. It has helped secure "favours" from Myanmar, such as accepting UN envoys' visits or international aid after cyclone Nargis, but in most cases, these moves just relieved international pressure on China. A recent test of Chinese influence was the Myanmar army's raid against the Kokang ceasefire group in August, which resulted in the flight of 37,000 refugees into China. Despite having strongly warned the government against such a move, Beijing was not able to dissuade it, nor was China informed before the operation took place.[285]

China's influence is limited by several factors. The generals in Naypyidaw harbour a profound distrust of China due to its past support to the Communist Party of Burma (CPB) and continuing ties with border ethnic groups, which prevents them from consolidating control over their territory. Although the military government relies on Beijing's support, it still follows a foreign policy of non-alignment and pragmatism in order to balance China's influence with that of other regional powers. The Myanmar government is also intensely nationalistic, unpredictable and sensitive to outside interference. Finally, China uses ASEAN as a shield against more robust action, which limits how far China is willing to go in pushing Myanmar.

A. HISTORICAL DISTRUST

Myanmar's deep distrust of China and its political and territorial ambitions is rooted in the regime's strong resistance to all foreign intervention. Burmese school curricula include the Chinese invasions of the thirteenth and eighteenth centuries.[286] There has long been a Chinese perception that parts of present day Myanmar

[285] See Section II.D.
[286] Chinese empires and dynasties invaded Myanmar in the thirteenth century (the Mongol Empire led by Kublai Khan invaded in 1277, 1287 and 1300) and the Qing dynasty (Manchu) launched four expeditions against Myanmar in 1765-69. The Qing dynasty then kept a heavy military build-up in the border areas of Yunnan for about a decade in an attempt to wage another war while banning inter-border trade for two decades. Yingcong Dai, "A Disguised Defeat: The Myanmar Campaign of the Qing Dynasty", *Modern Asian Studies*, vol. 38, no. 1 (2004), pp. 145-189.

are part of "greater" China,[287] and the borders of present day Shan state and western Yunnan have advanced and retreated with competing sovereignty claims.[288] In the mid-1950s, soon after establishing diplomatic relations, Chinese Premier Zhou Enlai and Burmese Prime Minister U Nu agreed on the demarcation of the border.[289]

The military government's long, protracted struggle with the CPB intensified its distrust of China.[290] Chinese support enabled the CPB to sustain the most formidable insurgency campaign among all insurrectionist groups.[291] Trained in Yunnan province, it included several hundred PLA advisers and thousands of Chinese "volunteers".[292] In the late 1960s when support for the insurgency and fervour for the Cultural Revolution in China was at its peak among Myanmar's ethnic Chinese population, Chinese propaganda praised the "revolutionary armed struggle led by the CPB" and urged the Burmese people to join it in overthrowing Ne Win's regime.[293] This led to violent clashes between pro-government Burmese and pro-CPB ethnic Chinese students, and culminating in anti-Chinese riots in 1967 in Yangon.[294]

Generals Than Shwe and Maung Aye are said to harbour deep resentment of China. They personally fought against the CPB for many years, witnessing the death of many of their comrades. Maung Aye would allegedly instruct his regional and division commanders to watch China's moves, stating "We will have to fight these guys again one day. So prepare yourselves for that".[295] This resentment persists despite the military government's present reliance on China. A former CPB soldier noted, "Their hatred is like a scar in their heart, but as they have become more isolated, they have had to depend on China more and more".[296] According to a Western diplomat, "This Burmese regime wants to stay in power any way it can. China is just a tool it uses to this end".[297] Wide-ranging military-to-military cooperation has not significantly diminished the Myanmar government's suspicion of Chinese strategic intentions.[298]

While China downgraded its support to the CPB in the 1980s,[299] ceasing it by 1989, the Myanmar government resents China's support for the border ethnic groups that splintered off the CPB. They have watched as these hostile groups have maintained or increased their strength with Chinese support, which they see as the primary obstacle to resolving the political stalemate.[300] Even some Chinese scholars consider Beijing's involvement with these groups to be interference in Myanmar's internal affairs.[301] The Myanmar government regularly makes complaints to Beijing about the issue.[302]

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[287] Myanmar has appeared as such in Chinese maps. Crisis Group email correspondence, Thant Myint-U, 18 August 2009.

[288] Ibid.

[289] "周恩来总理在缅甸仰光华侨欢迎大会的讲话"［Prime Minister Zhou Enlai's Speech at the Overseas Chinese Association in Yangon, Myanmar]，中华人民共和国外交部档案 [PRC Foreign Ministry Case Files]，Case Number:105-00510-08（1）, 18 December 1956.

[290] The CPB almost brought down the government in the late 1940s. In 1950-1951, the government launched a major clampdown on the CPB, forcing its guerrillas to retreat into the jungle, and in October 1953 declared it an illegal organisation. Xiaolin Guo, "Towards Resolution: China in the Myanmar Issue", op. cit.

[291] Though professing support for the principle of non-interference, the Chinese government sought to export revolution by supporting communist insurgencies in several of its neighbouring countries including Indonesia, India, Thailand, the Philippines as well as Myanmar. The CPB received Chinese weaponry including tanks, trucks and communication equipment. Casualties were also routinely evacuated across the border to Yunnan for treatment. Crisis Group interviews, Yunnan, March 2009; Xiaolin Guo, "Towards Resolution: China in the Myanmar Issue", op. cit.; Jürgen Haacke, "Myanmar's Foreign Policy: Domestic influences and international implications", International Institute for Strategic Studies, Adelphi paper no. 381, June 2006, p. 25.

[292] These Chinese "volunteers" made up 30 to 40 per cent of the CPB's fighting force. They included Yunnan local youths, sent-down youths from other cities and some Burmese Chinese that had fled during the anti-Chinese riots. Crisis Group interviews, Yunnan, March 2009; Xiaolin Guo, "Towards Resolution: China in the Myanmar Issue", op. cit.

[293] For example, Peking Radio broadcasted a CPB message on 30 September 1964 implying the need for a new government; Chinese leaders met with the leaders of insurgent groups in Beijing in March 1965; and CPB leaders exiled in Beijing openly declared that they would "overthrow" the Yangon government on 6 November 1966. "Ten Years of Chinese Communist Foreign Policy: South and Southeast Asia", CIA Intelligence Report, 4 April 1968, RSS No. 0026/68, at www.foia.cia.gov/CPE/POLO/polo-17.pdf.

[294] In response, China suspended its diplomatic relations with Burma in 1967 and the Chinese ambassador was recalled. Robert A. Holmes, "China-Burma Relations since the Rift", *Asian Survey*, vol. 12, no. 8 (August 1972), pp. 686-700; Xiaolin Guo, "Towards Resolution: China in the Myanmar Issue", op. cit.

[295] Maj. Aung Lynn Htut, op. cit.

[296] Crisis Group interview, Ruili, 5 March 2009.

[297] Crisis Group interview, Bangkok, 28 January 2009.

[298] Crisis Group interview, Ruili, 5 March 2009.

[299] China stopped providing the CPB with arms and ammunition in 1982, and in the mid-1980s, the Chinese began "encouraging" CPB fighters to lay down their arms and retire in China. Crisis Group interview, Ruili, 5 March 2009; Xiaolin Guo, "Towards Resolution: China in the Myanmar Issue", op. cit.

[300] Crisis Group interview, Special Region 4 of Shan State East, Myanmar, March 2009. See Section II.D.

[301] Crisis Group interviews, Beijing, Kunming, Xi Shuang Ban Na, Yunnan, Yangon, February-March 2009.

[302] Crisis Group interview, Yunnan, March 2009.

B. EXPLOITING BILATERAL COMPETITION

The generals in Naypyidaw also fear Chinese domination and growing political and economic influence.[303] Even Chinese officials note that Myanmar has become a Chinese economic colony, particularly its northern regions.[304]

Myanmar sees its interests as best served by minimising military, political and economic dependence on China.[305] Pursuing a foreign policy of non-alignment and multilateralism to balance Chinese influence, Myanmar has successfully managed to rely on its strategic location and resources to attract and sustain the interest of many other countries, which have lined up to improve ties with Myanmar.[306] The government exploits this competition to diversify its trade channels, sources of international aid, and bidders for oil field exploration rights.

Competition between China and India for resources and influence is the most intense, and Myanmar has wooed India as an important counterweight to China. According to a Western diplomat, "Burma is the prom queen that both China and India want to dance with".[307] India has readily abandoned its ideological differences with Myanmar in the interest of pragmatic calculations.[308] Strategically, India believes that strengthened ties with Myanmar are the key to containing China's expansion into South Asia.[309] India has sought cooperation from Myanmar in its counterinsurgency operations in the north-east along their border and held several joint military operations.[310] The country is also important for India's "Look East Policy" which includes closer links with South East Asia, including trade routes.[311] India has also supplied the military government with weapons and has become involved in various fields such as agriculture and telecommunications.[312]

India and China also compete for energy resources. A notable case involved the rights to substantial gas reserves off Myanmar's west coast: India lost out to China three days after its veto of the January 2007 Security Council resolution on Myanmar, despite being the highest bidder.[313] Chinese diplomats are acutely aware that India is poised to exploit any tougher stance it might take with the government in Myanmar to better position itself for future energy deals.[314]

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[303] Crisis Group interview, Yangon, 5 February 2009; Bertil Lintner, "China no sure bet on Myanmar", *The Asia Times*, 8 November 2007.

[304] One local Chinese official said, "We want Burma's natural resources and cheap labour. Now it's our turn to do what the British did 150 years ago". Crisis Group Interview, Xi Shuang Ban Na, 6 March 2009.

[305] Haacke, "Myanmar's Foreign Policy: Domestic influences and international implications", op. cit.

[306] Myanmar's leaders have long known that its location as a bridge between South, South East and East Asia makes it strategically important to other countries. Britain, as colonial power, regarded Rakhine as critical to safeguarding eastern India, while the Tanantharyi was vital to protecting entry into the Malacca Strait. During the Second World War, Myanmar became a major theatre of operations as the Allies strove to support Chinese nationalist forces. In the early Cold War, Myanmar was seen as a springboard to re-penetrating China. Ibid.

[307] Crisis Group interview, Yangon, 5 February 2009.

[308] Over the past twenty years, India's foreign policy has moved from support for the democracy movement to a more pragmatic "Look East" policy of engagement. The three primary factors behind this dramatic shift were to secure the regime's support in dealing with insurgency problems in India's north east, to counter China's growing influence, and economic and energy considerations. It was also becoming clear within Indian policymaking circles that the democracy movement would not come to power in the foreseeable future. Crisis Group interviews, New Delhi, 9 January 2009.

[309] Crisis Group interview, Kunming, March 2009.

[310] Crisis Group interview, New Delhi, January 2009.

[311] Haacke, "Myanmar's Foreign Policy: Domestic influences and international implications", op. cit., p. 23. In April 2008, the two countries signed a $120 million agreement to improve the transportation system along Kaladaan River and reform the port of Sittwe. Once completed, ships from India's landlocked Mizoram province will be able to sail directly to Sittwe, thus opening new trade routes for Indian products into South East Asia and allowing India to bypass Bangladesh. "Burma and India sign on new Burmese port", Portworld, 4 April 2008; "India and Burma in transport deal", Associated International Press, 5 April 2008.

[312] In an attempt to counter China's influence in Myanmar, India stepped up both military assistance and energy deals with the military government in 2006. While visiting Naypyidaw, Indian air force chief S.P. Tyagi presented an assistance package which included light helicopters capable of being modified to launch aerial assaults, avionics upgrades for fighter jets and naval surveillance aircraft. However, when the package drew strong international condemnation, Indian officials confirmed to the U.S. in December 2007 that arms sales to Myanmar had ceased. However, sales of military equipment including artillery shells, bullets and guns have continued. Rahul Bedi, "Indian Arms Sales to Myanmar Remain under Scrutiny", *Jane's Defence Weekly*, 16 January 2008; Glenn Kessler, "India's halt to Burma arms sales may pressure junta", *The Washington Post*, 30 December 2007.

[313] China secured the gas sales from blocks A-1 and A-3 despite a higher price offered by Indian and South Korean companies. "China Defends Burma/Myanmar and Gas Deals", *International Gas Report*, 29 January 2007; "Burma/Myanmar favours China gas pipeline over LNG – Seoul", Reuters, 26 February 2007; UN Security Council, 5619th meeting, S/PV.5619, 12 January 2007.

[314] According to Chinese diplomats, India would like nothing more than for China to heed Western calls to get tougher on Myanmar. Crisis Group interviews, Beijing, July and Octo-

Other Asian countries provide a counterweight to China. Singapore, Indonesia, Malaysia, Vietnam, Japan, South Korea and Bangladesh all rank in the top ten in terms of bilateral trade with Myanmar.[315] Thailand, which shares a long border to its east with Myanmar, is the third most important neighbour after China and India. It is a large investor and the destination of almost all of Myanmar's gas exports.[316] Singapore also maintains a close relationship, preventing Myanmar from sliding further into China's sphere of influence. Singapore is considered the Asian "Switzerland" for the military elite,[317] who reportedly hold numerous bank accounts and have registered companies there. Singaporean companies are also heavily invested in Myanmar.[318] Government companies, such as the arms supplier Singapore Technologies, have sold guns, rockets, armoured personnel carriers and grenade launchers to the Myanmar, in addition to IT and communications equipment for the defence ministry.[319] Singapore's relationship with Myanmar has also been influenced by concerns about China's future role in the region, specifically that China's growing hold on Myanmar's economy and armed forces might constrain the country's ability to act independently in the future.[320]

In recent years Russia has become a player in Myanmar. It is now an important commercial trading partner and arms supplier, reportedly providing training in fields such as nuclear technology and aeronautical engineering.[321] Like China, Russia has a veto in the UN Security Council and was equally influential in blocking the 2007 Western-led resolution condemning the regime. While China played a facilitating role between Russia and Myanmar at the time of the veto, Beijing chafes at the growing military relationship between the two countries. The 2007 deal with Russian firm Rosatom to construct a nuclear reactor – which never materialised – irritated the Chinese.[322] While Russia sees great potential in Myanmar's energy sector, Myanmar sees Russia as another important international partner to broaden its diplomatic base. Moscow has supplied arms, agreeing to a 2001 request by the government to purchase Russian-made MIG29 and MIG27 jet fighters and a 2007 request to provide assistance with an air defence missile system.[323] Reportedly, the Russian MIG military aircraft company has maintained a representative office in Myanmar since October 2006 and helped upgrade the country's main military airstrip, Shante airbase (near Meiktila).[324]

There has also been increasingly close collaboration between North Korea and Myanmar after their recent resumption of diplomatic relations.[325] Both countries'

ber 2007. In September 2007, just as massive pro-democracy protests broke out, India's petroleum minister, Murli Deora visited Myanmar to sign exploration agreements (after being publicly reprimanded by the prime minister's office for losing out to China in the country's energy stakes).

[315] "Statistics: Myanmar foreign investment rises sharply in 2008", Xinhua, 18 March 2009.

[316] Thailand is Myanmar's biggest export market, having bought $2 billion worth of gas from Myanmar in 2006 and an estimated $2.8 billion in 2007, more than 40 per cent of Myanmar's total exports. Thomas Fuller, "Region's energy needs enable Myanmar junta", *The New York Times*, 1 October 2007.

[317] Both Burmese generals and drug lords have been able to take advantage of Singapore's liberal banking laws and money laundering opportunities. In 1991, for example, the regime laundered $400 million through a Singapore bank which it used as a down payment for Chinese arms. Elizabeth Krantz, "Singapore hypocrisy: hang the drug couriers while investing with the drug barons", Australian News Commentary, 8 December 2005; Bertil Lintner, "Generals Hit Where it Hurts", *The Asia Times*, 1 November 2007; Francesco Sisci, "Burma's Loose Cannons", *La Stampa*, 19 October 2007; Egreteau and Jagan, "Back to the Old Habits: Isolationism or the self-preservation of Myanmar's military regime", op. cit.

[318] In 2007, Myanmar's official data reported Singapore as its second-largest investor with over $1.57 billion. There is substantial Singaporean investment in areas such as real estate, hotels, and tourism. This represents only 0.1 per cent of Singapore's total trade, with Myanmar ranking 50th among Singapore's trading partners. "Singapore denies money laundering Myanmar leaders", Agence France-Presse, 5 October 2007; Transcript of Reply by Minister George Yeo to Questions in Parliament, Singapore Ministry of Foreign Affairs, 22 October 2007.

[319] William Ashton, "Myanmar continues arms purchases", *Asia-Pacific Defence Reporter*, vol. 30, no. 6 (July-August 2004). In response to questions regarding military sales, Singaporean Minister George Yeo said, "It's been insubstantial. We've always made sure they were items which could not be used against civilians and there have been no sales in recent years." Transcript of Reply by Minister George Yeo to Questions in Parliament, 22 October 2007, op. cit.

[320] William Ashton, "Burma Receives Advances from Its Silent Suitors in Singapore", *Jane's Intelligence Review*, 1 March 1998.

[321] Ko Wild, "Burma's nuclear nexus with Russia", *Mizzima News*, 22 July 2009; Aung Hla Tun, "Russian company gains right to explore for minerals in Myanmar", *The New York Times*, 17 February 2008.

[322] "In Myanmar, two hidden worlds", *The Wall Street Journal*, 20 June 2009.

[323] "Why Russia's mum on Myanmar", *Asia Times*, 10 October 2007; "Myanmar generals visit arms maker in Russia", Reuters, 12 October 2007; Aung Hla Tun, "Russian company gains right to explore for minerals in Myanmar", *The New York Times*, 17 February 2008.

[324] RAC MiG/Russian Aircraft Company RSK (Mig Corp), at www.migavia.ru; Clive Parker, "Inside Myanmar's secret capital", *The Asia Times*, 26 October 2006.

[325] Myanmar broke off relations with North Korea in 1983 after North Korean agents attempted to assassinate the South Korean president Chun Doo-hwan while he was visiting Myan-

increasing isolation and common interests have strengthened the relationship. While Myanmar has the agricultural means to help North Korea, North Korea possesses the weapons and technological capabilities needed to assist Myanmar's military. The North Koreans are reportedly helping design and build the military defence system in Naypyidaw and providing tunnelling expertise.[326] In recent years, an increasing number of North Korean ships have reportedly visited Yangon, increasing speculation about the relationship, including nuclear collaboration.[327]

Myanmar has a host of other partners it can rely on for economic investment, arms sales and military assistance. Israel, Pakistan, Serbia and Ukraine have also been players in global arms sales to Myanmar, notwithstanding Myanmar's poor human rights record.[328] Israel in particular has a strong commercial interest in selling arms to Myanmar, and has also developed relations in other fields. In 2005 it trained 150 government employees in agriculture and provided $2 million in investment.[329] Pakistan also maintains friendly relations with Myanmar as China's ally and India's rival, and has developed close military connections.[330]

When asked to rank China's influence over North Korea, Myanmar, and Pakistan, Chinese diplomats state that influence over Myanmar is higher than that on North Korea, but not even approaching that over Pakistan.[331] While conceding that its influence with the military government likely eclipses that of many countries, Chinese officials unanimously assert that it is far less than believed by many in the West.[332]

C. CHARACTERISTICS OF THE MYANMAR GOVERNMENT

The generals in Naypyidaw are intensely nationalistic and resistant to outside interference. They do not have a rational perception of foreigners and international relations, which they primarily interpret through a neo-colonial lens.[333] China is hardly exempt from this xenophobia.

Myanmar's military government can afford to be impervious to outside pressures because it maintains a stranglehold on power within the country and holds the upper hand in bargaining with its regional neighbours, due to its rich natural resources and geopolitical position. This, coupled with ultra-nationalism, pushes the regime to isolate itself, reflecting an ideology inherited from the period of autarky under Ne Win from 1962-1988. The leadership's sense of its own legitimacy is also built around the myth that the army won Myanmar's freedom and is protecting the country from forces that threaten to tear it apart.[334]

The government retains an acute sense of victimisation making it hypersensitive to all perceived threats of interference.[335] Furthermore, General Than Shwe is considered to be particularly unpredictable and superstitious.[336] The fear of losing power and economic privilege and the threat of being punished for crimes against humanity has only fuelled the military's "siege mentality" that

mar. Diplomatic ties between Myanmar and North Korea were reestablished in April 2007.

[326] "North Korea sells rocket launchers to Myanmar", Reuters, 3 April 2008; "Myanmar strengthens military ties with DPRK", *Chosun Ilbo*, 4 July 2004; Bertil Lintner, "Tunnels, Guns and Kimchi: North Korea's Quest for Dollars – Part I", YaleGlobal, 9 June 2009; Aung Zaw, "Asia's 'Axis of Evil' Flexes its Muscles", *The Irrawaddy*, 23 June 2009.

[327] According to David Albright, director of the Institute for Science and International Security in Washington DC, intelligence agencies have tracked the suspicious procurement of high-precision equipment from Europe, as well as visits to Myanmar by North Korean officials associated with a company that provided assistance to Syria's construction of a nuclear reactor. Glenn Kessler, "US concerns growing about N. Korean military ties with Burma", *The Washington Post*, 22 July 2009. See also Andrew Selth, "Myanmar's North Korean Gambit: Challenge to Regional Security?" Strategic and Defence Studies Centre, Canberra Papers on Strategy and Defence, no. 154, 2004; "Clinton warns N. Korea and Myanmar may be sharing nuclear technology", *The New York Times*, 22 July 2009.

[328] Grant Peck, "Despite rights record, Myanmar easily finds foreign arms suppliers", Associated Press, 14 October 2007; "Myanmar needs a comprehensive international arms embargo", Amnesty International, September 2007.

[329] "Myanmar, Israel strengthen staff training cooperation in agriculture", *People's Daily*, 5 September 2005; William Ashton, "Myanmar and Israel Develop Military Pact", *Jane's Intelligence Review*, vol. 12, no. 3 (1 March 2000).

[330] Egreteau and Jagan, "Back to the Old Habits: Isolationism or the self-preservation of Myanmar's military regime", op. cit.

[331] Crisis Group interviews, Beijing, Kunming, Yunnan, Yangon, February-March 2009.

[332] Crisis Group interviews, Washington DC, February and July 2008; Beijing, February 2009.

[333] This is largely a result of colonial subjugation by the British. For more information see Crisis Group Report, *Myanmar: The Military Regime's View of the World*, op. cit.; Egreteau and Jagan, "Back to the Old Habits: Isolationism or the self-preservation of Myanmar's military regime", op. cit.

[334] Crisis Group Report, *Myanmar: The Military Regime's View of the World*, op. cit.

[335] Mikael Gravers, "Nationalism as Political Paranoia in Myanmar: An Essay on the Historical Practice of Power", Nordic Institute of Asian Studies, 1993.

[336] Crisis Group interviews, Beijing, 25 February 2009; Ruili, 5 March 2009; Sudha Ramachandran and Swe Win, "Instant karma in Myanmar", *The Asia Times*, 18 June 2009.

borders on paranoia.[337] This greatly affects the government's interpretation of international policies and hampers the work of foreign agencies, organisations and companies in Myanmar.[338]

The unpredictable, erratic and intransigent behaviour of the leadership in turn causes Chinese officials significant frustration.[339] Beijing was baffled and angered by the decision to relocate the capital to Naypyidaw in November 2005, having not received prior notification.[340] Its anger extended to the financial implications of the move, requiring the diversion of billions of dollars against the backdrop of outstanding loans owed to China. In May 2006, a statement posted on the Chinese embassy's website criticised the extraordinary expense of building the new capital.[341]

This unpredictability contributes to China's reluctance to push too hard, fearing that any misstep could backfire and jeopardise its interests and influence. That lesson was well-learned in October 2004, when Khin Nyunt was purged. Chinese officials saw the reform-minded general as someone who could gradually lead Myanmar away from isolation and towards economic reform.[342] However, Khin Nyunt's pro-China policy led to suspicions about his loyalty. With his purge, China lost an interlocutor and network within the Burmese regime that had been built since 1988 through personal relationships and high-ranking visits.

D. ASEAN

Through its practice of deferring to regional organisations' policy on issues within their regions,[343] China uses ASEAN as a shield against taking more robust action against Myanmar. When combined with Beijing's sensitivity to "China threat" arguments in the region, ASEAN's weak stance sets a de facto limit on the influence China is willing to exert on Myanmar.[344] The "ASEAN way" – seeking non-confrontational, consensual, incremental and non-interventionist ways to resolve regional conflicts – perfectly complements Beijing's longstanding policy of non-interference. Whatever limited efforts Beijing makes are certain not to go further than the ASEAN line of "constructive engagement",[345] which in the case of Myanmar has generally translated into an endeavour not to "embarrass and isolate" the military regime.[346] According to one Chinese official, the reluctance to push Myanmar harder is because "we have had to rebuild confidence in ASEAN over the last years in China's non-interference".[347]

ASEAN's growth has been fuelled by the desire to balance both growing Chinese influence over Myanmar and U.S. hegemony in the region.[348] One of the very reasons that ASEAN accepted Myanmar into its ranks was to draw it away from China's orbit.[349] Beijing also worries that any attempts to marginalise the organisation could lead to its members forming an "anti-China coalition" with Japan and the U.S.[350]

[337] Crisis Group Report, *Myanmar: The Military Regime's View of the World*, op. cit., p. 5.
[338] Ibid, p.iii.
[339] Crisis Group interview, Washington DC, 18 February 2008.
[340] Ibid.
[341] The statement was quickly removed. Bernt Berger, "Why China has it wrong on Myanmar", *The Asia Times*, 3 October 2007. The statement was originally posted here, http://mm.china-embassy.org/chn/default.htm. See also "Chinese diplomats criticize Myanmar's new capital", *The New York Times*, 23 May 2007.
[342] Perhaps the "kiss of death" for him was when the Chinese leaders playfully dubbed him the "Deng Xiaoping of Burma". On his final visit to China in June 2004 he reportedly told the Chinese politicians he met that he planned to be Burma's first president under the new constitution. Egreteau and Jagan, "Back to the Old Habits: Isolationism or the self-preservation of Myanmar's military regime", op. cit., p. 35.
[343] Chinese representatives regularly refer to the positions of regional organisations as justification for both thwarting international action and being more proactive than usual, as seen in the cases of Sudan, Somalia, Sierra Leone and Zimbabwe, in addition to Myanmar. See Crisis Group Report, *China's Growing Role in UN Peacekeeping*, op. cit., pp. 23-25.
[344] Crisis Group interview, Hong Kong, 27 March 2009.
[345] Paul Jacob, Tan Lian Choo, Ismail Kassim, Reginald Chua, "Asean prefers soft talk to threats in dealing with Yangon", *The Straits Times*, 26 August 1992.
[346] Amitav Acharya, *Constructing a Security Community in Southeast Asia: ASEAN and the Problem of Regional Order* (London, 2001), p. 110.
[347] Crisis Group interviews, Beijing, November 2007.
[348] The growth of regionalism as a response to external influence is what Mark Beeson calls "reactionary regionalism". Mark Beeson, "ASEAN plus three and the rise of reactionary regionalism", *Contemporary Southeast Asia*, vol. 25, no. 2 (2003), pp. 251-268.
[349] Andrew Selth, "Myanmar's China Connection and the Indian Ocean Region", Strategic and Defence Studies Centre, Canberra, working paper no. 377, September 2003, p. 7.
[350] Pak K. Lee, Gerald Chan & Lai-Ha Chan, "China's 'Realpolitik' Engagement with Myanmar", *China Security*, vol. 5, no. 1 (Winter 2009), pp. 105-126.

There have however been some indications that Beijing might be prepared to apply more pressure to Naypyidaw if ASEAN countries were to take a stronger stand. Chinese officials have urged countries seeking China's involvement on Myanmar issues to first seek ASEAN's support.[351] According to one official, "We do not want to replace ASEAN to become the chief mediator in Burma. We still think that we are just one partner that can help the international community to resolve this issue".[352]

In vetoing the January 2007 Security Council draft resolution on Myanmar, Ambassador Wang Guangya noted, "None of Myanmar's immediate neighbours, ASEAN members or most Asia-Pacific countries believed that the current situation in Myanmar posed a threat to regional peace and security".[353] Alternatively, in rare moments when ASEAN expressed exasperation with the situation in Myanmar, such as after the shooting of monks in Rangoon in September 2008, following cyclone Nargis in May 2008 or regarding the trial of Aung San Suu Kyi in May 2009, China has also supported critical statements at the UN.[354]

Over the years, some members of ASEAN have become frustrated by Myanmar's recalcitrance and refusal to cooperate or play a constructive role in its political transition.[355] ASEAN has been unable to come up with a common position on Myanmar.[356] Even those members who have tried to raise the diplomatic stakes have ended up being burned, resulting in an overall decrease in willingness to invest much political or diplomatic capital.[357] One such effort was Indonesia's November 2007 initiative, which established a commission with the goal of negotiating a political settlement between the government and the NLD.[358] Reportedly, Chinese Premier Wen Jiabao was fully supportive of the initiative,[359] but it has since failed to gain momentum, especially after India withdrew.[360]

[351] Crisis Group interviews, Beijing, November 2007.
[352] Crisis Group interview, Washington DC, 16 July 2008.
[353] UN Security Council, 5619th meeting, SC/8939, 12 January 2007. This position was echoed in China's and Russia's vetoes in July 2008 of a draft resolution which would have imposed sanctions on Zimbabwe. Citing African Union opposition to sanctions, China considered the resolution an effort by the Council to act beyond its powers, as Zimbabwe was not considered a threat to international peace and security by its neighbours. "No consensus in Security Council on Zimbabwe sanctions", UN News Centre, 11 July 2008.
[354] In past years, there has been a correlation between ASEAN's and China's actions on Myanmar. When large-scale public protests broke out in August 2007, Beijing urged the generals to exercise restraint. After Singapore's Foreign Minister George Yeo, the chair of ASEAN, wrote to the government expressing the group's "revulsion" at the violent repression of demonstrators and "strongly urged Myanmar to exercise utmost restraint and seek a political solution", China supported an 11 October 2007 Security Council statement and a 2 October resolution in the UN Human Rights Council deploring the violence against peaceful protesters. Following the ASEAN chairman's statement on 19 May 2009 on developments relating to Aung San Suu Kyi, China supported a UN Security Council press statement on 22 May 2009. Crisis Group interviews, Bangkok, 26 January; Yangon, 1 February 2009. See also Kleine-Ahlbrandt and Small, "China's New Dictatorship Diplomacy: Is Beijing Parting with Pariahs?", op. cit., pp. 48-50.
[355] Jurgen Haacke, "ASEAN and Political Change in Myanmar: Towards a Regional Initiative?", *Contemporary Southeast Asia*, vol. 30, no. 3 (December 2008). Malaysia's foreign minister and ASEAN Chair Hamid Albar expressed the group's frustration publicly in a Wall Street Journal op-ed piece and in a speech in which he issued a scathing criticism of Myanmar, saying there was "real concern" from most of ASEAN's members that Myanmar was undermining the organisation's credibility and jeopardising its relations with other countries, and Myanmar's government had not kept its promises to embrace reforms or to release Aung San Suu Kyi. Syed Hamid Albar, "It is not possible to defend Myanmar", *Wall Street Journal*, 24 July 2006; "Myanmar not eager to promote diplomacy", Agence France-Presse, 22 July 2006; Philippine Foreign Minister Romulo said that if Myanmar followed the roadmap, "then there is no problem", but "in the end, we have to consider the credibility of ASEAN and what is good for ASEAN". Carlos H. Conde, "At retreat for Asean, unease over Myanmar", *The New York Times*, 12 April 2005. Thai Prime Minister Abhisit Vejajjiva interview, *The Far Eastern Economic Review*, 16 June 2009.
[356] These differences arise from considerations such as the "varying levels of commitments by governments to promote democracy and human rights"; their economic interactions with Myanmar; their geopolitical and security concerns; different views about how ASEAN should respond to international pressure on Myanmar; and how the Myanmar issue is portrayed at home and abroad. The importance of each of these factors varies from country to country. Haacke, "ASEAN and Political Change in Myanmar: Towards a Regional Initiative?", op. cit.
[357] Crisis Group interview, London, 23 April 2009.
[358] "Indonesia's president declares 'soft power' approach to Myanmar", *The Jakarta Post*, 23 November 2007.
[359] Ibid.
[360] According to a close observer, the Indian sentiment was, "why should we bear the brunt of this? We are not given a permanent seat on the UNSC, so we'll let China bear the brunt". Crisis Group interview, New York, 28 July 2009.

VI. IMPLICATIONS FOR INTERNATIONAL APPROACHES

Western policies of economic sanctions and isolation have failed to produce change in Myanmar.[361] Instead, Western governments have sacrificed opportunities to promote economic reform, strengthen social services, empower local communities, and support disaster prevention and preparedness. In so doing, they have allowed Chinese influence to grow and weakened the West's ability to influence changes underway in the country. As the Myanmar government moves ahead with its roadmap, the West could remain relegated to a spectator role unless it rethinks its strategy.

Tragically, after nearly twenty years the Myanmar government has become even more intransigent. But it is time to learn from the mistakes of these two decades. The most pressing issue now is not to achieve a functioning democracy that meets Western standards but to start a gradual liberalisation process and reintegrate Myanmar with the rest of the world. Myanmar's many ills are rooted in poor government policy, massive and longstanding underinvestment in social services, chronically weak institutions, limited rule of law and a climate of impunity. Twenty years of aid restrictions have weakened, not strengthened, the forces for change.[362] Progress on these issues will only be possible if there is sufficient political will and capacity. As the country's socio-economic crisis deepens, it will become harder and harder for any government, even with international support, to turn the situation around.[363]

The U.S. and other Western countries should adopt a more nuanced approach aimed at strengthening engagement efforts led by Myanmar's neighbours in East and South East Asia. In addition to talks on Myanmar's national reconciliation, dialogue should also address the economic and humanitarian crisis. The government ardently craves recognition and has expressed an eagerness to establish relations with the West.[364] The Myanmar government has expressed an eagerness to establish relations with the West. It has sent the message to Western representatives, "be patient with us, we would like to be friends with West, but we are bordered by China and India which can crush us at any time".[365] According to a Burmese-Chinese citizen, "After Obama's election, the generals wrote him a letter of congratulations. In their hearts they want better relations with the U.S., but because of the issue of 'face', they cannot publicly admit this".[366] Following the visit of U.S. Senator Jim Webb to Myanmar in mid-August 2009, speculation about improved ties abounds.[367] Yet any new approach by the U.S. will also need to take into account Chinese interests and influence.

[361] During a February 2009 press conference in Jakarta, U.S. Secretary of State Hillary Clinton said, "Clearly, the path we have taken in imposing sanctions hasn't influenced the Burmese junta", and the path adopted by its neighbours of "reaching out and trying to engage them has not influenced them, either". Glenn Kessler, "Shift possible on Burma policy", *The Washington Post*, 19 February 2009. The effectiveness of sanctions in promoting democratic change is extremely limited, especially when in place over long periods of time. Sanctions work most effectively when deployed against a country to restore democracy after a coup, and against countries with strong economic ties to the U.S. and the West (given that sanctions are almost never universally applied). In countries such as Myanmar, Cuba and Iran, the U.S. has weak levers of economic coercion.. Morten B. Pedersen, *Promoting human rights in Burma: a critique of Western sanctions policy* (Lanham, 2007); Richard N. Haass, "Economic Sanctions: Too Much of a Bad Thing", The Brookings Institution, June 1998; David R. Henderson, "Why Economic Sanctions Don't Work", *Hoover Digest*, no. 4 (1998); Leon T. Hadar, "U.S. Sanctions Against Burma: A Failure on All Fronts", Cato Institute, 26 March 1998; Ernest H. Preeg, "Sanctions and How They Don't Work", Fraser Forum, June 2000; Jeffrey Sachs, "Myanmar: sanctions won't work", *The Financial Times*, 28 July 2004; Ian Holliday, "Build a circle around Myanmar", *The New York Times*, 4 April 2006; Brahma Chellany, "Burma sanctions don't work", *The Japan Times*, 14 March 2008; Pauline Chiou, "Analysis: Why sanctions aren't working in Myanmar", CNN, 5 July 2009.

[362] Crisis Group Report, *Burma/Myanmar After Nargis: Time to Normalise Aid Relations*, op. cit.

[363] Ibid.

[364] According to a Western diplomat, "Sanctions matter to them a great deal. They particularly hate the visa sanctions, and repeat it in public and private. The American school has 30 per cent Burmese students, all coming from well-connected families that flash their status and links to members of the government. They could put their children in private Burmese schools, but they want to equip them with a Western education so that eventually they can go study in the West". Crisis Group interviews, Yangon, 4 February 2009.

[365] Crisis Group interview, Yangon, 5 February 2009.

[366] Crisis Group interview, Ruili, 7 March 2009.

[367] Senator Webb met with detained opposition leader Aung San Suu Kyi and Senior General Than Shwe, the general's first meeting with a senior U.S. political figure. Webb also won the release of John Yettaw, who a week earlier had been sentenced to seven years of hard labour for sneaking into Aung San Suu Kyi's home. A full-page commentary in the state-run paper said of his visit: "It is indeed the first step toward marching to a 1,000-mile destination", and the Myanmar government "enthusiastically cooperated with (Webb) because of its stance to deepen the bilateral relations and relieve the disagreements between the countries". "Myanmar junta's media lauds US senator's visit", Associated Press, 18 August 2009; Kyaw Ye Min, "The first step of a long journey", New Light of Myanmar, 18 August 2009.

There is intense curiosity and wariness in China about a possible U.S.-Myanmar détente.[368] Some have expressed concern about a competition for influence.[369] While there are fears that China could lose some of its economic advantages, some would welcome U.S. economic engagement if it contributed to economic and regional stability.[370] The main concern is that U.S. involvement in Myanmar's internal political affairs might result in domestic unrest that could threaten stability.[371] Another of Beijing's deep fears is that Myanmar might use the U.S to balance China.[372] There was widespread speculation in Beijing policy circles that the boldness of the Myanmar government's campaign against the Kokang in August was related to U.S. Senator Webb's visit that month.[373] It is assumed that Webb sent signals regarding U.S.-Myanmar rapprochement that emboldened the military government to launch the war despite Beijing's admonitions.

The West should emphasise to China the unsustainable nature of its current policies and continue to apply pressure in the Security Council and other fora. A correlation exists between international pressure on China and Chinese pressure on Myanmar. If Beijing's actions to protect the country continue to undercut its relations with the West, China is more likely to exercise the limited influence it has. Within China there are growing doubts over whether it is worthwhile jeopardising important bilateral relations with Western countries – especially the U.S. – because of Myanmar.[374]

At the same time, the West should exert sustained and continuous pressure on other regional states pursuing their own narrowly defined self interests by conducting "business as normal" with Myanmar's government. ASEAN member states, which are eagerly cultivating their own bilateral relationships with Myanmar, have signalled that they will not take the lead on pressing Myanmar. They have consistently hidden behind one another and given excuses as to why they cannot take a united stance. Although there have been promising steps to exert pressure in recent months,[375] they are not coming consistently from all of the ASEAN states or from the regional organisation itself.

China is only one player among many. India should also be asked to take on greater responsibility in trying to facilitate political reform in Myanmar.[376] Though India boasts of being the world's largest democracy, its foreign policy has not been guided by promoting democracy in other countries. As long as Myanmar is able to exploit the eagerness of these various countries to gain access to and invest in its resources, it will be very difficult to form a coordinated international approach that

[368] Beijing has closely followed U.S. statements (including by Secretary of State Hillary Clinton, Deputy Secretary of State James Steinberg, and Kurt Campbell during his confirmation hearing for Assistant Secretary of State for East Asian and Pacific Affairs) and visits (of Director of the Office for Mainland Southeast Asia Stephen Blake in March and Senator Jim Webb in August). Crisis Group interviews, Beijing, August 2009. Chinese officials have also consistently sought information from opposition and ethnic group leaders about US policy and intentions in Myanmar. See fn. 91.

[369] One Chinese official stated that the U.S. desire for warmer ties with Myanmar was part of its encirclement strategy of China, Crisis Group interview, Beijing, September 2009.

[370] Crisis Group interviews, Beijing, February, July and August 2009. See also Jian Junbo, "China wary of US-Myanmar 'detente'", *Asia Times*, 17 April 2009.

[371] Crisis Group interviews, Beijing, February and August 2009.

[372] Ibid.

[373] Crisis Group interviews, Beijing, September 2009. Some observers assert that Myanmar's more aggressive posture was influenced by the absence of international reaction to the Sri Lankan government's military victory over the Tamil rebels in July. Sri Lanka's president, Mahinda Rajapaksa, met with Myanmar's generals in June during his first overseas trip after defeating the Tamils. See Thomas Fuller, "Myanmar Forces Overwhelm Rebels", *The New York Times*, 30 August 2009; "Wa leaders meet on Thai-Burma border", Shan Herald Agency, 23 June 2009.

[374] Crisis Group interview, Yangon, 10 March 2009.

[375] During the most recent trial of Aung Sung Suu Kyi in the middle of June, Thailand, as the current ASEAN chair, took the unusual step of denouncing the trial and calling for her immediate release. In response, the generals attacked the Thai government in state-run newspapers, saying that Thailand was interfering in the internal affairs of an ASEAN member country and disregarding the ASEAN Charter's principle of non-interference. During this period, Singapore's former Prime Minister Goh Chok Tong met with top Myanmar leaders where he expressed "dismay" at Aung Sung Suu Kyi's arrest and urged the government to hold fair and transparent elections. He also spoke of the difficulty of Senior General Than Shwe's position, saying, "He has inherited this military regime – Myanmar has been under military government since 1962, so it's not his creation. Myanmar has come to a cul de sac, how does it make a u-turn? I think that's not easy". "Singapore investors wait on Myanmar polls", Associated Press, 12 June 2009; "SM Goh urges Myanmar to continue with national reconciliation process", Channel NewsAsia, 12 June 2009.

[376] When asked why India was not tougher with Myanmar in an interview with Charlie Rose, Fareed Zakaria recalled that Indian diplomats have responded to the question as follows: "This country borders us. If it implodes we will have refugees. The place is a complete mess. Don't think you will just go in there and you will find liberal democratic culture." Citing U.S. support of countries such as Saudi Arabia, Egypt and Pakistan, he then asked: "How come you get to get your exceptions, but we don't get to have ours?" Charlie Rose interview with Fareed Zakaria about his book *The Post-American World*, 1 May 2009.

takes into account the roles of all of these actors. While China is important, the more the variables or players in the equation, the less leverage Beijing has.

VII. CONCLUSION

Contrary to widespread belief, Beijing has pushed its neighbour to undertake political reforms, but not in the way the West would like. China was the first to congratulate Aung San Suu Kyi on her election win in 1990, held consultative talks with members of the exiled opposition and worked closely with Khin Nyunt to push forward the seven-step roadmap. Currently China continues to push the roadmap as a positive sign of initial transition, while backing the good offices of the UN Secretary-General. However it is reluctant to push too hard for fear of jeopardising its military, economic and energy interests.

While the present situation gives China a strong foothold and comparative advantage over competitors, its policies pose political, social and economic risks, including aggravating tensions and contributing to conflict among different actors in Myanmar. Because Chinese investments and economic assistance are largely based on the extraction and export of natural resources, they have not promoted wider economic development. Chinese companies with little incentive to pay attention to the sustainability of Myanmar's export commodities or their environmental impact are being held responsible for widespread environmental and ecological destruction as well as forced relocation and human rights abuses carried out by the Burmese military. As resentment against Chinese economic exploitation and support for an unpopular regime grows within Myanmar, China's interests and possibly its nationals in Myanmar will suffer.

Given these risks, Beijing must carefully re-evaluate its strategy and coordinate with Yunnan and local governments to follow through with consistent positions and policies, thereby reining in the activities of local actors. If China refocused on projects that truly benefit the people of Myanmar, the results would stretch beyond economic development and enhanced stability into boosting China's image in the country.

Internationally, Myanmar has posed an increasing challenge to China's global diplomacy and image, similar to the pressures and embarrassment it faced regarding Sudan in the run-up to the 2008 Olympics. Myanmar engages in rampant human rights abuses, and has a stagnant economy and widespread internal conflict. The government is deeply unpopular with its citizens. Beijing is seen – at best – as having let this happen. As long as human rights abuses continue in Myanmar and the generals balk at political reform, Beijing will encounter pressure from international stakeholders. The pursuit of its current policy will only lead to more international embarrassment and criticism, further burdening Chinese

diplomacy as it tries to portray China's emergence as a great power in a positive light.

China should do more to encourage Myanmar to commit to a truly inclusive dialogue with the opposition and ethnic groups. In addition to talks on national reconciliation, dialogue should also address the economic and humanitarian crisis that hampers reconciliation at all levels of society. At the same time, China should act both directly and in close cooperation with ASEAN member countries to continue support for the good offices of the United Nations as well as to persuade the military to open up.

Myanmar is heading towards elections in 2010, which, however flawed, are a potential step towards significant constitutional and generational changes. Chinese and international policies towards Myanmar deserve careful reassessment. An effective international approach also requires a united front by regional actors as well as multilateral institutions such as ASEAN and the UN. Given China's limited capacity to influence the domestic politics of Myanmar, the international community should continue to encourage action from China as well as other regional stakeholders to take part in a meaningful and concerted effort to address the situation in Myanmar.

Beijing/Jakarta/Brussels, 14 September 2009

APPENDIX A

MAP OF MYANMAR

APPENDIX B

HIGH-LEVEL OFFICIAL VISITS BETWEEN CHINA AND MYANMAR

2003

January 7-8: SPDC Chairman Senior General Than Shwe met with President Jiang Zemin, Premier Zhu Rongji, NPC Standing Committee Chairman Li Peng, State Councilor Luo Gan, Vice President Hu Jintao in China on a state visit.

January 15: SPDC Senior General Than Shwe met with visiting Chinese Vice Premier Li Keqiang.

October 6: Premier Wen Jiabao met with Myanmar Prime Minister Khin Nyunt in Bali, Indonesia.

December 15: Chinese Assistant Foreign Minister Shen Guofang attended the "international support for national reconciliation in Myanmar Forum" held in Bangkok, which included the Myanmar Foreign Minister U Win Aung.

2004

July 12-13: Prime Minister Khin Nyunt met with President Hu Jintao, Premier Wen Jiabao, CPC Central Committee Political Bureau Standing Committee, Luo Gan and NPC Standing Committee Chairman Wu Bangguo in Beijing.

2005

April 23: President Hu Jintao met Senior General Than Shwe in Jakarta.

July 4: Premier Wen Jiabao met Myanmar Prime Minister Soe Win in Kunming during the sidelines of a Greater Mekong Sub-region (GMS) Ministerial Working Luncheon hosted by Chinese Minister of Finance Jin Renqing.

December 14: Premier Wen Jiabao met with Prime Minister Soe Win in Kuala Lumpur.

2006

February 14-15: Prime Minister Soe Win met President Hu Jintao, Premier Wen Jiabao Chairman and Wu Bangguo of the Standing Committee of the National People's Congress in Beijing.

October 31: Chinese Premier Wen Jiabao met with Myanmar Prime Minister Soe Win on the sidelines of the China-ASEAN Commemorative Summit marking the 15th anniversary of the establishment of Dialogue Relations between China and the Association of Southeast Asian Nations (ASEAN).

2007

February 26: SPDC Chairman Senior General Than Shwe met with visiting Chinese State Councilor Tang Jiaxuan in Naypyidaw.

May: Prime Minister General Thein Sein visited Beijing.

Mid-August: the Political Commissar of the Jinan Military Area Command stopped by Myanmar during a tour of Southeast Asian countries.

June 5-6: Chinese State Councilor Tang Jiaxuan and NPC Standing Committee Chairman Wu Bangguo met with visiting SPDC Secretary-General Thein Sein in Beijing.

September 13: State Councilor Tang Jiaxuan met with Foreign Minister U Nyan Win, as the special envoy of SPDC Chairman Senior General Than Shwe in Beijing.

November 19: Premier Wen Jiabao met Prime Minister Thein Sein in Singapore.

2008

January 21: State Councilor Tang Jiaxuan met with the Myanmar Prime Minister special envoy, Vice Foreign Minister U Maung Min.

May 25: Foreign Minister Yang Jiechi met with Prime Minister General Thein Sein at the sidelines of an International Pledging Conference for Cyclone Nargis held in Yangon.

June 25: Chinese naval delegation led by Col. Chi Ziong Feng visited Myanmar's Coco Islands.

August 2008: Thein Sein attended the Beijing Olympic Games.

August 21: Myanmar Chief of Defense Industry Lt-Gen Tin Aye visited China where he met with Gen Liang Guanglie, a member of the central military commission and chief of general staff of the PLA.

October 27: Gen Zhang Li, the vice chief-of-staff of the PLA met with Senior General Than Shwe in Naypyidaw.

November 18-20: Zhang Gaoli, a member of the Political Bureau of the CPC Central Committee and party chief of China's Tianjin municipality, met with Myanmar Prime Minister General Thein Sein and member of the SPDC Lieutenant-General Tin Aye in Naypyidaw.

November 29: Myanmar's Chief of the General Staff of the Armed Forces Thura Shwe Mann visited Beijing Senior and met military officials of China and Chief of the General Staff of the PLA Chen Bingde.

December 4-5: Foreign Minister Yang Jiechi met the Myanmar Foreign minister U Nyan Win and SPDC Chairman Senior General Than Shwe in Naypyidaw.

2009

March 18: Chen Bingde, Chief of the General Staff of the PLA led a military delegation to Myanmar for an official goodwill visit, accompanied by Myanmar's Chief of General Staff of the Army Thura Shwe Mann.

March 25-29: CPC Central Committee Political Bureau Standing Committee member Li Changchun made a goodwill visit to Myanmar in which he met Senior General Than Shwe and first secretary of the SPDC Tin Aung Myint Oo.

April 17: Premier Wen Jiabao met Prime Minister Thein Sein in Sanya on the sidelines of the Boao Forum for Asia (BFA) Annual Conference 2009.

April 20: Chief of the General Staff of the PLA Chen Bingde met with Tin Aye, member of Myanmar's SPDC in Beijing.

June 15: Myanmar's second top leader Vice Senior-General Maung Aye visited Beijing for a six-day official visit to China at the invitation of Chinese Vice-President Xi Jinping.

APPENDIX C

FOREIGN DIRECT INVESTMENT FLOWS

Country	2003	2004	2005	2006	2007	2008	2009
China (incl. Hong Kong)	12.9	2.8	126.6	0.700	281.2	984.9	855.0
Thailand	–	22.0	29.0	6034.4	–	16.2	15.0
Japan	–	–	2.7	–	–	–	–
Malaysia	62.2	–	–	–	–	–	–
South Korea	0.3	34.9	–	–	37.0	12.0	–
United Kingdom	–	27.0	–	–	240.7	–	–

Sources: Economist Intelligence Unit, Myanmar Central Statistical Organization, Ministry of National Planning and Economic Development, Selected Monthly Economic Indicators (April 2009), Table 25. Foreign Investment of Permitted enterprises by country of origin.

APPENDIX D

LOCAL INTERESTS: LOGGING AND CROP SUBSTITUTION

A. LOGGING

Despite an official ban and agreements to strengthen bilateral collaboration to address illegal logging, Chinese logging companies have not stopped importing timber from Myanmar.[377] Large quantities of timber are taken across the border by predominantly Chinese companies using Chinese labourers. Yunnan authorities, regional army commanders and ethnic ceasefire groups are all directly involved. Local businessmen admit that Chinese companies have "special cooperation and consensus with the local ethnic groups" and "will not change how they get timber resources from Myanmar".[378]

These actions by Chinese logging companies have led to friction between Beijing and Naypyidaw. The operations are generally approved by the Yunnan provincial government or local governments without Beijing's knowledge.[379] Military, police and government offices in Kachin state are known to directly profit from the timber trade, sharing the proceeds with the leadership of local ethnic groups.[380] The central government does not benefit.[381] Myanmar's forestry department was reportedly "furious" that it was not receiving anything for the logging and export of timber, raising the issue in bilateral talks in Beijing and Yunnan.[382] Myanmar's central government has since taken a harder stance, and tried to exert more control over logging.[383] This has had little effect.

The logging that occurs is inextricably linked to conflict.[384] Myanmar manages its domestic and foreign relations through the control of access to natural resources, and the revenue generated from the cross-border timber trade has funded conflict in Kachin State and led to increased poverty and human rights abuse.[385] Competition over territory between armed opposition groups, business interests and others seeking to control the trade has led to violence, and continues to be a source of instability with the potential to transcend the border.[386] Furthermore, local communities that most closely depend on the forest receive little or no benefits from the deals negotiated between local elites and logging companies. Logging has resulted in extensive flooding, large scale human displacement and widespread agricultural, economic and infrastructure damage.

At the same time, the illegal timber trade damages China's reputation. Organisations have called attention to the fact that northern Myanmar's ecology, one of the richest areas of biodiversity in the world, is being destroyed.[387] While a January 2009 Global Witness report tried hard not to vilify the Chinese government, instead pointing out that relevant companies were acting illegally under Chinese law, international media did not reflect this position.[388] Sustained international pressure has kept the issue on the agenda, and forced China to publicly define and defend its position,[389] announcing "tough coun-

[377] In 1998, following floods linked to heavy deforestation that caused widespread destruction and thousands of deaths within China, the logging of forests in China was banned. This policy has resulted in aggressive logging in Myanmar by Chinese companies.

[378] "边境木材进口直线下滑 中缅打击非法木业贸易" ["Border Timber Import Plummeted as China and Myanmar Join Force to Fight Illegal Logging"], Chinese Architecture and Decoration "南风窗" [Nan Feng Chuang], 30 September 2007, www.hengannet.com/new_view.asp?id=4736.

[379] Crisis Group interview, Yangon, 12 March 2009.

[380] From 2004-2005, timber was the SPDC's third most important source of foreign earnings, amounting to $428 million, 15 per cent of total foreign earnings. "A Choice for China: Ending the destruction of Myanmar's northern frontier forests", Global Witness, op. cit., fn. 245; "Teak from northern Myanmar enters China illegally", Kachin News Group, 23 April 2009; Crisis Group interview, Yangon, 6 February 2009.

[381] Crisis Group interview, Yangon, 6 February 2009.

[382] Ibid.

[383] Not long after, 400 Chinese loggers were arrested in Myanmar for illegal entry and logging. Myanmar then closed its border to loggers (at least those border posts which the government controls). Ibid.

[384] "A Choice for China: Ending the destruction of Myanmar's northern frontier forests", Global Witness, op. cit.

[385] Ibid.

[386] Ibid.

[387] Ibid; "Kachin state, waiting for an ecological disaster", Kachin News Group, 31 December 2008; "Villagers arrested for blocking timber trucks on Sino-Myanmar border", Kachin News Group, 17 January 2009.

[388] The Chinese embassy in Myanmar was angered by the Global Witness report, stating, "Why couldn't you work with us quietly on this instead of going public?" Crisis Group interview, Yangon, 6 February 2009.

[389] "The position of the Chinese Government on cooperation with Myanmar is very clear. We never allow any Chinese citizen to log illegally in Myanmar. The governments of the two

termeasures to curb the illegal cross-border timber trade".[390] While Chinese and Myanmar rhetoric about cracking down on the practice continues and timber exports are now substantially less than before, Myanmar's inability to control local authorities and Beijing's laxity in overseeing logging companies means that it continues.[391]

B. CROP SUBSTITUTION

China offers development assistance to northern Myanmar under a crop substitution policy to balance the impact of the opium ban declared by the ceasefire groups and create alternatives for these communities. However, county-level actors and businesses have collaborated to distort and in some cases, subvert Beijing's policy. Yunnan businesses invest in large commercial agricultural projects under the guise of opium substitution projects and promise to purchase the products for market prices.[392] For their participation, they can apply for preferential loans from government-owned banks. But some local governments allocate import quotas to products not administered under substitution programs.[393]

As Chinese companies take advantage of crop substitution policies to further their own economic interests, they undermine the viability of the programs as a form of sustainable development. Because most contracts with Chinese companies are made with the leaders of the ceasefire groups, the benefits go to Chinese businessmen or ceasefire leaders, not the local communities.[394] The programs are a disaster for farmers, who have no choice but to participate and to buy from these companies, whether or not they have been growing opium. After successive bad harvests and without the funds to service their debts, many farmers have been forced to sell their land, in many instances to the same businessmen who sold them the seeds, fertilisers and pesticides.[395] Chinese businessmen acknowledge their actions contradict Beijing's goals, but argue that Myanmar is a source of plentiful raw materials and cheap labour that is begging for Chinese investment and technology.[396]

This development assistance to communities in poppy and former poppy-growing regions has been insufficient and inappropriate.[397] The Chinese government should re-evaluate its policies. Assuming that it is genuinely concerned about opium cultivation in Myanmar, it should invest in more sustainable and community-based development projects. Yunnan and local governments should coordinate with other actors and existing agencies on the ground to route assistance to the local people instead of just the leaders.[398] The central government's failure to rein in Chinese businesses results in poverty and instability in the border region, jeopardising Beijing's longer-term strategic interests.[399]

countries have strengthened border management and made achievements in cracking down upon law breaches including illegal logging". Foreign Ministry spokesperson Jiang Yu's regular press conference, Ministry of Foreign Affairs, 31 May 2007, at www.fmprc.gov.cn/eng/yfgk/t325481.htm.

[390] "China able to be self-reliant in timber consumption: forest administration", Xinhua, 28 February 2006.

[391] Crisis Group interview, Yangon, 12 March 2009; "China struggles to choke off illegal wood trade", Reuters, 11 June 2007; "Kachin state, waiting for an ecological disaster", Kachin News Group, op. cit.; "Teak from northern Myanmar enters China illegally", Kachin News Group, op. cit.

[392] Kramer, Jelsma and Blickman, "Withdrawal Symptoms in the Golden Triangle: A Drugs Market in Disarray", op. cit.

[393] Ibid.

[394] Crisis Group telephone interview, 3 April 2009.

[395] Clifford McCoy, "Seedlings of evil growing in Myanmar", *The Asia Times*, 23 August 2007.

[396] Crisis Group interviews, China-Myanmar border, March 2009.

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APPENDIX E

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Crisis Group's approach is grounded in field research. Teams of political analysts are located within or close by countries at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, it produces analytical reports containing practical recommendations targeted at key international decision-takers. Crisis Group also publishes *CrisisWatch*, a twelve-page monthly bulletin, providing a succinct regular update on the state of play in all the most significant situations of conflict or potential conflict around the world.

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