China in Myanmar: implications for the future

By Isabel Hilton

Executive summary

Myanmar’s strategic location at the junction of South Asia, South-East Asia and China is both economically and strategically significant: Myanmar offers China’s landlocked inland provinces of Yunnan and Sichuan a trading outlet to the Indian Ocean and the possibility of a strategic presence there, thus escaping U.S. encirclement and containing Indian influence.

China and Myanmar share a 2,000-km border, and Myanmar is key to China’s pursuit of regional and border stability and to fulfilling its need for natural resources. China today is Myanmar’s most important trading partner and one of its most important investors.

However, Myanmar’s political transition has complicated a previously cosy arrangement between two authoritarian governments. Hostility to China at all levels of society and unresolved ethnic tensions in Myanmar have focused popular anger on Chinese investments, seen as symbols of the continuing power of Myanmar’s military and its crony business partners. Tensions have resulted in a sharp drop in Chinese investment and have forced the Chinese government to demand more responsible behaviour from its overseas companies.

Myanmar’s transition remains fragile and China’s corporate behaviour has important implications for both Myanmar’s future and China’s domestic policies.

Background

Sino–Myanmar relations are complex and multifaceted. China’s longstanding economic ties with Myanmar grew rapidly after 1988, when Western sanctions on Myanmar were put in place and the regime liberalised foreign trade and investment to revive the ailing economy. China now has an important stake in Myanmar’s oil and natural gas: Myanmar’s estimated 89.7 trillion cubic feet of natural gas reserves could contribute to development in China’s south-west, and China is close to completing a dual oil and gas pipeline to bring energy imports from the Indian Ocean across Myanmar to Yunnan Province.

Myanmar figures large in China’s “Go Global” policy, a national policy to encourage outward investment, first unveiled in 1999 and later incorporated into the tenth Five-Year Plan (2001–05). The policy encourages Chinese enterprises to invest overseas to improve competitiveness and secure an international business presence.

When cross-border trade between Myanmar and China was opened up in the early 1990s, low-end consumer goods such as bicycles, sewing machines, cheap textiles, radios, medicines and petrol flooded Myanmar’s market. Chinese companies are also involved in legal and illegal timber extraction and mining, and China is an important official and unofficial market for Myanmar’s gems.

By 2011 China had overtaken Thailand as Myanmar’s biggest trading partner, and in the 2011–12 fiscal year bilateral trade amounted to about $3.6 billion. Myanmar exported minerals, rubber, fruit and fisheries products...
Investment rose from $20.18 million in 2004 to more than $1,966.75 million in 2010, an increase of 9,542% in six years. Myanmar Investment Commission data show that China invested about $13.6 billion in Myanmar, mostly in the energy sector, in the 2010–11 financial year. In 2010 China pledged to provide Myanmar with $4.2-billion worth of interest-free loans over a 30-year period to help fund hydropower projects, road and railway construction and IT infrastructure (Lintner, 2011a), while Chinese companies pledged more than $14 billion of investment in Myanmar’s 2010–11 (April–March) fiscal year, taking total foreign direct investment pledges to $20 billion, from $300 million the previous year (Reuters, 2012).

However, political tensions following Myanmar’s change of government have now chilled China’s enthusiasm for investment: Myanmar government figures show that, although Chinese companies accounted for 29% of Myanmar’s total foreign investment in the country in the fiscal year 2012–13 (which ran to March 31st 2013), investment fell to $407 million from $4.35 billion and $8.27 billion, respectively, in the previous two years. The drop in the Chinese figures caused total foreign investment in Myanmar to fall to $1.42 billion in the 2012–13 fiscal year, from $4.64 billion and $20 billion in the two previous years, respectively (Gronholt-Pedersen, 2013).

Nevertheless, it is clear that China, together with India, Thailand, Korea and Singapore, remains an important presence in Myanmar’s hydropower, oil and natural gas, and mining sectors. By 2008 EarthRights International had identified at least 69 Chinese companies involved in at least 90 hydropower, oil and natural gas, and mining projects in Myanmar (ERI, 2008).

China’s three major oil companies – Sinopec, PetroChina and CNOOC (Chinese National Offshore Oil Corporation) – have offshore oil and gas fields in Rakhine State and the right to develop oil and gas projects in Sagaing Region, among other locations. The importance of these projects to China means that it will stay involved and must develop new policies to address its recent difficulties.

The role of Yunnan Province
The border province of Yunnan, in south-west China, is one of the country’s poorest provinces, remote from the capital, landlocked and with an ethnically diverse population. But in China’s reform period, Yunnan was designated a bridgehead for the country’s integration with the Association of Southeast Asian Nations (ASEAN) and South Asia. Heavy investment in road, rail and energy infrastructure in the province and from Yunnan to key ASEAN countries resulted, helping to quadruple the size of Yunnan’s economy between 2000 and 2009. The ASEAN–China Free Trade Area, which came into force on January 1st 2010, is a key element in this strategy.

The relationship with Myanmar has its negative side, notably in the impact on Yunnan of the cross-border trade in drugs. Speaking on the sidelines of the 2011 National People’s Congress in Beijing, the director of Yunnan’s public security department, Meng Sutie, confirmed that Myanmar is the source of up to 90% of the drugs smuggled into Yunnan, and that imported synthetic drugs such as methamphetamine from Myanmar now exceed imports of heroin and opium. Drug use in Yunnan is frequently cited as the reason for the province’s high rates of HIV/AIDS, which constitute some 22% of new cases reported nationally each year.¹

¹ <http://www.plosone.org/article/info:doi/10.1371/journal.pone.0059650>

Ethnic Chinese in Myanmar
The Chinese have been a presence in Myanmar for centuries. There were major waves of immigration under British colonial rule, and the end of the Chinese Civil War in 1949 brought a further rush of Chinese migrants fleeing Communism at home. The Chinese were targeted in riots in Yangon in 1967 and faced severe discrimination under the rule of General Ne Win. This history has not been forgotten by many Chinese who have settled in Myanmar, who are now concerned about what they perceive as deteriorating political relations between the two countries (Reutters, 2012).

Border towns have become an important focus for trade between the two countries. Jiegao in Yunnan Province and Lashio across the border are busy markets for Chinese goods destined for Myanmar and beyond, as is Ruili on the Yunnan border, through which some $1.3 billion in goods moved in 2010. In that year, China’s National Development and Reform Commission identified Ruili as one of the country’s four key pilot border sites. However, these towns have also become centres of illegal trade, prostitution and trafficking, where Chinese-owned casinos cater specifically to their Chinese clientele (Lintner, 2011b; Reuters, 2012).

In some cases prominent citizens of Chinese origin have attracted negative comment from “native” rivals. One such is Tun Myint Naing, also known as Steven Law, who is Kokang Chinese and one of Myanmar’s wealthiest men. Law’s Asia World Company is involved in several Chinese-invested megaprojects, including the oil and gas pipeline project, the Kyaukpyu port, and the Myitsone and Tasang hydropower dams. A Myanmar rival, Tay Za, complained in an interview that “too many Chinese have taken our citizenship and are now boasting they are the richest. But they’re not pure Burmese.”

Security and ethnic politics
There are 135 different ethnic groups in Myanmar, some with cross-border links with the same ethnic groups in
Yunnan. By 1997 the Myanmar Armed Forces (MAF) had signed ceasefire agreements with 17 separate ethnic armies in Myanmar that granted them a degree of autonomy over their regions, including most of the border areas between China and Myanmar. China’s border security, therefore, remains linked to Myanmar’s ethnic politics.

Historically, China supplied arms to the Communist Party of Burma (CPB), which splintered in 1989 after many years of fighting the MAF. One of the groups that emerged from the dissolution of the CPB was the United Wa State Army, with which China retains close links. When a 17-year ceasefire between the Kachin Independence Organisation (KIO) and the MAF broke down in 2011, some 60,000 people took refuge in Yunnan. In the following year the border town of Ruili hosted the first round of peace talks between the KIO and Myanmar’s central government. A renewed ceasefire agreement was signed in May 2013 during Chinese-brokered talks in Myanmar.

Myanmar’s fractured ethnic map remains a significant risk factor for Chinese investments. China’s recent reliance on Myanmar’s military government to protect its interests has left Chinese projects exposed to the hazards of continuing ethnic conflict in Myanmar’s transition. Much of Myanmar’s unexploited natural resource wealth and several Chinese-invested infrastructure projects lie in ethnic areas. Some of these projects have become a trigger for or a focus of conflict.

<table>
<thead>
<tr>
<th>Ethnic group</th>
<th>Proportion of population (%)</th>
<th>Location</th>
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<tbody>
<tr>
<td>Karen</td>
<td>7</td>
<td>Karen State, bordering Thailand</td>
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<tr>
<td>Kachin</td>
<td>1.5</td>
<td>Kachin State, bordering China</td>
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<tr>
<td>Karenni</td>
<td>0.75</td>
<td>Karenni State, bordering Thailand</td>
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<tr>
<td>Chin</td>
<td>2.5</td>
<td>Chin State, bordering India</td>
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<tr>
<td>Rhakine</td>
<td>3.5</td>
<td>Arakan State in western Myanmar</td>
</tr>
<tr>
<td>Shan</td>
<td>9</td>
<td>Shan State, bordering Thailand</td>
</tr>
<tr>
<td>Wa</td>
<td>0.16</td>
<td>Wa Region, bordering China</td>
</tr>
<tr>
<td>Rohingya</td>
<td>0.15</td>
<td>Rakhine State, bordering Bangladesh</td>
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Source: IRIN

Anti-Chinese sentiment

The current strains in the Sino–Myanmar relationship can be read as both a cause and an effect of Myanmar’s political transition. President Thein Sein’s liberalisation in 2011 was in part stimulated by elite concerns that Myanmar had become too dependent on China. His government’s reform programme therefore sought to balance Chinese influence with Western investment and political relations. At a popular level China is perceived as having ridden roughshod over local interests, supporting partnerships with Myanmar’s unpopular military. Human rights groups have voiced concerns that China’s pipelines and other infrastructure projects have displaced thousands of local people, damaging farming and fishing livelihoods, and benefit China more than Myanmar.

Two major infrastructure projects became touchstones for popular protest: the 6,000-MW capacity hydropower plant at Myitsone – the confluence of the N’Mai and Mali rivers which forms the source of the Irrawaddy River – and the Letpadaung copper mine near Monywa in north-west Myanmar. Both are important Chinese projects.

The Myitsone dam was to be the main dam in a cascade of seven planned for the Upper Irrawaddy. In a highly symbolic act in September 2011, President Thein Sein suspended the project, citing five specific concerns about the dam: the threat to the natural beauty of Myitsone, which is
a site of national importance in Kachin State; the risk of flooding to villages in the upper reaches of the Irrawaddy River; the risk to private rubber and teak plantations; the potential consequences of flooding or an earthquake in the dam region; and the environmental impact on the Irrawaddy itself.

In 2011 the dam project was a factor in the breakdown of the 17-year KIO ceasefire. The KIO had cooperated with many engineering projects in its region, but it opposed the building of the Myitsone dam and wrote an open letter to the then president of China Hu Jintao, in March 2011 asking him to stop the project, warning that it could provoke civil war. The ceasefire broke down in June 2011, resulting in explosions in the Kachin capital, Myitkyna, the closure of border trading routes and the destruction of at least three bridges. It also affected power transmission pylons at Dapein.

Thein Sein’s suspension of the dam was a very public rebuke to China and one that continues to rankle in Beijing. The first reactions in Beijing were intemperate, but China later took a more conciliatory tack as the seriousness of the threat that local resentment could pose to big infrastructure projects became clear. In 2012 the Chinese daily Economic Observer ran a series of articles on the Myitsone project by the respected academic Professor Qin Hui recommending that Chinese companies make more effort to accommodate local feelings, and, in December of that year, writing in the usually nationalistic Global Times, Bi Shihong, a professor at the Institute of International Studies at Yunnan University, strongly criticised Chinese firms for failing to form relationships other than with the military in Myanmar. “It’s time for Chinese enterprises to alter their old habit of only catering to the government in Myanmar. Instead, they should pay more attention to the demands of local communities and their cultures and customs,” he wrote.2

The Myitsone dam is only one of only nine big hydropower projects in the troubled Kachin State and its suspension is not definitive: Thein Sein has promised that the project will not go ahead while he remains in power, but his term ends in 2015. Chinese officials continue to press Myanmar for a resumption of the project, and senior government and company officials have made efforts to speak to the public, repeatedly stressing the project’s benefits in interviews with the Myanmar press. Wang Qiyue, a representative of the Yunnan-based Chinese contractor CPI (China Power Investment Corporation), said in January 2013 that he “expects and looks forward to” the project’s resumption in 2015.

Asked directly if he would cancel Myitsone, President Thein Sein said: “There are no plans to permit the resumption, but if the environmental impact assessment is done correctly and the people are happy, perhaps it might be resumed under the next government.”3 Whatever its long-term fate, the problems with the project have already produced notable adjustments in Chinese attitudes.

The Letpadaung copper mine

President Thein Sein told a London audience in July 2013 that Myanmar will join the Extractive Industries Transparency Initiative as part of a policy to seek “non-destructive development”. Letpadaung, part of the Monywa mining complex, illustrates the toxic legacy of the military regime’s approach. The mine was formerly owned by the Canadian company Ivanhoe Mines and was operated in partnership with the military government. Ivanhoe sold it to a trust that, in a deal heavily criticised as opaque, sold it to a consortium of Wanbao Mining (a subsidiary of the Chinese arms manufacturer Norinco) and the Union of Myanmar Economic Holdings Ltd, a Burmese military company, for $997 million. Ivanhoe had run the mine as a low-cost operation and local farmers had frequently complained that acid waste from the mine was polluting their land. Their complaints reached new heights, however, when the mine’s new owners embarked on a rapid expansion.

Farmers in 26 surrounding villages were obliged to surrender some 3,000 hectares of land to the mine, while the destruction of an important local monastery dedicated to the famous Buddhist teacher Monyin Sayadaw brought Myanmar’s powerful Buddhist lobby into the dispute. On November 29th 2012 a protest camp at the mine, installed to coincide with President Obama’s first visit to Myanmar, was brutally suppressed in a pre-dawn raid by Myanmar’s security forces. It was the largest such operation under Myanmar’s new government and more than 100 people, mostly Buddhist monks, were injured, transforming a relatively local dispute into a national cause. In an effort to calm the situation the government asked Aung San Suu Kyi to lead a parliamentary commission of inquiry into the affair. Just three weeks later the Chinese news agency Xinhua reported that both President Thein Sein and the speaker of parliament, Shwe Mann, had given assurances of continued cooperation to Norinco’s representative Zhang Guoqing.

The assurances were prophetic. Aung San Suu Kyi’s report, published in March 2013, trod a cautious line between local sentiment and the desire to maintain investment interest from the country’s largest neighbour. While the report was critical of the companies’ handling of the mine expansion, particularly in the matters of compensation payments and the November protest, in which, it confirmed, security forces had used “smoke bombs containing phosphorus”, it did not support the activists’ call for the expansion to be cancelled.

The detail of the report was telling: the companies had offered compensation for the appropriated land at between 5 and 80 kyat ($0.09) per acre. The figure was drawn from a...
law passed in 1984 and was grotesquely out of line with the current rate for land in the area, which the panel put at around 1.5 million kyat (the equivalent of $1,730) per acre.

Nevertheless, the report recommended that the mine expansion proceed, subject to a resolution of the problems, and ordered that a 15-member committee of government and company officials be established to ensure implementation of the commission’s recommendations. Defending her conclusions in the face of activist hostility, Aung San Suu Kyi insisted that the commission had the interests of the Burmese people at heart. “I am leading and working for the inquiry commission for the country’s future,” she said. “It is for the country’s honour and to strengthen development in the future.”

However, several months later, displaced residents reportedly complained that the Implementation Committee, which includes Myanmar’s minister of home affairs, a minister from the president’s office and the military officer in charge of the Union of Myanmar Economic Holdings, had failed to mitigate the mine’s adverse educational, social and environmental effects: although some farmers had accepted new compensation offers, 4,000 had refused to leave their land. There was an intimidating police presence in the area, according to activists, and Khin San Hlaing, a member of the opposition National League for Democracy party, and herself a member of the parliamentary commission of inquiry, told the press that activists were considering an appeal to parliament to force the Implementation Committee to act.

The struggle for a resolution of the impasse and the war of words continue: in June 2013 two farmers, Soe Thu and Maung San, were sentenced to between 6 and 18 months in prison on charges of “illegally ploughing” confiscated land, after Wanbao filed a lawsuit. The sentences were increased a month later to 2 to 10 years when the government prosecuted the farmers for trespass and “disturbing officials”. The same court convicted Aung Soe, an activist from the Rangoon People’s Support Network, on 11 charges of violating the penal code, including defaming Buddhism and encouraging the farmers to participate in unlawful acts. His original sentence of one year in prison was extended in July to eleven and a half years.

As these stiff sentences were handed down, the Chinese economic and commercial counsellor, Jin Honggen, and representatives of CPI and Wanbao held a short press conference at the Chinese Embassy in Rangoon to stress the benefits to Myanmar of both Letpadaung and Myitsone. Geng Yi, Wanbao’s general manager, pledged that the firm would implement the parliamentary report’s recommendations and promised to provide jobs, compensation, schools and clinics in the affected communities.

The episode illustrates the difficulties of trying to repair a damaged relationship around immovable assets such as mines. Operations at the mine remain suspended and industry insiders believe that Letpadaung will continue to be affected by local hostility for the foreseeable future.

Pipeline politics

The tensions that have erupted over mining and dam building are also reflected in an even more strategically important project: the $5 billion China–Myanmar oil and gas pipelines that are intended to bring imported energy from the Indian Ocean to China’s south-west region to be refined in Yunnan and Chongqing, where, largely because of long transportation distances, oil prices are up to 30% higher than in eastern China.

Kyaukpyu Island in Rakhine State is the starting point for the 2,380-km-long Shwe oil and gas pipeline, more than 700 km of which passes through Myanmar. The project includes deep-water port terminals, railway lines, airports, logistics, steel mills, petrochemical plants, highways and other industrial clusters and infrastructure, and, to complement these works, China’s CITIC (China International Trust and Investment Corporation) Group has launched the Kyaukpyu Island Economic and Technological Development project. The railway to Yunnan’s capital, Kunming, is expected to be completed in 2015 and will provide China’s land-locked south-western region with a trade outlet to markets in South and South-East Asia via Myanmar’s ports.

The energy pipelines, agreed with Myanmar’s military regime in 2009, are intended to reduce China’s dependence on the sea passage through the pirate-infested Strait of Malacca, the waterway that connects the Andaman Sea (Indian Ocean) and the South China Sea (Pacific Ocean). Four-fifths of China’s imported energy currently passes through the strait, a choke point seen in China as being dangerously vulnerable to potential hostile military action. Oil for the Myanmar pipeline will come from Central Asia and Africa. One-third of the gas – up to 4 billion cubic metres a year – will come from Myanmar. Myanmar will receive $13.6 million a year in transit fees. China is likely to depend increasingly on imports from the Middle East for its future oil needs, and reducing seaborne energy shipments is at the core of the country’s geopolitical plans for energy security. At full capacity the Shwe pipeline will carry 23 million tonnes of oil a year, against energy import needs that the International Energy Agency predicts will reach 430 million tonnes a year by 2020.

In June 2013 the China National Petroleum Corporation (CNPC) announced that the Myanmar section of the gas pipeline was complete and ready for testing, while the oil pipeline was 94% complete. Construction of the remainder of the pipeline to Kunming, across mountains that soar to 5,000 metres and large tracts of jungle, is challenging and the completed pipeline may be vulnerable to landslides. More problematic still is the continuing opposition to the pipeline in Myanmar, where the Chinese investors failed to conduct due diligence on the risks of opposition or to engage with local civil society.
When a group of Chinese non-governmental organisations (NGOs) travelled to Kyaukpyu Island in 2011 to visit the natural gas project site and the deep-water port site, they were told that local and international organisations were not well informed about the project and its potential impacts. Some foreign investors offered social benefits to smooth local relations, but residents contrasted Chinese behaviour unfavourably with that of South Korean companies. Chinese companies did hire local workers and, according to the Chinese project staff, funds from the company were provided to the Myanmar government for a health clinic, although this now stands idle. The company claims to have spent nearly $20 million to build 43 schools, two kindergartens, three hospitals, 21 clinics, a reservoir and an electricity supply system. However, all the construction was carried out by the Myanmar government, much of it in locations unrelated to the pipelines.

Chinese firms have been in the habit of giving funds to the government for local compensation, despite the lack of guarantees that it will reach its intended beneficiaries (Yu et al., 2012). The CNPC continues to be criticised by human rights groups in Myanmar for forced evictions and inadequate compensation for its land acquisitions. China is now reportedly looking at how to carry out systematic poverty relief and economic assistance in an effort to improve the country’s image.

In the light of the Myitsone and Letpaudung episodes, Beijing must now consider the long-term security of its vital energy pipelines and the threat that hostility to China among either ethnic groups of civil society might pose. As a result, Chinese officials and business leaders have promised a new approach. In July 2013 the Chinese Embassy and the Chinese-Myanmar Enterprises Association in Myanmar hosted a press conference to publicise their new concern for corporate social responsibility and promised “moral self-discipline to attain the trust of Myanmar society and people”, with a focus on local job creation and greater engagement with local communities (Schatz, 2013). Embassy staff have also been willing to talk to such organisations as the Institute for Human Rights and Business about their concerns. Activist groups continue to protest, however, and complain of increasing militarisation along the pipeline, to the detriment of local residents (Song, 2013).

Civil society and implications for domestic policy

As Myanmar opens up and restrictions on freedom of speech, association and the media relax, environmental activists are becoming increasingly emboldened, supported in many instances by an active diaspora who continue to be engaged in Myanmar’s transition.

Closer to home, links are developing between civil society organisations in Myanmar and their counterparts in China.
In 2011, for instance, the well-known Yunnan-based environmental NGO Green Watershed conducted a study of Chinese investment projects in Myanmar, visiting, among other places, Chinese hydropower, oil and gas projects to look at the impacts of the projects on local residents. Its final report called for strengthening exchanges and cooperation between NGOs in China and in Myanmar to jointly promote the sustainability of China’s overseas investment (Yu et al., 2012).

Although contacts remain relatively limited, there is important potential for cross-border civil society coordination over Chinese investments in Myanmar, especially where, as in the case of the impacts, there is also a Chinese dimension to the impacts. Protests have already erupted in Kunming, against the proposed CNPC oil refinery in Anning, 35 km from Kunming’s city centre, which is planned as the refining and distribution centre for the fuel coming through Myanmar. On completion in 2014 its planned capacity would be equivalent to 54% of the 14 million tonnes that Kunming needs, but local residents fear its environmental impact. Cross-border collaboration among civil society groups and the behaviour changes forced on Chinese companies in Myanmar have the potential to create parallel demands for better behaviour at home.

Lessons for China
The growth in foreign investment in Myanmar will have important implications for the country’s future path, civil society, the environment and political stability. Activist groups are alert to the risks that rapid development and associated land grabs can pose to marginalised and vulnerable groups, given Myanmar’s inadequate legal structures and land registry.

China will continue to be a dominant economic player in Myanmar. However, increasing competition and the poor reputation of Chinese companies have prompted a reassessment of the risks of operating in unstable political contexts and demands in Chinese government, expert and civil society circles for more responsible behaviour by Chinese companies overseas. Chinese activists have criticised, for example, China’s failure to follow the recommendations of the World Bank and the World Commission on Dams that investors withdraw from risk areas to avoid escalating the conflict, and China’s failure to pay attention to the core interests of local people, lessons equally applicable in the context of escalating social tensions at home.

Given the proximity of Myanmar and its strategic importance to China, Myanmar is now serving as an important experiment in Chinese corporate social responsibility that will have far-reaching implications both for other countries in which China operates and, significantly, in China itself, where the central government is struggling to contain growing demands from China’s urban middle classes for a safer, cleaner environment and a greater say in the planning and oversight of China’s powerful polluting industries.

References


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