

**IMPORTANCE OF MYANMAR IN CHINA'S STRATEGIC INTEREST: A  
CASE STUDY ON SINO-MYANMAR OIL AND GAS PIPELINES**

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## **DECLARATION**

I declare that the dissertation entitled “**Importance of Myanmar in China’s Strategic Interest: A Case Study on Sino-Myanmar Oil and Gas Pipelines**” submitted to the Sikkim University for the award of the degree of Master of Philosophy is my original work. This dissertation has not been submitted for any other degree of this university or any other university.

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## CERTIFICATE

This is to certify that the dissertation entitled “**Importance of Myanmar in China’s Strategic Interest: A Case Study on Sino-Myanmar Oil and Gas Pipelines**” submitted to the Sikkim University in partial fulfillment of the requirements for the degree of **Master of Philosophy** in International Relations, embodies the results of bona fide research work carried out by Mr. Tenzing Chopel Sherpa under my guidance and supervision.. No part of the dissertation has been submitted for any other degree, diploma, associate-ship, fellowship. All the assistance and help received during the course of the investigation have been duly acknowledged by him.

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## CONTENTS

| <b>Chapter</b> | <b>Title</b>   | <b>Pages</b>    |
|----------------|--|-----------------|
|                | <i>List of Acronyms</i>  | <i>i - ii</i>   |
| <b>I</b>       | <b>Introduction</b>  | <b>1 - 25</b>   |
| <b>II</b>      | <b>China and Myanmar's strategic relations</b>                                   | <b>26 - 45</b>  |
| <b>III</b>     | <b>Strategic importance of Oil and Gas Pipelines in Sino-Myanmar relations</b>   | <b>46 - 66</b>  |
| <b>IV</b>      | <b>Implications of Sino-Myanmar pipelines at the regional strategic dynamics</b> | <b>67 - 88</b>  |
| <b>V</b>       | <b>Conclusion</b>  | <b>89 - 93</b>  |
|                | <i>References</i>  | <b>94 - 104</b> |

## List of Acronyms

|         |  |
|---------|--|
| APEREC  | Asia Pacific Energy Research Centre                      |
| ARF     | ASEAN Regional Forum                                     |
| A+3     | ASEAN Plus Three   |
| ASEAN   | Association of South East Asian Nations                  |
| BANCA   | Biodiversity and Nature Conservation Association         |
| BIMSTEC | Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic |
| CEAC    | Council on East Asian Community                          |
| CCP     | Chinese Communist Party                                  |
| CITIC   | China International Trust and Investment Corporation     |
| CNOOC   | China's National Offshore Oil Corporation                |
| CNPC    | China National Petroleum Corporation                     |
| CPI     | <u>China Power Investment Corporation</u>                |
| FDI     | Foreign Direct Investment                                |
| IEP     | Integrated Energy Policy                                 |
| KIA     | <u>Kachin Independence Army</u>                          |
| KIO     | Kachin Independence Organisation                         |
| KNO     | Kachin National Organization                             |
| MBI     | Myanmar-Bangladesh-India                                 |
| MOGE    | Myanmar Oil and Gas Enterprise                           |
| NAPCC   | National Action Plan on Climate Change                   |
| NEP     | National Energy Plan                                     |
| NLD     | National League for Democracy                            |
| NORINCO | China North Industries Corporation                       |
| NOCs    | National Oil Companies                                   |
| ODA     | <i>Official Development Assistance</i>                   |
| ONGC    | <i>Oil and Natural Gas Corporation Limited</i>           |
| PLA     | People's Liberation Army                                 |

|         |  |
|---------|--|
| PLAN    | People's Liberation Army Navy                      |
| PRC     | People's Republic of China                         |
| SAARC   | South Asian Association for Regional Collaboration |
| SEAP    | South-East Asia Pipeline Company Limited           |
| SEACOP  | Seaport Cooperation Programme                      |
| SEEs    | State-Owned Economic Enterprises                   |
| SEZ     | Special Economic Zone                              |
| SINOPEC | China Petroleum & Chemical Corporation             |
| SLORC   | State Law and Order Restoration Council            |
| SOEs    | State Owned Enterprises                            |
| SPDC    | State Peace and Development Council                |
| TAGP    | Trans-ASEAN Gas Pipelines                          |
| YMIEC   | Yunnan Machinery Import and Export Corporation     |

# Chapter I

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## Introduction

Myanmar and China call each other 'Pauk-Phaw', a Myanmar word for siblings reflecting Myanmar and China's close and cordial relationship. For Myanmar, China has historically been by far its most important neighbour, sharing the longest border, of 2227 kilometres (Toshihiro Kudo 2006). Sino-Myanmar relations were evident since the founding of the kingdom of Bagan (Pagan, ancient Myanmar) in AD 849. Burma had become a British colony that was to gain independence in 1948, while China became a republic but faced civil war until 1949. Both suffered from the invasion of Japanese forces during Japan's own imperialist expansion. After the founding of the People's Republic of China (PRC) in 1949, Myanmar quickly welcomed the birth of the People's Republic of China. Sino-Myanmar relationship has always been premised on five principles of: (1) *mutual respect for each other's territorial integrity and sovereignty*, (2) *non-aggression*, (3) *non-interference in each other's internal affairs*, (4) *equality and mutual benefits* and (5) *peaceful coexistence and peaceful settlement of disputes* (Sino-Burmese Joint Declaration of 29<sup>th</sup> of June 1954) (Lixin Geng, 2006).

Both China and Myanmar share a common history and have strong economic ties. China is currently the largest investor and trading partner of Myanmar, while Myanmar forms only a small portion of China's total economic input (Billy Tea, 2010). Sino-Myanmar relations are complex and multifaceted; in fact, China's longstanding economic ties with Myanmar grew rapidly only after 1988 (Isabel Hilton, 2013) when State Law and Order Restoration Council (SLORC 1988-97) which later was renamed as State Peace and Development Council (SPDC 1997-2011) opened up Myanmar to foreign economic investments. As before, Myanmar was isolated from the rest of the countries and also it was politically run by a military dictatorship the SPDC (1988-2011) which allowed no opposition political parties and kept the Burmese tightly under control, the people enjoyed no civil liberties, further the regime was widely accused of human rights abuses which led several countries including the United States to impose economic sanctions on Myanmar, strictly limiting US economic investment and aid.

Thus, China stepped into the vacuum that was created by Western sanctions and compensated for Myanmar's need for trade and economic cooperation (Lixin Geng, 2006). China's economic cooperation and businesses were directed to focus on infrastructure development. Among the many infrastructure projects financed and constructed by Chinese government and Chinese enterprises are the Letpadaung copper mines at Monywa in North-West Myanmar, the Myitsone dam a 6,000-MW capacity hydropower plant the confluence of the N'Mai and Mali rivers which forms the source of the Irrawaddy River and the Oil and Gas Pipelines (Isabel Hilton, 2013).

China's strategic consideration in regard to Myanmar hinges on Beijing's pragmatic foreign policy and Myanmar's geographic position (Lixin Geng, 2007). Strategically, Myanmar is important for China's two-ocean strategy to gain access to both the Pacific and Indian Oceans. With its naval ambition of transforming into a 'Blue Water Navy' by 2030, the Indian Ocean Region remains its primary focus of interest. In the long-term, the region is important as a 'land bridge' for the People's Liberation Army Navy (PLAN) to reach the Indian Ocean via the Myanmar-controlled Coco Islands. The PLAN would be able to shorten the distance by 3000 km, reducing the voyage by five to six days by not passing through the Strait of Malacca to reach the Bay of Bengal. It has now emerged as a potential target of China's long-term strategic ambition, which involves transforming the whole region as part of a golden 'quadrangle' regional trade zone with Yunnan, Myanmar, Thailand and Laos (Teshu Singh, 2013). Furthermore, the alleged military installation at the Zadetkyi Island on Myanmar's southern tip of its territory close to Indonesia's Sabang Island, (off northern Aceh in Sumatra) raised suspicions about China's future maritime ambitions in the Indian Ocean (Poon Kim Shee, 2002).

Myanmar represents the changing landscape of energy in the world it is a comparatively unexplored natural resources rich country. It has 50 million barrels proven reserves of Crude oil and 283.2 billion cubic meters proven reserves of Natural Gas accounting for 0.1 per cent of the total world gas reserves. Even though that doesn't count as a lot in terms of regional energy security, Myanmar's gas reserves play a significant role. Myanmar understands that it is strategically located between the two large powers China and India both of which have the ambition to become superpowers. In addition, Myanmar's natural wealth and China's thirst for



the same have made these resources economically valuable, thus, bringing greater income to the military Junta. In exchange for assuring regional trade, Myanmar is confident that China will implicitly support its government and even trade, which is important for economic and political sustainability. China is the largest investor in Myanmar, but Myanmar is far from being controlled by the dragon. Furthermore, it is China that is being manipulated by Myanmar. China provides a wide range of services from financial support to infrastructure building in Myanmar, but Myanmar still has the upper hand in this unequal relationship (Billy Tea, 2010).

Myanmar uses China for its economic investment, political support in the international community and most importantly as leverage when negotiating with other regional or international companies on resource exploitation. Myanmar's Junta has played upon its key strategic geographic location and natural resources with China, India and ASEAN countries. Myanmar's regional neighbours are directly supporting the current Junta regime and its government understands too well that the demands of realpolitik are more powerful than the political beliefs of states ultimately it comes down to the simple question of economic supply and demand. Myanmar is surrounded by developing countries for countries to develop they need to have access to natural resources. Energy is the foundation of any country to grow and prosper. Therefore, energy consumption is directly related to development and internal peace. In this context, where Myanmar has the goods and a long list of countries that has the demand, it uses its strategic leverage to gain economic growth to sustain its political system. Myanmar uses its close relation with China to influence and increase its leverage with other powers such as India and ASEAN to achieve their goals of economic and political support for the development of the Junta to legitimize its hold of power. Myanmar has been a great manipulator of its neighbouring countries it has managed to bring the South and Southeast Asian nations to support its government financially and politically (Billy Tea 2010).

The recent bidding war between China and India for the Shwe project demonstrates Myanmar's regional importance (Tea 2010) for the growth of both countries. From an Indian perspective, Myanmar is an open door to South Asia and Southeast Asia. From a Chinese perspective, Myanmar presents an untapped market, alternative routes for natural resources and stronger influence in the region. China and India

both only have one option that is development. This can only be achieved by securing its access to raw material and consequently securing their access to Myanmar. India lost the right of distribution to China, although it tried to sweet the deal with \$20 million in soft credit and it offered to build a power plant (Debapriya and Mashfique, 2012).

A trilateral pipeline between Myanmar, Bangladesh and India (MBI) was conceived which would have brought natural gas at India's doorstep, however the deal did not materialise. This may be attributed to prolonged Indo-Bangladesh negotiations without meeting any success. New Delhi's refusal to accommodate Dhaka's demands, like allowing Bangladesh to access electricity and trade commodities originating from Bhutan and Nepal to pass through India and implement corrective measures by India to reduce trade imbalances have also impacted the success of the project. A cash-starved Myanmar thus chose to sell the available natural gas to China. Among the three cross-border pipelines, the MBI pipeline was least prone to security risks (Sanket Sudhir Kulkarni, 2013). So, Myanmar's decision to allow CNPC (*China National Petroleum Corporation*) to build a pipeline to import natural gas from blocks A-1 and A-3, in which Indian energy companies, ONGC (Oil and Natural Gas Corporation) and GAIL (Gas Authority of India Limited) have equity, dealt a huge blow to India's efforts to win the race for the same gas through a proposed Myanmar-Bangladesh-India pipeline. Even though Bangladesh was the thorn in the fulfilment of this project, it is India who suffered a blow (Ashwini Srinivas, 2014).

China thus showed signs of interest in a pipeline deal with Myanmar in 2004, when the countries discussed the feasibility of said pipelines. On January 11, 2006, Burma's Ministry of Energy signed a Memorandum of Understanding (MoU) with PetroChina for the sale of 6.5 trillion cubic feet (tcf) over a period of 30 years. Based on this agreement, China National Petroleum Corporation (CNPC), the parent company of PetroChina, signed a contract to purchase natural gas from the A-1 and A-3 blocks of from the Shwe fields (Shwe the Burmese word for gold). In November 2008, China and Burma agreed to build a US\$1.5 billion oil pipeline and US\$1.04 billion natural gas pipeline. In March 2009, China and Burma signed an agreement to build a natural gas pipeline and in June 2009 an agreement to build the

crude oil pipeline (Ashwini Srinivas, 2014). Chinese companies, although not involved in the early stages of gas exploration at Shwe, have bought exploration rights to seven blocks covering an area of over 9.56 million hectares (Tuli Sinha, 2009).

The inauguration ceremony marking the start of construction was held on 31 October 2009 on Maday Island. The oil pipeline is jointly invested and built by CNPC and Myanmar Oil and Gas Enterprise (MOGE). The projects are the Shwe Natural Gas Project and the Burma-China oil transport project, collectively referred to here as the “Burma-China pipelines.” The pipelines will transport gas from Burma and oil from the Middle East and Africa across Burma to China. The oil and natural gas pipelines run in parallel and was started near Kyaukphyu, run through Mandalay, Lashio, and Muse in Burma before entering China at the border city of Ruili in Yunnan province. The oil pipeline, which eventually terminates in Kunming, capital of Yunnan province, is 771 kilometres long. The natural gas pipeline will extend further from Kunming to Guizhou and Guangxi in China, running a total of 2,806 kilometres.

The oil pipeline will have a capacity of 12 million tonnes of crude oil per year. It would diversify China's crude oil imports routes from the Middle East and Africa thus avoiding the Malacca detour which is even more invaluable advantage in the eyes of the Chinese leadership. With 80% of all imported hydrocarbons to China going through the Malacca sea-route, China is vulnerable to having its overseas energy supplies blockaded by the American 6<sup>th</sup> Fleet during a Sino-U.S. geopolitical crisis. The Burmese pipeline diminishes that risk, as the oil and natural gas will no long have to pass through the Malacca Straits chokepoint. Oil storage tanks will be built on an island near the port of Kyaukphyu, for oil processing China will build refineries in Chongqing, Sichuan, and in Yunnan. The gas pipeline will allow delivery of natural gas from Burma's offshore fields to China with an expected annual capacity of up to 12 bcm of natural gas. The pipeline will be supplied from the A-1 and A-3 Shwe oil field, China started receiving natural gas from Burma's Shwe project through the pipeline in April 2013. The Shwe, Shwe-Phyu, and Mya areas in the A-1 and A-3 blocks are estimated to hold 127–218 bcm of natural gas in total. The total project of pipelines is expected to cost US\$2.5 billion (Sino Myanmar Pipelines, Wiki).

In July 2014 CNPC celebrated the first year anniversary of the launch of the Myanmar-China natural gas pipeline by announcing that nearly two billion cubic metres of gas has been piped. The Myanmar section of the gas pipeline was completed on 12 June 2013 and gas started to flow to China on 21 October 2013. The oil pipeline was completed in Aug, 2014. A railway that will connect Muse and Lashio also is part of the project. The railway will be 80 miles long and will include 41 bridges, 36 underground tunnels and 7 stations. Myanmar will get twenty per cent of the gas from the pipeline. In addition, CNPC may pay an annual transit fee of USD 150 million to Myanmar per year for the use of the pipeline in Myanmar. The pipelines contract is expected to run over 20-30 years, with CNPC paying as much as USD 4.5 billion in transit fees to the Myanmar's government. It will benefit Myanmar with other foreign investments and shares. The pipeline will benefit the local communities as well (Teshu Singh, 2013).

India is one of the major external forces affecting Myanmar's situation. In its strategic thinking, Myanmar's location is important for strengthening India's Look East Policy and energy security. It will also help India in counter-balancing China's increasing power in Southeast Asia. In the long-term scenario, India hopes that Myanmar will remain an independent market as well as a conduit between South and Southeast Asia. India had been clearly aware that China's extensive penetration of Myanmar was not in its national interest. Back in 1993, India overturned its negative policy toward the military regime in Myanmar both to restructure Chinese influence and also to foster through Myanmar transport route bringing economic assistance to support the tranquility and development of its rebellious Northeast India region, bordering Myanmar and parts of which are still disputed with China. In the face of China's recent growing influence in Southeast Asia, the major concern of India is that the close relations between Myanmar and China might change Myanmar's traditional policy of neutrality (Ashwini Srinivas, 2014).

Strategically, India is afraid of China's 'String of Pearls' theory and China using Myanmar as one of the 'pearls'. The Indian government was particularly worried about the China-Myanmar strategic links and the prospects of the Chinese Navy gaining a foothold in the Bay of Bengal. India also sees China as a potential threat because of its close relations with Pakistan and Myanmar. China's involvement in Myanmar could mean that India would be directly surrounded on three sides by

Beijing and its area of influence, with a lack of buffer states. India feels that it badly needs to improve its strategic relations with Myanmar so as to break down China's encircling strategy (Tuli Sinha, 2009).

Yet another important concern is energy security. Energy has become a bottleneck restricting India's economic development. So, Myanmar's decision to allow CNPC to build a pipeline to import natural gas from blocks A-1 and A-3, in which Indian companies, ONGC & GAIL have equity, dealt a huge blow to India's efforts to win the race for the same gas through a proposed Myanmar-Bangladesh-India pipeline (Srinivas, 2014). India has always been concerned that Myanmar acts as one of the major 'Pearls' for China, in the so called "String of Pearls" that engulf India. In Indian strategic parlance, Myanmar is important for these overarching consented factors: first, a direct connection to Indian Northeast states, therefore a corollary success of the so called "Look East Policy". Second, to balance and monitor China diplomatically and also within and around the Indian Ocean region and third for energy and land routes, matching the country's rising rising developmental demands very much like China's own demands. As two emerging economies, both China and India are making global search for energy as part of their energy strategy. Common needs for energy resources make China-India relations more competitive. Therefore, India has been very concerned over China-Myanmar energy cooperation and the building of China-Myanmar oil and gas pipelines, especially when Myanmar turned to cooperation with China after its negotiations on several projects with India failed. India is working hard to increase its stronger presence in Myanmar (Srinivas, 2014).

### **China-Myanmar Relations**

Myanmar historians regarded the visit, in 802 A.D., of the Pyu delegation to Chang-an, the capital of the Tang dynasty as the first confirmed diplomatic contact with China. Thereafter, there were more official contacts in what was deemed to be a cordial relationship between two sovereign states ruled by independent monarchs. In the thirteenth century a series of border skirmishes led to a Mongol invasion of Myanmar in 1283 resulting in a fifteen-year occupation of Myanmar territory after a truce was concluded in 1287. Another invasion in the fourteenth century was also resolved peacefully. In the late seventeenth century hostilities between the Ming emperor and the Manchus spilled over into Myanmar territory for a short while. The

last round of conflict occurred between 1765 and 1769 when forces of the Konbaung dynasty repulsed four Chinese incursions resulting in a treaty of peace and friendship that was signed in December 1769. Thereafter, regular exchanges of letters and visits continued on an equal footing until 1874, some eleven years before the Myanmar kingdom lost its sovereignty to the British colonialists (Daljit Singh and Chin Kin Wah, 2003).

Small-scale cross-border trading with Yunnan probably dated back several centuries but substantial and regular commercial links between Myanmar and China were established only in the eighteenth century and were sustained throughout the colonial period under British rule.

After Myanmar regained its independence in 1948 it welcomed the establishment of the People's Republic of China (PRC; hereafter China) in 1949. From the Myanmar perspective, it seemed that China had always regarded Myanmar as "essential" to its security and the latter "stands high in the degree of importance China attaches to its peripheral areas". Moreover, the bilateral relationship between Myanmar and China was greatly enhanced by personal diplomacy exercised by leaders of both countries. This practice was launched by Zhou Enlai's visit to Myanmar in June 1954 and U Nu's return visit to China in November of the same year. However, despite the mutual acceptance of the ideals of peaceful coexistence (purported to be the foundation of Myanmar's foreign policy) and personal friendship between leaders of both countries, Sino-Myanmar relations have undergone a series of ups and downs since June 1950 when diplomatic relations were formally established between the two states (Maung Maung, 2007).

As before, Myanmar was isolated from the rest of the countries and also it was politically run by a military dictatorship the SPDC (1988-2011) which allowed no opposition political parties and kept the Burmese tightly under control, the people enjoyed no civil liberties, further the regime was widely accused of human rights abuses which led several countries including the United States to impose economic sanctions on Myanmar, strictly limiting US economic investment and aid.

Thus, China stepped into the vacuum that was created by Western sanctions and compensated for Myanmar's need for trade and economic cooperation (Lixin Geng, 2006). China's economic cooperation and businesses were directed to focus on

infrastructure development. Among the many infrastructure projects financed and constructed by Chinese government and Chinese enterprises are the Letpadaung copper mines at Monywa in North-West Myanmar, the Myitsone dam a 6,000-MW capacity hydropower plant the confluence of the N'Mai and Mali rivers which forms the source of the Irrawaddy River and the Oil and Gas Pipelines from Kyaukpyu to Kunming (Isabel Hilton, 2013).

In 1954, the People's Republic of China and Burma signed a joint declaration on the Five Principles of Peaceful Coexistence, a political philosophy which has since then theoretically defined China's relations with Burma. These five principles are:

- (1) Mutual respect for sovereignty and territorial integrity,
- (2) Mutual non-aggression,
- (3) Non-interference in each other's internal affairs,
- (4) Equality and mutual benefit, and
- (5) Peaceful coexistence in developing diplomatic relations and economic and cultural exchanges.

As a young nation-state, these five principles set precedents for both China's growing international presence and the international community's influence in China's sometimes fragile internal social and political structures. Since, the establishment of the SLORC, Myanmar has changed dramatically in over few years. For Myanmar, China has historically been by far its most important neighbour, sharing the longest border of 2227 kilometres. China has currently been the largest investor and trading partner of Myanmar, while Myanmar forms only a small portion of China's total economic input. The scope and importance of the relationship has expanded both economically and strategically to the benefit of both. Economically, cross-border trade between China-in particular through Yunnan Province-and Myanmar has expanded dramatically, despite occasional interruptions because of changes in the latter's trade policies. These interruptions normally have been for short periods of time and have not constituted major setbacks to cross-border trade (Earth's Right International, 2008).

Myanmar and China have also been upgrading the roads and rail connections used for the transport of goods from and through Yunnanin to Myanmar and onward to the western sea board port salong the Bay of Bengal coast. Equally important, particularly from the perspective of the Myanmar government, is the fact that the Chinese have historically been staunch supporters of the SLORC and subsequently the SPDC at times when other international support was difficult to acquire. Strategically, China provided Myanmar with over \$1.6 billion in arms from 1990-95. It assisted in the modernization of the Hianggyi naval base in the Irrawaddy River Delta and also in the development of a signals intelligence facility on the Great Coco Island, approximately 30 nautical miles from India's Andaman Islands. These activities are part of a larger Chinese objective to establish a presence in the Indian Ocean and ensure continuous access to, and passage through, the Strait of Malacca in case China perceives the need for a military surge into that ocean.

Economically, the Chinese government has been and continues to be a major source of economic assistance. Indeed, in early 1998 China is believed to have helped when Myanmar's government is thought to have faced a critical balance of payment crisis when external reserves fell to approximately \$90 million. In response, China made a \$150 million loan to the government to bridge the crisis even though the Chinese suffered a severe negative impact from the Myanmar government's efforts to halt imports. These funds were given in addition to the smaller loans and aid China was already providing to Myanmar for specific projects. Such aid and loans are invaluable to maintaining the stability of the SPDC government. Myanmar's close political, military, and economic ties with China are a major source of comfort to the SPDC. They are a critical factor in the government's belief that, in a worst case scenario, it would be able to survive and indeed prosper, on the basis of its bilateral activities with that nation (Zou Keyuan, 2009).

### **Foreign Policies of China and Myanmar**

Beijing pursued the foreign policy of “leaning to one side” and insisted that the world was divided into two antagonistic camps and neutralism impossibly existed between them when Chinese Communist Party seized power in 1949. All non-



socialist nations were classified as “stooges” or “running dogs” of imperialism. However, both domestic need and the international environment in early 1950s impelled Beijing to alter its black and white-with us or against us-conception on the world politics and to begin to stress national interests in its foreign policy-making (Hongwei, 2009).

In the development of foreign relations Chinese policy shifted gradually away from attempting to drive Western influence out of Asia by direct confrontation or unequivocal support for revolutionary wars, and toward efforts to win Asian neighbours away from alliances with the West through offers of peaceful coexistence. In 1952, Chou Enlai spelled out that with respect to neutral countries, “we can’t be hostile to them and push them to enemy’s camp. We can make friends with them.” As far as the nationalist countries in Southeast Asia which established diplomatic relations with Beijing were concerned, “we will try for their neutral stance at war, and making them keep imperialism at arm’s length at peace”.

In 1954, China’s new foreign policy formed, which focused on breaking through United States (U.S) containment and encirclement, uniting all countries which wished to maintain peace with China and create a peaceful, stable regional environment for its domestic economic development and recovery. The new policy was characterized by building “collective peace and security” and expanding “peaceful area” in order to form a safe buffer zone between China and western camp. This new course in Peking’s foreign policy was apparently directed by three major considerations: first, the enhancement of China’s national security, second, the need for diplomatic flexibility, and third, Peking’s quest for major power status. To achieve this end Peking would respect the concept of non-alignment as a legitimate approach to Cold War issues (Hongwei, 2009).

On July 8, 1954, Mao Tse-tung gave 11 instructions on China’s diplomacy which included: “begin to establish Southeast Asian peace zone, effect and develop cooperation on the zone, and sign non-aggression pact or collective peace treaty”; unite all peaceful forces (including government), isolate and split up U.S; International Peace and United Front, etc. In August, 1954, Chou Enlai spoke at the 33rd session of central government that it’s necessary to insist on and carry out “Peaceful Coexistence Five Principles. We believe to establish more and broader

peace zone in Asia so that these areas won't become the hothouse where U.S. invader group wage war and organize military group. This central government will strive for Asia collective peace in the light of this guideline. The shift of China-Myanmar relations in 1954 was one of the results of the changed China's foreign policy, a logical approach of seeking peripheral environment featuring peace and security for Beijing. On December 2, 1954, Chou Enlai claimed that together with Burma, China "will struggle to implement 'Peaceful Coexistence Five Principles', establish and expand peaceful zone, and maintain Asia and World peace. In addition, the communiqué released during U Nu visited Beijing in 1954 referred that two countries' Premiers expressed deep concern over strengthening and expanding peaceful area." On China's part, the change of Sino-Myanmar relations resulted from Beijing's new foreign policy. However, Chinese appeal for Asia Peace Zone also could not go without Rangoon's interaction and support (Hongwei, 2009).

### **Myanmar Policy towards China**

After independence, Myanmar formulated neutralism and non-alignment foreign policy. It was between 1948 and 1954 that Rangoon established its foreign policy. Myanmar didn't have a clear policy on non-alignment in the early years after independence and was simply groping in the dark.<sup>49</sup> During Rangoon framed neutralism policy; at least the followed factors strengthened its determination and promoted the formation of the policy. At the end of 1950, The People's Liberation Army (PLA) entered Tibet and Korean War. Chinese violence action made Myanmar see new China's strike force and fatalness (Hongwei, 2009).

In particular, the experience of Korea convinced them that they would have to avoid at almost any cost the possibility of becoming a battlefield for the Western Nations-Communist conflict. On March 8, 1951, Myanmar's Premier reaffirmed his government's determination to adhere to its policy of neutrality. By the beginning of 1951, both Myanmar and India had definitely perceived the necessity of a friendship with China, which had cast her shadow over Asia. Consequently, U Nu explained that the reason of performing neutralism foreign policy by his government was because Myanmar located in the sphere of influence of two rival camps; Myanmar's military and economic powers were weak; it defended itself. Among these reasons, China was a major contributing factor. Myanmar's non-alignment is primarily to

assure China of non-aggression from Burmese soil and to avoid destruction of Myanmar in another war. Fear of antagonizing China has also been at least partially responsible for Burma's policy of neutralism. After Kuomintang Troops (KMT) who had been defeated and driven from the mainland fled to Myanmar, Rangoon attempted to solve the problem through UN channel. Nevertheless, because of powers, support, KMT issue was not only effectively solved but more serious. By 1953, KMT troops in Myanmar had become more powerful with the support of Taiwan and U.S., and its threat to Myanmar's national security was more dangerous and bigger. The Myanmar's feared that Beijing might use the presence of the KMT forces as an excuse to invade Myanmar. In 1952, People's Liberation Army crossed the disputed border, "1941 Line", into Myanmar to annihilate KMT forces. Hence, Myanmar had good reasons to worry. The result of this experience in the United Nations was to make most Myanmar's leaders feel that their original hopes that membership in the United Nations offered a small nation like theirs protection against outside interference were change. It was also quite apparent after Myanmar's disillusionment with the United Nations, as a protector of the security of small states as shown in the case of handling of the KMT issue by this body that the Myanmar government began to move towards closer friendly relations with Communist China. At the same time, Beijing also soothed Rangoon's anxieties (Hongwei, 2009).

China offered assurances that so long as adequate steps were being taken against the KMT troops, the issue would not be a cause of trouble between two nations. China's forbearance on the KMT issue in Myanmar created a favourable impression in Rangoon, and made Myanmar see the possibility and hope of keeping peace and friendly relations with its northern neighbour. "China's attitude on the matter was one designed to indicate that it only harboured peaceful intentions and friendly feelings toward Myanmar and this undoubtedly had the effect of making the Myanmar government more receptive to the 'peace offensive' that was launched in 1954."

Furthermore, India and Burma established cordial relations, and two countries' leadership often consulted about world affairs. New Delhi shaped non-alignment foreign policy and took friendly attitude to Beijing then. These had unneglectable impact on Myanmar's policymaking of diplomacy. Also, the communists and the socialist elements within Myanmar forced the U Nu government to appear non-

aligned. Therefore, between 1951 and 1953, Rangoon gradually transmitted more and more goodwill to Beijing, such as the vote about China in UN during the Korean War, approving private shipments of rubber to China, supporting new China's seat in United Nations. On the part of Myanmar to please Communist China had become quite unmistakable by the middle of 1953 (Hongwei, 2009).

During the Korea War, Rangoon's and Delhi's attitudes toward Beijing's action in Korea also pushed China to reorient its policy to win the nationalist government to the side of socialist camp and utilized their neutrality in world politics. Rangoon and Delhi refused to join in branding China as an aggressor in Korea in January, 1951. In the same year, Myanmar, India and some other Asian-African countries abstained on the UN strategic war materials embargo against China resolution. Additionally, Myanmar's private company exported some rubber to China although its volume was modest during Korean War (Hongwei, 2009).

Nationalist countries such as Myanmar and India adopted different policy toward China from western countries. This caused Beijing to re-evaluate neutral countries in world politics and placed them into the united front list. In addition, the influence of the change of Soviet Union's foreign policy shouldn't be ignored. While China gradually adjusted its policy toward neutral countries, Soviet Union's position on those countries further drove the change of Beijing's policy toward Burma. After Stalin's death on March, 1953, Moscow began to seek detente with western camp and think much of its relations with Asian neutral countries. Russian leaders emphasized "peaceful coexistence" and peaceful competition between communist and non-communist countries. When Chinese Communist Party partly gave up previous principle with ideology as exclusive guide line of foreign affairs, changed viewpoints on neutral countries, and sought to establish and expand peaceful zone in Asia, Beijing's policy shifted as Myanmar attempted to keep friendly relations with China resonate to which both found common interests soon (Hongwei, 2009).

### **The Pauk-Phaw Diplomacy**

The Sino-Myanmar relationship can be described as "Pauk-Phaw" (brotherhood) friendship. In this brotherhood relationship, Myanmar, for all practical purposes, is the younger sibling. In other words, Myanmar positions itself as the younger brother

to the big brother China in this asymmetrical relationship (Maung Aung 2011). Besieged by ethnic and communist insurgencies and agitation by leftist parties and communist sympathizers, the principal objective of the Union Government during the first few years of independence was regime survival that was seen as synonymous with the integrity of the state itself. The national security problem was further compounded by the incursion of the defeated Chinese Nationalist (Koumintang or KMT) troops into the Shan State in December 1949 and their subsequent establishment of enclaves as base areas for CIA (Central Intelligence Agency)-backed forays into China as well as the eventual military involvement of China in the Korean War. Hence, Sino-Myanmar relationship was premised upon ensuring that there would be no excuses whatsoever for any adverse Chinese reaction. To this end Myanmar's leaders led by premier U Nu repeatedly emphasized Myanmar's strict neutrality in its policy towards the United States and Soviet Union while attempting to cultivate personal friendship with China's leaders and lobbying hard to amicably resolve the border issue with China. Thus a cordial relationship known as 'Pauk-Phaw' relationship was established between the two countries in the mid-1950s on the strength of personal rapport between U Nu and Chinese premier Zhou Enlai. This friendly relationship was maintained by the caretaker government (1958-60) of armed forces chief General Ne Win and U Nu's Pyidaungsu Party Government that returned to power in the elections of February 1960 (Singh, 2003).

The high water mark of the bilateral relationship during the parliamentary era was the "Agreement" on the "Question of the Boundary Between the two Countries" as well as the treaty of "Friendship and Mutual Non-Aggression" which were signed on 28 January 1960. A soft loan equivalent to some 30million pounds (tied to Chinese technical assistance projects) was also extended to Myanmar in January 1961 as a gesture of goodwill by the Chinese Government (Singh, 2003).

### **Survey of Literature**

This literature is divided into three sections. In this first section books like *Chinese Foreign Policy: An Introduction* by Marc Lanteigne examines the Chinese patterns of engagement with various domestic and international actors that have shaped Beijing's foreign policy since the end of cold war, it explores a series of ongoing

questions and trends, as well as offering an in-depth look at key points of China's foreign interests. The book presents a comprehensive overview of the country's international affairs covering such key issues as the rise of globalisation, the country's bilateral and multilateral approaches to international problem solving, the increase in the number and types of international organisations, modern security challenges, Beijing's changing political, strategic and economic linkages with the developed and developing world. *In The Name of Pauk-Phaw: Myanmar's China Policy since 1948* by Maung Aung Myoe tries to analyse as to how the Chinese are trying to make an important place in Myanmar's foreign policy. This work argues that Myanmar's relationship with China is asymmetric but Myanmar skilfully plays the "China Card" and it enjoys considerable space in its conduct of foreign relations. The term Pauk-Phaw is exclusively devoted to denote the special nature of the Sino-Myanmar relationship. Also articles like "China and Myanmar: Beijing's Conflicting Role in the Kachin Peace Process" by Loreen Tsin holds that its foremost concern is to keep US influence away from its border and out of Myanmar also China's influence in Myanmar and its direct access to the Indian Ocean, the stability of the border region and major infrastructure projects as well as the already sizeable flow of trade, investment and resources across the border. Other articles like "Sino-Myanmar Relations: Analysis and Prospects" Lixin Geng analyses Chinese strategic consideration over Myanmar which he further divides into three parts which are Political and security considerations, energy resources and economic considerations. He describes as to how the Chinese are playing a dominant role in Myanmar through various means and are trying to win over the country. Oystein Tunsjo, in his book *Security and Profit in China's Energy Policy: Hedging against Risk*, comprehensively analyzes China's domestic, global, maritime and continental petroleum strategies and policies, establishing a new theoretical framework that captures the interrelationship between security and profit. Arguing that hedging is central to China's energy-security policy, this volume links government concerns about security of supply to energy companies' search for profits, and by drawing important distinctions between threats and risks, peacetime and wartime contingencies, and pipeline and seaborne energy-supply routes, the study shifts scholarly focus away from securing and toward insuring an adequate oil supply and from controlling toward managing any disruptions to the sea lines of communication. Yun Sun in her article "China and Changing Myanmar", the author

argues that the democratic reform in Myanmar is rooted in profound internal and external factors. Since the beginning of the reform, the changes in Myanmar have taken tolls in a series of China's existing interests inside the country. Economically, Chinese investments have come under increasing scrutiny, criticism, and even oppositions, threatening the viability of strategic projects such as the oil and gas pipelines. Politically, the initial success of the democratic reform in Myanmar raises questions about Beijing's continuous resistance to reform. Strategically, the changes in Myanmar undercut China's original blueprint about the strategic utilities of Myanmar for China at ASEAN, in the Indian Ocean and more broadly in the region. In light of the changes, China has adjusted its policy toward Myanmar. Not only has Beijing dramatically reduced its economic investments in Myanmar, it also cooled down the political ties while established relations with the democratic oppositions. At the same time, China also launched massive public relations campaigns inside Myanmar aimed at improving its image and relations with the local communities. China remains critical on the future of Myanmar. Politically, Beijing sees Myanmar politics as chaotic, incohesive and infested with factional competitions. Economically, the Thein Sein government is yet to produce effective policies to stimulate growth, attract foreign investment and improve economic performances. As for national reconciliation, it might take years, if not decades, for the negotiation to conclude. These perceptions translate into a general conclusion by Chinese analysts that Myanmar will be primarily consumed by its internal mess in the next few years. The weaknesses of Myanmar might be potential good news China. Given the internal problems Myanmar faces, western investors are being extra cautious in their economic engagements. Despite the downturn since 2011, China sees itself eventually being indispensable for the future of Myanmar with its rich financial resources, geographical vicinity and other advantages. Among all the turbulences and uncertainties for China from Myanmar's political reform, Beijing still sees a silver lining.

In this section articles like "China-Myanmar Energy Cooperation and Its Regional Implications", Zhao Hong mentions that oil and gas pipelines project creates spill over opportunities for economic cooperation and integration between China and Myanmar. The project has also been positioned as a "win-win" for China and Myanmar in terms of regional economic development. For China, it will bring

opportunities to its economically underdeveloped South-western provinces, in particular Yunnan and Sichuan provinces. Currently, Southeast China is the only region in the country that lacks oil refineries. It is expected that the pipelines will not only alleviate Yunnan Province's oil shortages but also diversify its economic activities. Myanmar also stands to gain from the project strategically and economically. Also books like *China, Oil and Global Politics* by Philip Andrews-Speed and Roland Dannreuther argue that China's rapid economic growth has led to a huge increase in its domestic energy needs. This book provides a critical overview of how China's growing need for oil imports is shaping its international economic and diplomatic strategy and how this affects global political relations and behaviour. It focuses on the domestic drivers of energy policy: it provides a systematic account of recent trends in China's energy sector and assesses the context and processes of energy policy making, and concludes by showing how and why China's oil industry has spread across the world in the last fifteen years. It further analyses the political and foreign policy implications of this energy-driven expansion and the challenges this potentially poses for China's integration into the international system. It examines a number of factors linked to this integration in the energy field, including the unpredictabilities of internal policymaking; China's determination to promote its own critical national interests, and the general ambition of the Chinese leadership to integrate with the international system on its own terms and at its own speed. In the book *By All Means Necessary*, Elizabeth C. Economy and Michael Levi explore the unrivalled expansion of the Chinese economy and the global effects of its meteoric growth. China is now engaged in a far-flung quest, hunting around the world for fuel, ores, water, and land for farming, and deploying whatever it needs in the economic, political, and military spheres to secure the resources it requires. Chinese traders and investors buy commodities, with consequences for economies, people, and the environment around the world. Meanwhile the Chinese military aspires to secure sea lanes and Chinese diplomats struggle to protect the country's interests abroad and just as surely as China's pursuit of natural resources is changing the world restructuring markets, pushing up commodity prices, transforming resource-rich economies through investment and trade, it is also changing China itself. As Chinese corporations increasingly venture abroad, they also navigate in various political regimes, participate in international markets and adopt foreign standards and practices, which can lead to wide reaching social and political ramifications at



home. Clear, authoritative, and provocative, *By All Means Necessary* is an account of where China's pursuit of raw materials may take the country in the coming years and what the consequences will be not just for China, but for the whole world. In the articles like 'The China-Myanmar Energy Pipelines: Risks and Benefits' by Zhao Hong states that the pipeline project opens a lucrative fourth route for China's oil and natural gas imports and alleviates the shortage in Myanmar's energy needs. Beyond its energy strategic value, the oil and gas pipelines will also create other spill over opportunities for economic cooperation and integration between China and Myanmar and Southeast Asia. Despite the promising benefits, the pipelines bring China a new set of headaches, the problem seems to bring more problems than the Malacca Dilemma as in the words of Lixin Geng in the article "Sino-Myanmar Relations: Analysis and Prospects" the author highlights five major issues regarding the pipelines: the Burmese-Chinese ethnic conflict, dissatisfaction with the projects and the Shwe movements, Rakhine state the beginning of the pipelines where there is conflict between Buddhists and Muslims since 2012, further North the pipelines passes through territories that were until recently in an open state of civil war with the Burmese Central Government, as Myanmar is getting prominence in the International sphere more countries are looking forward to invest in the former pariah state and benefit from its rapidly expanding markets therefore making Myanmar in a state to negotiate with China. Lastly, lack of infrastructure such as refineries and new pipeline networks are fading as Chinese economic growth slows making the oils nowhere to go once it reaches Yunnan, causing a glut in the Burmese coast. In the book *Burma Redux; Global Justice and the Quest for Political Reform in Myanmar* by Ian Holliday mentions that contemporary Myanmar faces a number of political challenges and it is unclear how other nations should act in relation to the country so the role outsider's play in dealing with them is highly contentious. Drawing on views expressed by local citizens, *Burma Redux* argues for committed strategies of grassroots involvement that engage international aid agencies, global corporations and foreign states.

Lastly in the final section books like *China and Indian Ocean: Strategic Interests in the 21st Century* by Khin Ma Ma Myo describes that, in the post-cold war era the balance of redistribution of power has more shifted to Asia. China's rise in world affairs is one of the main principal trends that define the new global order and

China's increasing diplomatic, economic and military strength has compelled countries to rethink existing security strategies. In the Indian Ocean there is a growing maritime strategic rivalry between India and China. As their immediate security imperatives lie in the Indian Ocean, their strategic spheres have begun to overlap. China's defence assistance to Myanmar military regime and exploration of access to the energy resources in Myanmar also intensify Sino-India rivalry. Also for energy resources, approximately 60% of Beijing's oil crosses the Indian Ocean, specifically the Strait of Malacca which is controlled by the United States Navy. Thus, it is very obvious that the bulk of economic power of China lies in the hands of the sea lanes guaranteed by the US Navy. As Chinese strategic interests lie in the Indian Ocean, the Indian Ocean and the states on its littoral are of growing strategic importance. The book attempts to probe the deeper strategic interests of China in the Indian Ocean region and the strategic relationships with the major political actors like the United States, Japan, India and the littoral states such as Pakistan and Myanmar (Burma). In the book *The Indian Ocean Region: A Strategic Net Assessment* by Anthony H. Cordesman, Abdullah Toukan, examines the key strategic risks that shape the stability and security of the Indian Ocean Region (IOR) also the IOR is the most complex regions in the world in human terms. Since the construction of the Sino-Myanmar pipeline project the Indian Ocean Region has been more prone to risks from Chinese imperatives. Chinese intentions over the IOR has been a crucial threat to India as for one needs to be careful not to underestimate the gaps between China's future strategic goals and its current military capabilities. India has been very concerned over China-Myanmar energy cooperation and the building of China-Myanmar oil and gas pipelines, especially when Myanmar turned to cooperation with China after its negotiations on several projects with India failed. India is working hard to increase its stronger presence in Myanmar. Further in the book *China and India: The Quest for Energy Resources in the 21st Century* by Hong Zhao, both India and China have been struggling to investment and development in Myanmar, both the countries have their own strategic aims and importance for Myanmar. As India's neighbour, Myanmar's location is central for strengthening India's "Look East" policy, energy security and counterbalancing China's growing influence in Southeast Asia. In the face of China's rise and its increasing influence in Southeast Asia, India's major concern is that the close relations between China and Myanmar might change Myanmar's traditional policy of neutrality. Strategically

India is afraid that China will attempt to form a strategic encirclement against India, using Myanmar as a point to contain India. On the other hand China's growing involvement in Myanmar has generated a lot of debates and speculations that Myanmar is actually becoming China's backyard. China has been investing heavily in Myanmar as for India lost its bet, therefore India needs to struggle a lot in order to catch up with China. Other books like *China and India: A Comparative Analysis of Approaches to Energy Security* by Prashant Agrawal is of the view that, in this present global world need for energy, its demand and its security has been increasing per year. Energy consumption is a key determinant of economic development, greater per capita energy availability is not only a prerequisite to have accelerated development, but is also a benchmark for the level of development achieved. China and India both has been fuelled by large increase in energy consumption and in turn, has created demand for more energy. With the two countries modernising and a structured shift taking place from agrarian to secondary and tertiary sectors, demands for all energy has gone up sharply. The voracious appetite for energy has resulted I China, one of the Asia's largest oil producers, turning into a net oil importer in 1993. China and India have already become the world's first and fourth largest consumers respectively. China currently meets nearly 50 percent of its oil requirements through imports. As for China has already started supplying oil from different countries through pipelines and other means, India is still far behind to catch up with China for energy race.

Also articles like "Sino-Myanmar Oil & Gas Pipelines and their Implications for India" Ashwini Srinivas points out that the pipeline is said to be a win-win situation for both China and Myanmar and that it will accelerate Myanmar's economic development and will serve as an apparent solution to two of China's major strategic dilemmas. Myanmar's gas reserves play a significant role. There has been a scramble between India and China in accessing Myanmar's natural gas. Myanmar acts as a window to the Indian Ocean region for China, particularly now when India is pursuing its Look East Policy, head on. The Sino-Myanmar pipeline deal will provide good opportunities for both China and Myanmar but as for India, India is one of the major external forces affecting Myanmar's situation. In its strategic thinking, Myanmar's location is important for strengthening India's Look East Policy, and energy security. It will also help India in counter-balancing China's

increasing power in Southeast Asia. In the long-term scenario, India hopes that Myanmar will remain an independent market as well as a conduit between South and Southeast Asia. India had been clearly aware that China's extensive penetration of Myanmar was not in its national interest. India has lost out a lot in terms of energy from Myanmar to China through pipeline projects. However, India's loss in the competition does not stop India from entering and staying in Myanmar's energy sector.

### **Rationale and Scope of Study**

Energy demand in Southeast Asia has been expanding since 1990's; its growth rate is fastest in the world. Myanmar is of immense importance to China, other Southeast Asian countries and also to the United States (US) and European Union (EU). Therefore the race for energy in Southeast Asia especially Myanmar has been the main area of concern for this study. Myanmar was an isolated country until it opened itself to other countries for foreign investments starting from 1988, being China the largest investor in Myanmar with more than 48%. With the upcoming of the pipeline the Sino-Myanmar relationship has been strengthened but then although the pipeline project promises to uphold the friendship between the two nations it is predictable that the relationship between the two at some point might deteriorate as for major powers like US, India, Japan and the EU are all significant players in the 'Myanmar game'. Undoubtedly, the major powers desire to strengthen their own strategic positions in Myanmar and Myanmar intends to take advantage of the interest from the US, India, Japan and the EU to balance China's influence. China is concerned that other powers will interfere in Myanmar's internal affairs. The major powers are challenging China's position as the preeminent external power in Myanmar. India wants to ensure the safety of the so-called 'East Gate' in order to prevent any threat to India from China via Myanmar. India views China's energy trade route with Myanmar as entering its own backyard. The US is also worried that China's increasing presence in the Indian Ocean will harm its interests. Therefore, in order to lessen its worries China is thus trying to make a better relationship with Myanmar as for The People's Republic of China had poor relations with Burma until the late 1980s. Between 1967 and 1970, Burma broke relations with Beijing because of the

latter's support for the Communist Party of Burma (CPB) However, after 1986, China withdrew support for the CPB and started investing heavily on Myanmar after the establishment of State Law and Order Restoration Council (SLORC) later renamed as State Peace and Development Council (SPDC) which open the border trades for China and investments for other countries. However, the relationship has also not been free from uncertainty with the pipeline's future thrown into doubt in 2013 due to political changes in Myanmar. Though the long-held belief was that the project would have ensured energy security and increased regional influence, the fact that Chinese companies in Myanmar tended to work only with the government meant that the pipeline's success was under a cloud of doubt when Thein Sein's elected government replaced the military junta. Therefore, the relation between the two countries after the pipeline starts its full functioning is a big question of thought. The Myanmar section of the pipeline has been completed but the Chinese section of pipeline has yet not been completed. Despite several difficulties and protests lead by the local people in Myanmar as well as in China, both the governments of the two countries still continued with their prodigious project hoping to complete it as early as possible. Therefore, this study would be based on the Oil and Gas Pipelines of China and Myanmar and their strategic relations.

### **Objectives**

1. To understand the importance of Myanmar in China's strategic interest.
2. To study the strategic importance of pipeline routes in Sino-Myanmar relations.
3. To examine the implications of Sino-Myanmar pipelines on the regional strategic dynamics.

### **Research Questions**

1. What are the strategic concerns for China in Myanmar?
2. How will the pipelines between China and Myanmar address the Chinese strategic interest in Myanmar?

3. How would it give China a strategic edge in the regional security dynamics?

### **Research Methodology**

This research study shall analyse China's strategic interest and how Myanmar fits into China's strategic frame based on the readings of both primary as well as secondary sources of information. Official documents of both the countries like the Memorandum of Understanding (MoU) shall constitute an important source besides the available secondary literatures on China's strategic interest. The study shall also look at the oil and gas pipelines from the Shwe fields in Myanmar to China in terms of how these pipelines have facilitated China's strategic positioning in the region. The proposed study can be analysed from a realist framework.

### **Tentative Chapters**

#### **1. Introduction:**

The introduction would be a detailed background of the two countries being China and Myanmar starting from the founding of the kingdom of Bagan (Pagan, ancient Myanmar) in AD 849, it is believed that it was in this particular period when the two countries relationship were actually said to be evident. Further, the foreign policies of the two countries will be discussed and their interests.

#### **2. China and Myanmar Strategic Relations**

China and Myanmar have a very complex history of relationship; it was only after 1948 that both the countries showed interest on mutual friendship. China as being compared to Myanmar is bigger and more developed in terms of infrastructure; therefore it is China who has been supporting the Myanmar government. In this chapter the discussion between the two countries on strategic relations would be briefly described as to how the two countries work along with each other in order to fulfil one another's need.

#### **3. Strategic Importance of Oil and Gas Pipelines in Sino-Myanmar Relations**

This chapter would thoroughly focus on the Sino-Myanmar oil and gas pipelines which were started in the year 2009, both the countries consider the pipeline projects as of immense national importance. The prodigious project promises to pave a way for better relationship between the two countries at present and in the future as for the Sino-Myanmar deal has been confirmed for thirty years. Both the countries further believe that the pipeline project would create a better strategic relation and more opportunities.

#### **4. Implications of Sino-Myanmar Pipelines on the Regional Strategic Dynamics**

The Sino-Myanmar pipelines and its rapid development have been posing a lot threat in the regional spheres one such regions being India. This chapter would explore the regional implications of Sino-Myanmar Pipelines, the Chinese plan in the Myanmar region and as to how India is threatened by the Chinese occupations.

#### **5. Conclusion**

In the final chapter the study would be summarised, a statement about the limitations of the work would also be made and most importantly the important facts and figures not mentioned in the main body. Lastly personal opinion regarding the study discussed will also be included.

## Chapter II

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### **China and Myanmar Strategic Relations**

Myanmar, as one of China's neighbouring countries, plays a strategic role in China's pursuit of regional economic, political and social stability. Moreover, Myanmar is geopolitically significant to China given its access to the Indian Ocean and its extensive natural resources ranging from dense forests and untouched rivers to vast reserves of minerals, oil and natural gas. The pursuit of such natural resources has become all the more important to China as its rapid industrialization and urbanization require an increasing amount of energy and raw materials. In particular, as China is now one of the world's top energy consumers, Myanmar's oil and natural gas resources and the prospect of constructing dual pipelines from the Indian Ocean to carry imports of oil and natural gas from the Middle East, South America and Africa and avoid the dangerous Straits of Malacca make Myanmar a particularly desirable partner in China's pursuit of energy security. (Earth's Right International (2008).

Straddled between powerful countries (China and India) keen on projecting their influence over it, the Southeast Asian nation is geographically strategic. Especially for Beijing since its founding in 1949 by the Chinese Communist Party (CCP) until the China-U.S. rapprochement in 1971 Myanmar had served as a geostrategic buffer during the period of Maoist China's confrontations with the West (and the former Soviet Union). In providing political space for China during its period of containment by the West, Myanmar had also served as a channel for Chinese leaders communications with the outside world prior to Dengist China's economic reforms. While Naypyidaw's role in China's foreign policy may somewhat have diminished since Beijing opened itself up to the international community, Myanmar's importance in Chinese strategic calculations has once again gained international attention. This has been the case due to changing regional dynamics with the U.S. rebalancing to Asia amidst Beijing's growing diplomatic and economic clout in Myanmar, as well as in other parts of mainland and peninsular Southeast Asia. (Li Chenyang and Char James, 2015).

Myanmar from independence till 1989 attempted to maintain a public stance of neutrality (while in fact drifting into an oblique neutrality leaning towards China) in order to avoid being drawn into the cold war or the tensions between China and India. The regime's need for external support for its survival led the State Law and Order Restoration Council or SLORC into an arms deal with China in November



1989 which over the next five years delivered up to US\$ 2 billion worth of arms and ammunition and the services of Chinese trainers (International IDEA 2001). China and Myanmar's joint declaration on the Five Principles of Peaceful Coexistence, a political philosophy which has since then theoretically defined China's relation with Myanmar on which China adopted a more pragmatic foreign policy under the guidance of the Five Principles of Peaceful Coexistence, increased international economic and political exchanges in order to fuel economic and industrial development at home.

In doing so, China has opened itself to trade and investment around the world, including in controversial places like Myanmar and Sudan, under the belief that economic prosperity at home and abroad will lead to mutually beneficial political and social stability (International IDEA 2001). Within Myanmar, the closer association with China implied by SLORC's massive arms acquisitions and the increased Chinese presence and investment in Northern Myanmar was and still is opposed by many Myanmar civilians, as well as groups within the armed forces who have spent much of their career fighting Chinese backed troops. These arms deals and reports added to increased Myanmar-China trade and Chinese road and bridge building in Myanmar have led a number of analysts (particularly those who see China as an expansionist threat to the region and ultimately, the world) to describe Myanmar's relationship with China as that of a de-facto ally, a satellite or a client state and therefore a threat to the regional strategic balance. But that as it may, the fears of such a threat have led to ASEAN (Association of South East Asian Nations) and India seeking to counter China's influence by engaging Myanmar and drawing her into regional organizations and trade groupings. Myanmar's 1997 accession to ASEAN was one such consequence, as was the high level of investment and military assistance from Singapore. After the United States, India is now Myanmar's largest export market; the invitation to Myanmar to join BIMSTEC (Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation) is in part intended to prevent Myanmar falling further into the Chinese sphere of influence and thus threatening Myanmar's (geographical) bridge function between ASEAN and India set against these fears, the abrupt decline of China-Myanmar trade between 1988/89 and 1997/98 and the diversification of Myanmar's arms supplies and development of a

domestic arms industry may be seen as a reduction of Myanmar's dependence on her northern neighbour. (David Arnott, 2001).

Given the great disparity in the size, economies and political importance of China and Myanmar, it is of little wonder that Myanmar's overall policy with respect to its giant neighbour is one of conflict avoidance and cooperation on the majority of issues. Since 1988, the scope and importance of the relationship between Myanmar and China has expanded dramatically on various aspects on politics and security, economic considerations and resources, which further created a new dimension of better strategic relations between the two. (Peng Er. Lam, Ganesan, Narayanan and Durkop, Colin, 2008).

### **Politics and Security**

From the perspective of security, China and Myanmar have enhanced their military cooperation and exchanges since 1988. Myanmar's location at China's southwest holds strategic importance for the People's Liberation Army Navy (PLAN) in its reach to the Indian Ocean via Myanmar controlled islands, which are about 30 km north of Indian-controlled islands. By the year 2050, China is expected to achieve world-class blue water naval status, and Myanmar would be crucial for China's multi-directional access to both the Pacific and the Indian Oceans. By not passing through the Strait of Malacca to reach the Bay of Bengal, the PLAN would be able to shorten the distance by 3000 km, reducing the voyage by five to six days. China and Myanmar were reportedly interested in joint development of a deep-water port at Kyaukpyu on Ramree Islands in the Bay of Bengal. In 2003, China assisted Myanmar in building an 85-metre jetty to naval facilities on Great Coco Island, which lies 18 kilometres from India's Nicobar Island. China also established a modern reconnaissance and electronic intelligence system on the island. These, along with electronic surveillance facilities at the Alexandra Channel in the Andaman Sea, monitor India's military movements – including missile testing - in the Indian Ocean. Thus China's strategic gains in cultivating relations with Myanmar have long-term security implications. (Geng, Lixin (1), (2007). "Sino-Myanmar Relations: Analysis and Prospects", Culture Mandala: *The Bulletin of the Centre for East-West Cultural and Economic Studies*, Vol. 7 No. 2.)

Since 1988, Myanmar has moved closer militarily to China. In 1989, the first military delegation arrived in Beijing to negotiate the purchase of arms. It resulted in approximately US\$1.4 billion in purchases. Beside the supply of arms (inclusive of jet fighters, armoured vehicles, and naval vessels), China also agreed to train Myanmar's air force and army personnel. The motivation for the purchase was to upgrade Myanmar's military capability to suppress minority separatist insurgencies. In 1994, Myanmar brought about US\$400 million worth of arms. In October 1996, Army Chief, General Maung Aye's visit to China resulted in future military and intelligence cooperation between the two countries. China agreed to train 300 Myanmar air force and naval officers and to provide additional places for them in Chinese Staff colleges. China also offered favourable terms for Myanmar's arms purchases offering free loans and granting credit to the military regime, as well as economic aid and investments for the construction of Myanmar's basic infrastructure, such as dams, bridges, roads and ports as well as for industrial projects. Noteworthy is the construction of strategic roads along the Irrawaddy River trade route linking Yunnan province to the Bay of Bengal. (Lixin Geng, 2007).

China's intention to seek close strategic alignment and economic cooperation with Myanmar could be seen from the visit to Yangon of a high-level delegation (about 100 members) led by Li Peng from 26 to 28 December 1994. Both Li Peng and his counterpart, General Than Shee, agreed to affirm and further strengthen the close relations between the two countries. The communiqué issued at the end of the visit stated that both leaders were encouraged by the comprehensive 'strengthening of relations' and would continue to cooperate 'in the economic, agricultural, environmental, cultural, tourism, forestry, education and scientific fields and in combating illicit drugs'. Although Myanmar and China have close bilateral military ties, China has encouraged Myanmar to have military links with other countries: for example, defence supply relations with Pakistan and an arms trade with Russia. China claims that most of the arms sold to Myanmar were for defensive purposes. (Poon Kim Shee, 2002).

Myanmar–China relations are asymmetrical and uneven despite being reciprocal and mutually beneficial. From the beginning of 2000, Myanmar–China relations gradually became more friendly and cooperative on political, security and economic levels. Firstly, from political aspects, General Maung Aye, Vice Chairman of State

Peace and Development Council (SPDC) visited China, on Jun 5 2000 for celebrating the 50th anniversary of the establishment of diplomatic relations between Myanmar and China and signing the Framework of Future Bilateral relations and Cooperation. Vice President Hu Jintao's reciprocal visit to Yangon from 16 to 18 July 2000 provided for the signing of three agreements for future bilateral cooperation of both countries. These mutual visits highlighted that China greatly supported Myanmar's regime survival and politically reaffirmed the legitimacy of the SPDC regime. (Hnin Yi, 2013).

On the other hand, the Myanmar military government took into account the potential danger of over-reliance on China. By the late 1990s, Myanmar employed a hedging strategy through diversifying its diplomacy and consolidating its ties with not only India, Russia and Japan, but also ASEAN countries. Moreover, in 2001 the purchase of 12 MIG-29 fighters from Russia and the dispatch 300 military personnel to Moscow for training to fly the MIGs and obtaining rocket technology highlighted that Myanmar was seeking an alternative partner to balance China and India (Shee 2002).

Jiang Zemin's state visit marked the highest level for the development of China-Myanmar relations in 2001. Moreover, this visit highlighted the significance of pushing forward with the overall development of bilateral good-neighbourly friendship and cooperation in the new century. During his visit to Yangon, he stressed that China and Myanmar were close and good neighbours in accordance with "a profound Pauk-Phaw friendship fostered in the long-term and in close contacts between the two peoples". Moreover, Jiang gave the promise that China would contribute to implementing the joint statement on bilateral cooperation with Myanmar in order to be good neighbours and partners forever and keep on their friendly relationship from generation to generation. Consequently, Senior General Than Shwe, the Chairman of SPDC, also replied to Jiang that "Myanmar attaches importance to the comprehensive development of friendly cooperation with China." He was also grateful to Chinese leader for Beijing's "generous support and assistance over the years". In January 2003, Senior General Than Shwe also reciprocated Jiang's visit by making his second visit to Beijing. On Than Shwe's arrival in China, Jiang Zemin again expressed that "China always maintain the policy of good-neighbourly friendly relations to cooperate with Myanmar. These

mutual visits have highlighted their deeply, friendly and cordial relations and strengthened their economic ties. (Yi, Hnin 2013). Most interestingly, India, Russia, Singapore and Thailand have also sought to dilute Chinese economic leverage in Myanmar. Moreover, the Junta played a balancing game through the promotion of its relations with India. Mutually, India is willing to break the potential containment by China-Pakistan-Myanmar in its north eastern border. Chinese military leverage in Myanmar can no longer decisively stand because of the poor quality and reliability of Chinese weapons despite China's status as the biggest military provider to Myanmar. In order to attain more advanced and reliable weapons, Myanmar has turned to Singapore, Pakistan, Portugal, Israel, South Africa, North and South Korea, and Russia (Li & Zheng, 2009).

In 2010, Chinese Premier Wen Jiabao made a state visit to Myanmar in order to commemorate the 60th anniversary of China-Myanmar relations. During his visit, Wen also witnessed the signing of fifteen MOUs and agreements for cooperation in economic development and technology sectors, rail transportation, trade, hydropower, energy and mining. The year 2010 provided several reciprocal top level state visits for promoting their multi-sectoral cooperation. In sum, the Myanmar government undertook the enhancement of the close and friendly relations with China through their reciprocal state visits for the sake of its regime survival and China's backing to shield Myanmar from international criticism. At the same time, the government sought to maintain its sovereignty and independence and to minimize over-dependence on China by diversifying its external relations with Russia, India, and ASEAN countries. (Hnin, 2013).

### **Economic Considerations**

Myanmar has a long tradition of economic links with China dating as far as the 11th century during the Bagan dynasty. Today's trade at the people-to-people level is mainly conducted at the upper Myanmar Shan and Kachin States and the border of Yunnan province. China's Yunnan province, which has a population of 44 million, was historically a 'Southwest Silk Road' trade route, linking Myanmar with Southwest Asia. It has now emerged as a potential target for China's long-term strategic ambition, transforming the whole region as part of a golden 'Quadrangle' trade zone involving Yunnan, Myanmar, Thailand and Laos. Moreover the China-

ASEAN Free Trade Area Agreement represents a huge bonus for Yunnan province, since it would potentially open up trade to the entire Southeast Asian area. (Geng, 2006). China's enterprises have been heavily involved in Myanmar's industrial infrastructure and energy development. Provision of economic cooperation to Myanmar expanded around 1997 when the United States imposed economic sanctions that banned new foreign investment. Moreover, Senior General Than Shwe's state visit to Beijing in January 2003 marked another epoch, when China offered Myanmar a preferential loan of US \$200 million and a US \$6.25 million grant. In July 2003, the United States imposed stricter sanctions, which included a ban on all Myanmar-made products. Thus China stepped into the vacuum that was created by Western sanctions and compensated for Myanmar's need for trade and economic cooperation. China's economic cooperation and businesses were directed to focus on infrastructure development (Lixin Geng, 2007).

Among the many infrastructure projects financed and constructed by Chinese government and Chinese enterprises, emphasis was given to electric power generation. Myanmar has suffered severe electricity shortages since the end of 1990s and the government has initiated massive dam building programs for hydropower generation. Chinese companies constructed six hydropower plants and one thermal power station in the period 1996 to 2005, accounting for one-third of the entire national capacity. Among them, the Paunglaung hydropower project demonstrates the financial, managerial and technical capability of Chinese companies in this field. It was completed by the Yunnan Machinery Import and Export Corporation (YMIEC) in March 2005. Its installed capacity of power generation (280 MW) surpasses that of Baluchaung (168MW), which had long been the biggest power source constructed by Japanese companies with Japanese war reparations and economic cooperation after World War II. The Paunglaung dam project was the biggest undertaking of the YMIEC. Indeed, it was China's largest hydropower plant exported to Southeast Asia and Yunnan's largest foreign trade project in Myanmar. The project was estimated to cost US \$160 million, financed by the Export-Import Bank of China.

In 2006, there were 11 major hydropower projects underway, with total generating capacity of 1734 MW. Contracts were signed for seven projects and all of them were with Chinese enterprises. The largest project is the Yeywa hydropower plant with

the capacity of 790 mw. Yeywa will cost US \$700 million. In August 2003, the China Exim Bank approved a US \$200 million loan at preferential interest rates for the project. The China International Trust and Investment Corporation (CITIC) gained contracts to provide generators and other equipment for the project. In addition to low-priced machinery, equipment and services, long-term and low-interest loans and export credits offered by public financial institutions made it possible for Chinese enterprises to become major players in this field (Geng 2006).

Yunnan Province obviously seeks a direct access route through Myanmar to sea ports from which it can export products to South Asia, the Middle East and Europe. Such an outlet would also reduce transport costs and time, and would avoid the Malacca Strait in the event of a conflict in the South China Sea (Kudo, 2006).

China is a positive rather than negative factor in ensuring stable Sino-Myanmar relations. Though China has remained a staunch ally since 1988, it is concerned about Myanmar's long-term political and social stability because of a failing economy and lack of political legitimacy. China supports the idea of UN mediation to bring about political dialogue between the current military government and the National League for Democracy's (NLD) Secretary-General, Aung San Suu Kyi. (Geng, Lixin, 2007). Economic cooperation between Myanmar and China has also improved dramatically during the post-1988 period. Bilateral trade has been beneficial for both countries and escalated rapidly since the 1990s. Chinese president Jiang Zemin's visit in 2001 to Myanmar opened a new phase of bilateral economic relations. China and Chinese enterprises have been involved in Myanmar's industrial, infrastructure and energy development through economic cooperation. By late 2002, Chinese companies had officially launched more than 800 projects with a total value of US\$ 2.1 billion. In 2003, China also offered a US\$ 200 million preferential loan to finance construction of one of Myanmar's largest planned hydropower projects at Yeywar near Mandalay after Senior General Than Shwe's visit to Beijing. China's economic and development cooperation were focused on three main fields including infrastructure development, providing to State-Owned Economic Enterprises (SEEs) and energy exploitation. Chinese companies built six hydropower plants and one thermal power station for the period between 1996 and 2005. The Ayeyawaddy River Transportation Project, which links Yunnan to

Thilawa Port, Yangon, is the most significant economic cooperation with China in infrastructure development. Myanmar achieved Chinese supports in constructing state owned factories, such as textile mills, plywood plants, rice mills, pulp and paper mills, agriculture equipment factories and other light manufacturing factories through the economic cooperation programs. In order to fulfil China's quest for energy, Myanmar plays a strategically important role for China. (Kipgen, Nehginpao, 2015).

### **Energy resources**

With the development of its economy, the demand for energy sources has greatly expanded in China. Understandably, Myanmar's oil and gas reserves have drawn China's attention. However, its presence in Myanmar's oil and gas fields has only recently been observed. The China's National Offshore Oil Corporation (CNOOC) signed six contracts on production sharing with the Myanmar Oil and Gas Enterprise (MOGE) of the Ministry of Energy, from October 2004 to January 2005. The China Petroleum and Chemical Corporation (SINOPEC) and its subsidiary Dian Qiangui Petroleum Exploration also operate on the inland fields. Moreover, the China National Petroleum Corporation (CNPC) and its subsidiary Chinnery Assets have been awarded contracts to upgrade the four old oilfields in central Myanmar. These companies have invested US\$163 million, rather small compared to the US\$2,635million total foreign investment in Myanmar's oil and gas sector. However, it is only in recent years that Chinese companies have vigorously invested in Myanmar. Out of 26 Chinese foreign investments, 16 projects were made either in 2004 and 2005, occupying nearly 70% in terms of investment value. Most of those were invested in the energy and mining sector. (Geng, Lixin, 2007).

In 2001, China National Petroleum Cooperation (CNPC) started to invest in the onshore Pyay oil field to boost production. In 2004, China Petroleum and Chemical Company and Myanmar Oil and Gas Enterprise (MOGE) of the Ministry of Energy signed a production sharing agreement to exploit an on-shore field near Kyauk Phyu. Moreover, between 2004 and 2005, the China National Offshore Oil Corporation (CNOOC) signed contracts for production sharing with MOGE. In 2007, CNPC signed with MOGE contracts on production sharing for three crude oil and natural gas exploration projects off the Rakhine coast. In addition, Petro China attained the



sole purchasing rights for an estimated six trillion cubic feet of natural gas in the Shwe offshore field. Myanmar energy sources are vital for China not only as a convenient alternative to oil and gas supplies from the Middle East, but also for mitigating the country's so-called Malacca dilemma. China imports 58 percent of oil from the Middle East through the Malacca Strait. Thus it is the important shipping route for carrying oil from the Middle East to China. However, over-reliance on the strait poses two threats to China's energy security. The first threat is the piracy and maritime terrorism and the second one is the attempts of the powerful states to control navigation in the Strait of Malacca. This is because the PRC is constructing the overland oil and gas pipelines from the port of Kyaukphyu in Rakhine State to Kuming in Yuunan Province to bypass the Malacca Strait. (Hnin Yi, 2013).

Myanmar already exports natural gas via pipeline to Thailand and this trade volume reached US \$1.5 billion in 2005, becoming the largest foreign income earner. Myanmar will have another big source of foreign earnings from gas exports to China in the near future. Moreover, oil and gas exports offer the Myanmar government a diplomatic advantage over its neighbouring countries. Indeed, India also made great efforts to secure Myanmar's gas from the same A-1 block. India eventually reached an agreement with Myanmar to purchase the gas with more favourable conditions based on 'take or pay'. This means India guarantees earnings every year to Myanmar even if it is not able to access the gas. It would appear that Myanmar has come out the winner in the Sino-India rivalry for energy. (Geng, Lixin, 2007).

However, China is not the biggest foreign beneficiary, because Myanmar also exports natural gas to Thailand through the pipeline and its estimated worth US\$ 1.5 billion in 2005. In the same way, India also sought to secure Myanmar's gas from the same A-1 block, near Sittwe Port, Rakhine State. At last, India signed an agreement to purchase the gas from Myanmar with more favorable conditions. Myanmar has achieved a diplomatic advantage over neighboring countries through the oil and gas export offers. Since 2006, China has become Myanmar's second largest trading partner after Thailand, and in 2008 the total value of trade with China rose to US \$ 2.63 billion, a 26.3% growth from 2007. Between 2008 and 2011, Chinese investment in Myanmar jumped from US\$ 1 billion to US\$ 13 billion. The key projects (the Myit Son dam project, the CNPC pipeline projects and Noricon's

Mongywa copper mine project) were together worth more than US\$ b8 million. (Shee, Poon Kim, 2002).

## **Problems and Difficulties in Sino-Myanmar Relations**

### **The Kachin State Problem**

Kachin State, located in the Northern most part, is one of the seven states of Myanmar. The state has common boundaries with the People's Republic of China in the East and North-East and India on the West. It adjoins Sagaing Division on the West and Shan State on the South. The Kachin in Myanmar are estimated to number between 1 to 1.5 million and are traditionally hill dwellers subsisting on rotational cultivation of hill rice.

Conflicts in Kachin State and other Kachin populated areas have occurred since Burmese independence from the United Kingdom. Kachin troops previously formed a significant part of the Burmese army. With the unilateral abrogation of the Union of Burma constitution by the Ne Win regime in 1962, Kachin forces withdrew and formed the Kachin Independence Army (KIA) under the Kachin Independence Organization (KIO). Aside from the major towns and railway corridor, Kachin State has been virtually independent from the mid-1960s through 1994, with an economy based on smuggling, jade trade with China, and narcotics. Currently, the majority of activity between Kachin, and the neighbouring Chinese province of Yunnan is made up of illicit trading and the illegal migration of refugees.

The most important security that is concerning China is to keep the Myanmar government and regional Kachin forces from joining the “encirclement of China” policy of the USA , as perceived by Chinese strategist (Tsin 2014:2). The Kachin conflict has been a policy challenge for both China and United States; therefore, Kachin state has disrupted China’s border security and jeopardized its economic investment in the region.

China holds a significant economic and strategic interest in the region and is heavily invested in development projects including several controversial hydroelectric dams and pipelines. Although officially adhering to a policy of non intervention, the Chinese government has been very involved in the discourse of the region and often acts as a mediator between the KIA and the Burmese government in

Naypyidaw. A multitude of Chinese development projects are scattered throughout the Kachin state. Generally, these projects are large-scale energy endeavours that are funded by Chinese state-owned corporations. Most of the profits and electricity produced through these projects will go back to the Peoples Republic of China. Because these plans are agreed upon through contracts with the national government of Myanmar and do not directly represent Kachin interests, they are widely unpopular among the KIA and the civilian population.

In 2007, China gained the approval from the Myanmar government to construct a series of seven large dams along the N'Mai River, Mali River, and Irrawaddy River in the Kachin State. The two most notable of these include the Myitsone Hydroelectric Dam and the Dapein Hydroelectric Dam (BANCA, 2009).

### **Myitsone Dam Problems**

The Myitsone Dam is a large dam and hydroelectric power development project at the confluence of the Mali and N'mai rivers and the source of the Irrawaddy River (Ayeyawady River) in Myanmar. If completed as planned in 2017, it will be the fifteenth largest hydroelectric power station in the world. The dam, planned to be 1,310 metres (4,300 ft) long and 139.6 metres (458 ft) high, to be built by the Upstream Ayeyawady Confluence Basin Hydropower Company, a joint venture between the China Power Investment Corporation (CPI), the Burmese Government's Ministry of Electric Power and the Asia World Company. It is expected to provide 6,000 megawatts of electricity primarily for Yunnan, China.

The dam project has been controversial in Burma due to its enormous flooding area, environmental impacts, location 60 miles from the Sagaing fault line, and uneven share of electricity output between the two countries. In Burma, the Irrawaddy River, on the bank of which major historic cities such as Bagan were built, is considered as the birthplace of Burmese civilization. For that reason, the Burmese public protests against the dam project, which would inevitably alter hydrological characteristics of the historic river. Moreover, the growing Chinese influence in Burma is seen as exploitative by Burmese people, due to its association with previous military junta.

On the other hand, local villages have opposed the project since its proposal in 2001. According to the environmental organization International Rivers based in the US, in 2007, 12 local leaders from Kachin State sent a letter to Senior General Than Shwe and the junta's Ministry of Electric Power, asking for the project to be cancelled. The Burma Rivers Network also sent a letter to the Chinese government asking Chinese companies operating in Burma to conduct environmental and social impact assessments, to release information publicly, and to consider opinions of affected communities in the decision-making process. In a parliamentary session, government minister Zaw Min responded that environmental impact had been carried out by the Biodiversity and Nature Conservation Association (BANCA) at a cost of \$1.25 million and stated that Myitsone Dam Project was started only when the government had studied the possible environmental impacts. However, the results of BANCA's assessment were not disclosed publicly.

Outside Burma, activists in exile have actively carried out protests in various countries. In February 2010, the UK-based Kachin National Organization (KNO) protested against construction of the dam in front of the Burmese Embassies in the UK, Japan, Australia, and the United States. Kirmishes have been broken out between Kachin Independence Army and Burmese military over the dam issue since June 2011. On April 17, 2010, three bombs exploded close to the site of dam, reportedly killing four Chinese workers. The Burmese government blamed Kachin Independence Army for planting the bombs. KIA has denied having anything to do with the Myitsone bombing.

Domestic campaigns against the project are brought together by political activists including Nobel peace prize laureate Aung San Suu Kyi who called for reevaluation, conservationists, scholars, poets and journalists. Local media openly criticized the lack of transparency in dam project. Journalists argued that the deal was agreed by previous government without considering public opinions.

Despite the opposition, Minister Zaw Min for the Ministry of Electric Power responded to the press that the government would continue this project up to the completion. But, in September 2011 he conceded that despite promised benefits from the project, it may be appropriate to minimize the environmental impacts by redesigning the tunnel, shortening the dam's height and reducing the water storage capacity, relocating to the upstream, and reassessing environmental impacts. He also

agreed that final decision should depend on the environment impact assessment report by the Ministry of Environmental Conservation and Forestry and the study by the Engineer Group.

On 30 September 2011, in an address to the parliament, Burma's president Thein Sein announced that the Myitsone Dam project would be halted during the term of his government. The decision was universally acclaimed by environmentalists, political activists and the locals alike. It is considered as "a rare reversal" in that for the first time, the government had listened to the people in face of public opposition. Western nations including EU and the United States welcome the President's decision. In response, Chinese Foreign Ministry spokesman Hong Lei stated that the Chinese government has urged the Burmese government to protect the legal and legitimate rights and interests of Chinese companies. He reminded that the Myitsone Dam is a jointly invested project between China and Myanmar, and one that has been thoroughly examined by both sides. He also confirmed that the matters would be resolved through friendly consultation (Asia Pacific, 2011).

### **Dapein Dam Problems**

Dapein Dam is one of two Chinese dam projects located on the N'Mai Kha River in southern Kachin State. Its construction began in 2007 and it began producing power in February 2011 at the cost of 108 million Yuan (\$19 million USD). It produced an annual 1,081 Gwh, employed 300 Chinese workers and exported 90% of the electricity produced to China, mainly for use in the Yunnan Province.

On June 9, 2011, a battle broke out between the KIA and Burmese national soldiers stationed to protect the dam, the conflict, which officially ended a 17-year truce between the group and the government, started after the expiry of a June 11 deadline set by Naypyidaw for the KIA to withdraw from camps near the Dapein hydropower project. According to Burmese state media, the Burmese Army was protecting the project from KIA intimidation. The dam, constructed by China's state-owned Datang Company, aims to export electricity to China. Since the conflict erupted, thousands of civilians have fled their homes and villages; there's fear that the situation is sliding toward all-out civil war. The battle represented the breaking of

these forces previous cease-fire the power plant was seriously damaged during the incident (Project Maje, 2011).

### **Ethnic Conflicts**

Myanmar comprises of more than 135 ethnic groups, some with cross border link to the other side of border. Most of the ethnic groups are under ceasefire agreements with Myanmar government and are enjoying some degree of autonomy over their regions, including most of the border areas between China and Myanmar. But the ceasefires are no guarantee towards ending the long civil war. Although the ethnic groups are under the ceasefire agreement with the government they remain subjugated and suppressed under the draconian rule and have struggled for their basic rights. The representation of ethnic groups and their struggle for the equal rights have brought a series of complication with the government and more particularly to China and its border security. China has a huge economic investment in Myanmar and lies particularly in the volatile regions of the ethnic areas where the ethnic groups are in conflicts with the government over the demands for federal union and reconciliation process. Beijing's important economic investment like Myitsone dam and oil pipeline running from Indian Ocean coast to Kunming, the capital city of Yunnan province, run through the volatile ethnic regions which are mostly under the control of ethnic insurgents. As the ethnic politics are under severe dilemma over the course of their demands it creates a tension and risk to the Chinese investment (Aparupa).

### **The Impacts of Political Reforms on Myanmar-China Relations**

Myanmar reached a key turning point in 2011 with many amazing political changes. Myanmar's political reforms have contributed to positive changes internally and externally. Internally, the new government of President U Thein Sein carried out various dramatic reform procedures, including historical meeting with Daw Aung San Su Kyi, granting of amnesty for political prisoners, relaxation of press and internet censorships and implementation of new labour laws that allowed unions and strikes. The landslide victory of the National League for Democracy in the by-election of 2012 was the most significant event in Myanmar's political reform

process. Moreover, the new government achieved a ceasefire agreement with the Karen National Union that ended the world's longest running civil conflicts. Externally, the consequences of reforms have been effective that ASEAN members have accepted Myanmar's bid for ASEAN chair for 2014.

Moreover, the relationship between Myanmar and the United States warmed as the Secretary of State Hillary Clinton paid a visit to Myanmar in December 2011 to encourage further progress. It is the first visit by a US Secretary of State in more than fifty years. The United States restored relations at ambassadorial level and lifted restrictions on the work of the IMF (International Monetary Fund) and the World Bank in Myanmar. The European Union lifted most of the sanctions imposed on the country. Furthermore, the EU allowed most top Myanmar government officials to travel within EU countries. The Australian government similarly lifted travel restrictions and encouraged other cooperative steps. Japan waived in debt of Myanmar and started the resumption of both economic aid and private investment during Japanese Finance Minister, Tro Aso's visit. Myanmar's political reforms have also affected Myanmar-China relations in political, economic and strategic terms.

Myanmar leaders felt sensitive about China's overwhelming economic and political dominance in Myanmar. Thus, seeking to mitigate Myanmar's over-dependence on China was one of the factors that caused Myanmar to adopt political reforms. In political terms, China did not expect the rapid political reforms in Myanmar although there are close political and economic ties between Myanmar and China. Beijing decreased the level and frequency of senior official state visits. Between March 2009 and April 2011, four members of the Chinese Politburo Standing Committee paid visits to Myanmar. However, there has been no visit paid by Chinese senior leaders since then till September 2012. The only one high level visit was paid by Wu Bangguo, the Chairman of China's National People's Congress. Wu stressed three points of bilateral relations: "to enhance bilateral strategic mutual trust," "to push forward the agreed major cooperation projects," and "to deepen cultural and people to people exchanges". However, the visit did not produce any major announcement about the bilateral relations. Thus, Myanmar's political reforms made bilateral relations between Myanmar and China cool at the political level (Yi, Hnin 2013).

In economic terms, the suspension of the Myit Sone Dam project decided by President U Thein Sein made China not only shocked China but also alerted not to neglect Myanmar's policy shift. The Thein Sein government sought to meet the public will and the Western demand for democratic reform at the cost of partially sacrificing through the scarification of Chinese economic interests. With repercussions from the Myitsone suspension, the broad resentment against Chinese projects including CNPC oil and gas pipeline project and NORICO copper mine project directly changed Chinese investment behaviours. Moreover, Chinese companies faced with competition from American, European, Japanese and Korean companies that are seeking into entering the last underdeveloped market in Southeast Asia. "Myanmar analysts observed that China lost the Yangon–Naypyidaw high speed railway contract to Japanese companies precisely because Naypyidaw lost its confidence in the Chinese technology after the Wenzhou high-speed train collision in July 2011". (Hnin, 2013).

China's strategic interest in Myanmar comprised of Naypyidaw's support for China at the ASEAN plus three meetings and the Greater Mekong Sub-regional economic cooperation as well as for its national "bridgehead" strategy that would turn Myanmar into China's outlet into the Indian Ocean with a potential for naval cooperation. Although China attained most leverage in Myanmar due to the latter's international isolation in the past, currently Myanmar is grabbing the viable alternatives to balance China. China can no longer take Myanmar for granted as its unconditional ally in order to enhance the Chinese regional strategic agenda. The engagement of the United States in Myanmar and their dramatic improvement of ties undermined not only China's strategic interests in Myanmar but also China's regional influence (Reuters, 2012). In early 2009, Southeast Asian analysts in China reminded that the normalization of US-Myanmar relations could lead to threaten China's security, damage the existing China-Myanmar cooperation and indirectly hurt the security of the Chinese border and energy transportation route. Chinese officials and scholars perceive the game as a zero-sum one and believe China's downgraded role in Myanmar today is a result of US manipulation to alienate China and Myanmar and is a crucial component of the US pivot to Asia. At the same time, potential military cooperation between the United States and Myanmar alerted China than anything else. In addition to that, both the invitation of Myanmar to observe the



U.S-led Cobra Gold joint military exercise and the potential intelligence sharing between the CIA and Myanmar are seen to be serious challenges to China's national security (Sun, Yun, 2012).

In the changing context of Myanmar's international relations, Myanmar has not stood on the Chinese side to support China's strength at ASEAN as Myanmar is now free from its past over-reliance on China. Instead, Naypyidaw can now pursue its role devoted to its ASEAN identity. "According to President Thein Sein's advisor, Myanmar determines its position on the South China Sea in accordance with its own national interest and solidarity of ASEAN as the regional organization, implying that Myanmar has no intention to back up China's position."

### **Sino-Myanmar Future Prospects**

In June 2000, the Chinese Foreign Minister Tang Jiaxun and Myanmar's Foreign Minister U Win Aung signed a joint statement on 'Future Cooperation in Bilateral Relations between the People's Republic of China and Federation of Myanmar. This document determines the future direction of Sino-Myanmar relations on the basis of the Five Principles of Peaceful Coexistence and the consolidation of mutual relations for wider regional stability and development.

The document indicates optimism about future relations. However, its realisation requires serious effort. China has vital interests in this region. By employing a pragmatic foreign policy and using economic cooperation, China believes relations will improve further. China has criticized the 'hegemonic behaviour' of the US when it declared its sanctions against Myanmar (the Burmese Freedom and Democracy Act of 2003). On the other hand, China was concerned as to whether Myanmar would yield to American pressure. China continues to promote the friendly relationship between ASEAN and Myanmar and to support the Myanmar military government. Beijing's own increasing economic cooperation with Yangon will increase its stake in the country. There is no doubt China will continue to maintain the traditional friendly relationship with Myanmar in the long-term. (Geng, Lixin, (2007).

From the Myanmar side, military regime faces pressures from both inside and outside the country. Washington's hard line approach has not been effective in pushing the Myanmar government to change its policy. Despite this, it is still a pressure tormenting the regime. Pressures may also come from other ASEAN member countries, such as Thailand and Philippines. The close political, military and economic ties with China are beneficial to the current regime, particularly in the context of sanctions and isolation from the West. Clearly, if the United States and other countries continue to choose to impose sanctions against Myanmar, this country will continue to rely heavily on China. (Geng, Lixin, 2007).

### **New Era of Sino-Myanmar relations**

The general election which was held in Myanmar on 8 November 2015 marked a new beginning for the victorious National League for Democracy (NLD). China expects a new page in Myanmar's domestic politics and foreign policy under the new government which is to be inaugurated at the end of March 2016, only after when they take their office the Aung San Suu Kyi and the NLD will inherit many problems with China from the current Thein Sein government. The change of government in Myanmar does not alter China's strategic pursuits in the country. China still wishes to press development of its infrastructure and connectivity projects through the country to the Bay of Bengal. It still needs a tranquil and stable border and it still competes with the United States for influence in the country. It is more than likely to offer the new government financial capital, aid projects, and even assistance in the peace process to help it achieve its priority goals. However, in six to 12 months, China hopes to demand responses on certain issues critical to China, this would include a final resolution to the suspended Myitsone dam project, a clear decision on the development of the Kyaukphyu special economic zone, as well as agreements on the series of One Belt and One Road projects, such as the Sino-Myanmar highways and the Irrawaddy River land-water joint transportation program.

China further wants the development of the peace negotiation with the ethnic groups, especially with those in northern Myanmar along the Chinese border. Now that Suu Kyi has vowed to lead the peace process, many argue that her unique background and popular strength might bring more confidence to the ethnic

minorities in the process and therefore break the impasse. China on the other hand understands very well that a peaceful and unified Myanmar would serve China's broader interests since the conflicts in northern Myanmar are the most immediate obstacle blocking China's economic and strategic programs. If Suu Kyi is capable of shaping the consent of the ethnic minorities and bringing peace, China is unlikely to sabotage the process. (S.K. Shahi, 2016).

While China has a lot to offer Myanmar's political and economic development, its olive branch does come with certain conditions. Although specific terms might be negotiable, China hopes to demand Myanmar's genuine cooperation on the economic projects listed above, at the same time China will also want the NLD government to "respect" China's national interests when working with Western countries, especially the United States. Balanced diplomacy is easier said than done. Even though Suu Kyi has not always had smooth relations with the West, Beijing is likely to react strongly to anything short of a clear middle way approach. In fact, the sense of uncertainty and suspicion surrounding Suu Kyi's democratic convictions and her relationship with the West could escalate China's reaction in such a scenario, making it harsher than it has been with the Thein Sein government. The future NLD government should be particularly mindful of this perception. (Sun, Yun, 2015).

Aung San Suu Kyi and NLD should not expect that China will abandon its relationship with other political forces in Myanmar, including the USDP, the military, and the cronies. After all, no one can be completely certain about the country's political future and it makes perfect sense for China to maintain good contacts with all potential parties. The lesson of picking either or any side in Myanmar has proven costly and Beijing is unlikely to repeat the same mistake (Sun, Yun, 2015).

### **Chapter III**

## **Strategic importance of Oil and Gas Pipelines in Sino-Myanmar Relations**

China's rapid economic growth has led to a huge increase in its domestic energy needs. Its oil demand grew from 2.3 million barrels per day (mb/d) in 1990 to 8.1 mb/d in 2009. China's economic boom and its stagnating domestic oil production led Chinese NOCs (National Oil Companies) to quest energy resources overseas in the early 1990s. Although China's "going out" strategy for oil and gas has made some achievements in the past years, China's overseas projects have been facing potential constrains and rising costs. This is mainly because of a higher oil dependence on some politically unstable African and Middle East countries. This has impelled China to diversify its sources of imported energy resources and place a higher priority on getting oil and natural gas from as closer to home as possible and Southeast Asia has thus become an important player. The most recent and significant energy cooperation project is the China-Myanmar energy oil and gas pipelines which got started in 2009. In addition to ensuring energy security, a broader objective of this pipeline project is to make it as a catalyst for economic development and strengthen China-Myanmar bilateral relations by deepening regional economic integration (Zhao Hong, 2011).

It is still debatable that whether pipelines can promote regional economic integration and strengthen bilateral relations, especially when the supplied country is facing dynamic political and economic changes. It is believed that cross-border pipelines can generate conflicts and local resentments, as parties with different interests and motivations are involved and land use cannot be compensated properly. "This invites disagreement because of the benefits to be shared and mechanisms exist to encourage both parties to seek a greater share". While it is also believed that due to the permanence of their infrastructures in strengthening interstate relation, pipelines are likely to have a more lasting impact and create greater incentives for cooperation over time. For the supplying countries, pipelines can provide much-needed employment and revenue, in the process quelling some of the domestic resentment that fuels extremism. More importantly, related countries can utilize pipeline construction project as both an engine of cooperation and a tool of diplomacy. Pipelines open up regions for development and have spill over effects into downstream industries such as factories, chemical and fertilizer facilities, and refineries that have incentives to locate themselves close to sources natural gas

supply. “Rather than being a source of conflict, energy has the capacity to become an integrative force, creating a large sense of shared interests and stakes in cooperation” (Zhao Hong, 2011).

Although Myanmar is a natural resources rich country, from a global perspective, it does not have particularly notable hydrocarbon reserves. It has proven reserves of natural gas of 300 bcm by 2010, accounting for only 0.2 per cent of the total world gas reserves (BP Statistical Review of World Energy 2011) and the country is a net importer of oil because of the lack of its oil refinery facilities. However, from a regional perspective Myanmar’s gas reserves and strategic position are significant in terms of energy security and regional cooperation. For China, Myanmar is geopolitically significant given its access to the Indian Ocean and the Andaman Sea, especially at a time when China’s long-standing ally, Pakistan, has been struggling to contain Islamic extremism and domestic political unrest and India, China’s potential competitor, is working hard to push forward its “eastward expansion” (Zhao Hong, 2011).

Before the State Law and Order Restoration Council (SLORC) took power in September 1988, all Myanmar governments had prohibited foreign participation in oil and gas exploration and production. In 1988, the SLORC opened up the opportunity for foreign companies to explore for oil and gas and its gas production increased from 3.4 bcm to 12.1 bcm in 2010 (BP Statistical Review of World Energy 2011). Myanmar’s current contribution to the region’s gas supply is relatively modest. Its total gas exports of 9.9 bcm in 2007 were less than a third of either Indonesia (33.1 bct) or Malaysia (31.6 bcm). These natural gas exports are currently produced from the offshore Yadana and Yetagun fields in the Gulf of Martaban. Additional production in the Bay of Bengal, including from the prospective Shwe fields, are also being explored (Zhao Hong, 2011).

Although Myanmar is among the world’s oldest oil-producing countries, Chinese oil and gas companies did not start their oil and gas exploration projects there until recently. (Hong Zhao 2011). Though Myanmar is not a major energy supplier to China, Chinese NOCs and government have demonstrated increasing interest in this country’s energy resources in recent years. China National Petroleum Corporation (CNPC), Sinopec and China National Offshore Oil Corporation (CNOOC) have all

started oil exploration projects there and competed with other countries including India and South Korea to secure access to new gas fields and potential reserves of gas off the west coast. In November 2008, CNPC and the Ministry of Energy Myanmar signed an agreement to build a USD 2.3 billion crude oil pipeline and USD 2 billion natural gas pipelines, and the construction started in October 2009. This on-going China–Myanmar pipeline project comprises multiple separate projects, each with distinct contracts ownership structures. The major components are a deep-water natural gas development project and onshore gas terminal; an onshore natural gas transport pipeline and an onshore oil transport pipeline from western Myanmar to China (Zhao Hong, 2011).

### **China's Quest for Energy**

China's continuous economic growth has fuelled a rapid rise in crude oil demand. In 2010, China imported over 239 million tons of crude oil. In the past years, China's oil quest expansion abroad has been part of Beijing's broader strategy of investing widely to diversify its sources of imported energy resources. Based on this "going out" strategy, "energy-strategic areas" have been formed, including the North African area centred on Sudan, the Central Asian area centred on Kazakhstan, South American area centred on Venezuela, and the Middle East area centred on Iran. However, since 2003, frequent crisis have afflicted those countries that were considered China's overseas energy-strategic areas. China's overseas projects have been facing potential constraints and rising costs (Zhao Hong, 2011).

The Asia Pacific Energy Research Centre (APEREC) in Japan has created an index to compare the relative position of oil supply security in China, Japan, Korea and the US with respect to four factors (equity oil ratio, self-sufficiency ratio, independence from oil ratio, and political stability of crude oil import sources). The result shows that China's political stability index for crude oil import sources represents the lowest level among these four countries. Moreover, the vulnerability of Southeast Asia's sea lanes, namely the Strait of Malacca, Sunda and Lombok, and the passage into the South China Sea, give rise to concern as the oil-import dependence of China grows to 55 per cent, well above the critical level based on international standards. Thus, China's oil insecurity has been increasing because of the relatively high political risks in economies from which China imports crude oil (Zhao Hong, 2011).

China, therefore, needs to place a high priority on getting as much future oil and gas as possible from as close to home as possible. Hence, Southeast Asia has become an important player, and the China–Myanmar pipelines are expected to be a catalyst for further China–ASEAN energy cooperation. For China, this pipeline project will open a fourth route for China’s oil and nature gas imports, after ocean shipping via Malacca strait, the Sino–Kazakhstan crude oil and natural gas pipelines, and the Sino–Russian oil pipeline. It is expected to transfer 22 million tons of crude oil annually, accounting for approximately 10 per cent of China’s total oil import in 2010. Saudi Arabian Oil Co. has signed a Memorandum of Understanding (MoU) with CNPC to supply crude oil through Myanmar–China pipeline. For Myanmar, this project will assuage Myanmar’s energy shortage as well.

According to the contract, Myanmar is entitled to take up 2 million tons of the transported crude oil for domestic consumption. With China’s assistance, an oil refinery factory with capacity of 56,000 barrels per day (b/d) is to be constructed in Mandalay. After it is completed, the expected double output of the refineries in Myanmar can meet domestic need of the country (Ministry of Commerce China, 2011). In terms of gas, China’s gas cooperation with Myanmar can largely increase its gas output. Myanmar has proven reserves of natural gas of 300 bcm. In 2010, its gas production totalled 12.1 bcm. Export of gas from the offshore Yadana and Yetagun fields in the Gulf of Martaban have been the main source of Myanmar’s foreign earnings. When the China–Myanmar gas pipeline is in operation in 2013, Myanmar supplies 10 billion cubic metres of gas to China per year and it is predicted that Myanmar’s gas production will increase to around 24 bcm by 2019, thus, making China its largest stable gas buyer (Zhao Hong, 2011).

From regional perspective, the pipeline project will undoubtedly enhance energy especially gas cooperation between China and Southeast Asia. Southeast Asia has large reserves of oil and natural gas, and has long played an important role as an exporter of oil and gas. But this historical pattern has changed as the region’s demand grows ever more strongly. The region’s oil output has been falling steadily, since peaking at around 2.9 million barrels per day (mb/d) in 1996. Oil production is projected to drop to 2.4 mb/d in 2015 and 1.4 mb/d in 2030. Southeast Asia as a whole is currently a net oil importer. Southeast Asia is richer in natural gas than in oil. The region’s proven reserves of natural gas stood at 6.6 tcm (trillion cubic

metres) at the start of 2009, or 3.7 per cent of the world's total endowment. As for individual

countries, Indonesia's output of gas in 2010 was 82 bcm (billion cubic metres), consumption was 40.3 bcm; Malaysia's output was 66.5 bcm, consumption was 35.7 bcm; and Brunei's output was 12.2 bcm (BP Statistical Review of World Energy 2011). They are the main gas exporters among ASEAN countries.

However, while the region remains an important supplier of liquefied natural gas, gas is also increasingly sought to support power generation and industry in domestic markets. Although gas production in Southeast Asia as a whole is projected to increase from 203 bcm in 2008 to 248 bcm in 2030, if no more new investment is increased and no new gas field is found, the surplus of supply over demand is expected to narrow from 63 bcm in 2008 to just 10 bcm by 2030. Thus it is greatly needed to enhance regional energy cooperation and increase investment in energy sectors. An integral part of ASEAN's regional economic co-operation focuses on the energy sector where it is ASEAN's declared intention to ensure greater security and sustainability of regional energy supplies. In 2002, ASEAN member states adopted the ASEAN MoU on the Trans-ASEAN Gas Pipeline (TAGP). Once realised, the TAGP will have the potential of linking almost 80 per cent of the ASEAN region's total gas reserves and will embody a far-reaching expression of the region's energy interdependence (Zhao Hong, 2011).

The first cross-border gas pipeline in ASEAN exports gas from Malaysia to Singapore was commissioned in 1991. Since then several regional gas pipelines have been completed and several more are in the process of design and construction. Full interconnection of these pipelines would see the creation of an interconnected gas grid and increasing gas trade throughout the ten ASEAN countries. Given the ambitious magnitude of the Trans ASEAN gas pipeline and the China–Myanmar pipelines, it is possible that the network may be extended into China and beyond, as some advocates of the TAGP argued in the 1990s that the network would eventually connect with gas markets in China, Japan, and India, making it the largest pipeline network in the world.

In addition to oil and gas trade, China's increasing investment in oil and gas exploration and production in Myanmar and other Southeast Asian countries is



another important aspect of China–ASEAN energy cooperation. China’s “going out” strategy and ASEAN’s preferential policies for foreign investment have strengthened China–ASEAN cooperation efforts in oil and gas exploration and development efforts. On 30 August 2004 at the “Indonesia National Exhibition”, Indonesia’s Minister of Trade and Industry stressed that Indonesia would further strengthen energy cooperation with China. Given the importance of Southeast Asia in China’s oil and gas supply, ASEAN will remain as China’s major energy cooperation partner. The level of oil and gas cooperation between China and other ASEAN countries is much higher and important than that between China and Myanmar (Zhao Hong, 2011).

### **Sino-Myanmar Oil and Gas Pipelines**

Sino-Myanmar pipelines refers to planned oil and natural gas pipelines linking Myanmar's deep-water port of Kyaukphyu (Sittwe) in the Bay of Bengal with Kunming in Yunnan province of China (Sino-Myanmar Pipelines, Wiki). China thus showed signs of interest in a pipeline deal with Myanmar in 2004, when the countries discussed the feasibility of said pipelines. On January 11, 2006, Myanmar’s Ministry of Energy signed a Memorandum of Understanding (MoU) with PetroChina for the sale of 6.5 trillion cubic feet (tcf) over a period of 30 years. Based on this agreement, China National Petroleum Corporation (CNPC), the parent company of PetroChina, signed a contract to purchase natural gas from the A-1 and A-3 blocks of from the Shwe fields (Shwe the Burmese word for gold). In November 2008, China and Myanmar agreed to build a US\$1.5 billion oil pipeline and US\$1.04 billion natural gas pipeline. In March 2009, China and Myanmar signed an agreement to build a natural gas pipeline and in June 2009 an agreement to build the crude oil pipeline. Chinese companies, although not involved in the early stages of gas exploration at Shwe, have bought exploration rights to seven blocks covering an area of over 9.56 million hectares. The inauguration ceremony marking the start of construction was held on 31 October 2009 on Maday Island. The oil pipeline is jointly invested and built by CNPC and Myanmar Oil and Gas Enterprise (MOGE), Daewoo International, KOGAS, Indian Oil and GAIL (Ashwini Srinivas, 2014).

The projects are the Shwe Natural Gas Project and the Myanmar-China oil transport project, collectively referred to here as the “Myanmar-China pipelines.” The pipelines will transport gas from Myanmar and oil from the Middle East and Africa across Myanmar to China (Earth Rights International, 2011). The oil and natural gas pipelines run in parallel and was started near Kyaukphyu, run through Mandalay, Lashio, and Muse in Myanmar before entering China at the border city of Ruili in Yunnan province. The oil pipeline, which eventually terminates in Kunming, capital of Yunnan province, is 771 kilometres long. The natural gas pipeline will extend further from Kunming to Guizhou and Guangxi in China, running a total of 2,806 kilometres. The oil pipeline will have a capacity of 12 million tonnes of crude oil per year. It would diversify China's crude oil imports routes from the Middle East and Africa thus avoiding the Malacca detour which is even more invaluable advantage in the eyes of the Chinese leadership (Sino-Myanmar Pipelines, Wiki).

With 80% of all imported hydrocarbons to China going through the Malacca sea-route, China is vulnerable to having its overseas energy supplies blockaded by the American 6<sup>th</sup> Fleet during a Sino-U.S. geopolitical crisis. The Burmese pipeline diminishes that risk, as the oil and natural gas will no longer have to pass through the Malacca Straits chokepoint (Forbes Asia, 2015). Oil storage tanks will be built on an island near the port of Kyaukphyu, for oil processing China will build refineries in Chongqing, Sichuan, and in Yunnan. The gas pipeline will allow delivery of natural gas from Myanmar's offshore fields to China with an expected annual capacity of up to 12 bcm of natural gas. The pipeline will be supplied from the A-1 and A-3 Shwe oil field, China started receiving natural gas from Myanmar's Shwe project through the pipeline in April 2013. The Shwe, Shwe-Phyu, and Mya areas in the A-1 and A-3 blocks are estimated to hold 127–218 bcm of natural gas in total. The total project of pipelines is expected to cost US\$2.5 billion. In July 2014 CNPC celebrated the first year anniversary of the launch of the Myanmar-China natural gas pipeline by announcing that nearly two billion cubic metres of gas has been piped. The Myanmar section of the gas pipeline was completed on 12 June 2013 and gas started to flow to China on 21 October 2013. The oil pipeline was completed in Aug, 2014. Myanmar will get twenty per cent of the gas from the pipeline. In addition, CNPC may pay an annual transit fee of USD 150 million to

Myanmar per year for the use of the pipeline in Myanmar. The pipelines contract is expected to run over 20-30 years, with CNPC paying as much as USD 4.5 billion in transit fees to the Myanmar's government. It will benefit Myanmar with other foreign investments and shares further benefitting the local communities as well (Teshu Singh, 2013).

## **Major Oil and Gas pipelines Initiatives**

### **Shwe Natural Gas Fields**

The Shwe gas field is a natural gas field located in Andaman Sea. It was discovered in 2004 and developed by Daewoo. It began production in 2013 and produces natural gas and condensates. The total proven reserves of the Shwe gas field are around 9.1 trillion cubic feet (260 km<sup>3</sup>) and production is slated to be around 700 million cubic feet/day (Shwe Gas Fields, Wiki). The Shwe natural gas fields consist of three independent gas discoveries, the Shwe, Shwe Phyu, and Mya fields (referred to collectively as the "Shwe fields"). The Shwe fields are in blocks A-1 and A-3 off of Myanmar's Arakan coast. Daewoo is the majority owner and operator of both of these blocks. Daewoo has brought in a number of minority partners for the gas fields. The consortium will also operate an offshore pipeline through the Shwe Offshore Pipeline Joint Venture Company. The consortium signed a USD billion contract with South Korea's Hyundai Heavy Industries for the construction of the 80 km/110 km subsea pipeline, as well as much of the offshore natural gas production facilities. The pipeline was scheduled for completion by March 2013. The former Myanmar military government received numerous offers to purchase gas from the Shwe fields, but was awarded purchasing rights to China in June 2008 in an agreement to export 6.5 tcf (trillion cubic feet) of natural gas to China over 30 years (Earth Rights International, 2011).

### **Onshore Shwe Gas Pipeline**

The overland Shwe gas pipeline begins at the offshore pipeline natural gas terminal and will extend 793 km running from Kyaukphu to Muse in Myanmar before entering China at the border city of Ruili in Yunnan Province (CNPC 2010). This

onshore gas pipeline is scheduled for completion in March 2013 at a cost of approximately USD 1.04 billion. South-East Asia Pipeline Company Limited (SEAP), a Hong Kong-registered entity created by CNPC, and the Shwe Consortium members are in charge of constructing and operating this onshore pipeline (Earth Rights International, 2011).

### **Onshore Crude Oil Pipeline**

For almost the entire distance across Myanmar, a crude oil pipeline will run parallel to the gas pipeline. The crude oil pipeline will be 771 kilometres and will stretch its way into Yunnan and eventually to Chongqing in China. China's CNPC is building the pipeline, which will transport oil from the Middle East and Africa to south-western China. The project also involves construction of a new deep-water crude unloading port and oil storage facilities on Myanmar's Madaya Island. CNPC controls a 50.9 per cent stake in the oil pipeline through its wholly owned subsidiary South-East Asia Pipeline Company Limited (SEAP). Myanmar's state owned Myanmar Oil and Gas Enterprise (MOGE) controls the remaining 49.1 per cent (CNPC 2009). Seaport Cooperation Project (SEACOP) will be responsible for the construction and operation of the pipeline, while Myanmar's government will provide security for the pipeline (Earth Rights International, 2011).

### **Shwe Gas Project**

The Shwe Gas project refers to a number of related developments across Burma that facilitates the transport of natural gas and crude oil to South-western China. This set of projects originates off the western Arakan coast, where large natural gas deposits were discovered in the Bay of Bengal. In August 2000, South Korea's Daewoo International signed a production sharing contract with Myanmar Oil and Gas Enterprise (MOGE) to explore Burma's seas and market any underwater gas reserves found. In 2004, Daewoo announced the discovery of 4.5 – 7.7 tbc of natural gas in A-2 and A-3 blocks, near Ramree Island. Purchasing rights for the natural gas from these blocks was ultimately secured in whole by China's CNPC in a 2008 Memorandum of Understanding (MoU) with Burma's Ministry of Energy, followed by a 2009 MoU for the construction of two pipelines traversing two states and two

divisions of Burma, cutting through regions harboring serious ethnic tensions, some of which have since escalated into outright civil war. Several clashes between the Burmese Army and four separate ethnic armed groups have occurred along supply transit routes. Additionally, in mid-May 2013 two employees of a CNPC sub-contractor were shot and killed on a project site in northern Shan state. CNPC claims that the gas pipeline is already operational and that the oil pipeline will soon be complete, moving 12 billion cubic meters of natural gas and an estimated 22 million tons of crude oil annually (Shwe Gas Movements, 2013).

With an estimated annual income of US\$900 million for each of the pipelines, the total revenue generated for the Burmese government by the project will be about US\$1.8 billion every year, for a total of US\$54 billion over 30 years of operation. Add to this a 16% value added tax levied on the crude oil. Both the fuels produced and the projected income have the potential to transform Myanmar from one of the least developed countries in the world (Burma has ranked on the UN Least Developed Countries list since 1989) into a thriving nation with a much higher living standard. Unfortunately, the revenues and the energy are slated to bypass citizens living below the poverty line and without power (Shwe Gas Movements, 2013).

A Special Economic Zone (SEZ) is being built on Maday and Ramree Islands, Kyaukphyu District, Arakan State. Kyaukphyu is centrally located on the Arakan coast off the Bay of Bengal. Offshore natural gas drilling rigs have already been built in the Bay of Bengal, approximately 100km from the coast. The natural gas will be transported via underwater pipeline to an onshore natural gas terminal in Kyaukphyu, Ramree Island, where it will then be moved to the overland pipeline that traverses Arakan State, Magway Division, Mandalay Division and northern Shan State, directly affecting 22 townships. A crude oil pipeline and a transnational railway will run parallel to the natural gas pipeline. The crude oil pipeline will culminate in Kunming, Yunnan Province, and the gas will be delivered to Nanning, Guangxi Province. The scale and location of the Shwe Gas project are strategic, creating a direct transit path from Burma's western coast to China. In all affected areas, land acquisition and labour rights have been problematic, and in some areas the pipelines have actually been laid down in war zones (Shwe Gas Movements, 2013).

## **Benefits for Myanmar**

The pipelines will accelerate Myanmar's economic development in three major ways:

1) The project will attract more foreign investment, which fuels much of Myanmar's economic growth (it is estimated that Myanmar needs \$170 billion in foreign investment to achieve its growth potential). The pipelines' construction particularly enhances Myanmar's reputation as an oil and gas producer, which will spur greater investment in the energy sector; Myanmar's growing role as an energy supplier is evidenced by the recent rounds of offshore tenders in which numerous oil majors and smaller foreign companies took part. Additionally, the pipelines will have ripple effects throughout the Burmese economy, creating a myriad of other opportunities for foreign investment, especially in the industrial and financial sectors (Nicholas Borroz, 2014).

2) Myanmar stands to earn significant revenues by selling its oil and gas resources on world markets. Since 2000, Myanmar has been the largest natural gas exporting country in Southeast Asia, and in 2012, 41 percent of all export earnings were derived from natural gas sales. As Myanmar's reputation as a hydrocarbon producer develops, and as the recently granted licenses for offshore and onshore blocks become operational, the amount of oil and gas available for export will expand, thereby increasing government revenues.

3) The pipelines will help Myanmar meet its rising domestic energy demand by spurring domestic oil and gas production. This boosted domestic production, particularly of natural gas, could be used to power the new power plants being promoted by the Burmese government. According to the Asian Development Bank, only 30 percent of Myanmar's population has electricity access. Such energy poverty poses a significant obstacle to Myanmar's economic development, and casts negative light on the government's popularity amongst the populace (Nicholas Borroz, 2014).

Further, it also stands to gain from the project strategically and economically. Firstly, it will help Myanmar reduce its over dependence on Thailand for Foreign

Direct Investment (FDI) and the export market. For a long time, Thailand has been Myanmar's largest foreign investor and trade partner. In 2010, the total value of Thailand's FDI in Myanmar was USD 10.4 billion, ranking the largest foreign investor in Myanmar. In the same year, Myanmar–Thailand bilateral trade reached USD 4.9 billion accounting for 41 per cent of Myanmar's total imports and exports. Since the construction of the Yadana gas pipeline to Thailand in the mid 1990's all of the Myanmar's gas exports have gone to Thailand. The China–Myanmar gas pipeline will provide Myanmar an alternative export market for its natural gas and other commercial goods. (Zhao Hong, 2013)

Secondly, it will increase Myanmar's foreign exchange earnings and reduce Myanmar's trade deficit with China. Myanmar is short of international reserves. In 2006, Myanmar had only foreign exchange reserves of USD 1.3 billion, largely from the sale of gas to Thailand. Although Myanmar's total trade with China grew from USD 1.2 billion in 2005 to USD 4.5 in 2010, but at the same time, its trade deficit with China also increased from USD 0.7 billion to USD 2.5 billion in 2010. The oil and gas pipeline project will create great financial earnings for Myanmar to cover this deficit (Zhao Hong, 2013).

In accordance to international practice, the crude oil transported from Myanmar–China pipeline will be charged with 16 percent value added tax based on landed costs. The current landed costs of crude oil in Myanmar are about USD 280 per ton. Calculated on 20 million tons of crude oil transported via this pipeline, the Myanmar government will be able to obtain foreign exchange earnings of about USD 900 million every year, and this does not include the transport tariff (about USD 1 billion annually). In addition, China will purchase natural gas from Myanmar for the next 30 years. If calculated on USD 4 per 1,000 cubic feet, the Myanmar government will be able to gain USD 900 million from its sale of natural gas to China each year (Shwe Gas Movement 2009). Therefore, from the oil and gas pipeline project alone, Myanmar will be able to earn at least USD 1.8 billion foreign exchange per year (Zhao Hong, 2013).

Thirdly, Myanmar will be more attractive to FDI. According to Myanmar's statistics, in 2007, China's FDI in Myanmar was only USD 92 million. With the pipelines project started in 2009, China's capital keeps flowing in. In 2010, China's

approved FDI in Myanmar increased dramatically to USD 8.3 billion, with accumulated value of USD 9.6 billion (by March 2011). Plus Hong Kong's FDI, China has been the largest foreign investor in Myanmar. In June 2010, when Chinese Premier Wen Jiabao visited Myanmar, the two countries' prime ministers jointly launched the pipeline project. They also signed 15 cooperative agreements to further enhance bilateral trade and investment. In addition, the China Development Bank and the Import Export Bank agreed to provide USD 4.2 billion of interest-free loans to Myanmar for the construction of the pipelines and other major infrastructures (including logistic systems). China intends to extend these infrastructures to whole Southeast Asia, thus promoting regional economic integration between China and Southeast Asia (Zhao Hong, 2013).

### **Benefits for China**

The project serves as an apparent solution to two of China's major strategic dilemmas:

1) Approximately 80 percent of China's oil imports pass via ships through the Malacca Straits. This vulnerability worries China's geostrategic planners, and has been coined as China's "Malacca Dilemma" in academic articles and the press. The pipelines address this dilemma by offering a valuable alternative route through which China can import hydrocarbon resources from Africa and the Middle East, thereby giving it greater strategic flexibility (Nicholas Borroz, 2014).

2) A secondary benefit is that the pipelines promise to bring economic development to Yunnan province, which has the third lowest GDP per capita of China's administrative divisions. The province currently acquires its oil from the east via rail, a more expensive form of transport. By providing cheaper and more plentiful fuel, the pipelines will hopefully spur economic growth. The pipelines, in conjunction with the Yunnan-Arakan railway, will also establish trade access routes from Yunnan to the Bay of Bengal (Nicholas Borroz, 2014).



3) It will bring development opportunities to its economically underdeveloped southwestern provinces, in particular Yunnan and Sichuan Provinces. China's booming economic growth in the past decades has created lopsided economic development on the national level. Much of the interior has been left far behind and is vastly underserved by internal gas and oil distribution networks. Currently, southeast China is the only region in the country that lacks oil refineries. As such, it imports oil products from distant refineries in Guangdong and Gansu Provinces through the Maoming–Kunming and Lanzhou–Chengdu–Chongqing oil product pipelines. Because of the long distances, oil product prices in Yunnan are 30 per cent higher than elsewhere in the country. It is expected that the pipelines would not only alleviate Yunnan Province's oil shortages but also would diversify the province's economic structures. While the crude oil pipeline is to be extended to Kunming, a refinery and ethylene plant with an annual capacity of 20 million tons and 1 million tons respectively will also be built there (Zhao Hong, 2011).

Further, using the crude oil from the Myanmar pipeline, the Yunnan refinery would meet the majority of demand from Southwest China for oil products. With more crude oil delivered through the pipeline in the future, the refinery is intended to be sufficient to provide oil products to other provinces and even Southeast Asia. More importantly, the building of the refinery and ethylene plant would help Yunnan to diversify its traditional economic structures and turn the province into the country's petroleum and petrochemical base in the southwest. This can help Yunnan Province receive favourable policy support from the central government and attract more investments from Chinese State Owned Enterprises (SOEs) and big international multilateral companies to build its petroleum and related sectors, thus earning more opportunities to further open up its economy. Hence, the province would eventually assume the strategic importance as China's southwest "bridge-head" to connect Southeast Asia and South Asia for movement of capital, goods and labour services (Zhao Hong, 2011).

In terms of bilateral trade, as the construction of the pipelines needs large amount of materials, such as cement, steel, transportation equipments, it has greatly promoted imports and exports between China and Myanmar these years, especially between Yunnan and Myanmar. For example, in spite of the global financial crisis, the

China–Myanmar bilateral trade grew from USD 29.1 billion in 2009 to USD 44.4 billion in 2010, with a sharp increase of 53 per cent. The trade between Yunnan and Myanmar was the main driving force for the two countries’ bilateral trade, as it reached USD 1.8 billion in 2010, accounting for above 40 per cent of total China–Myanmar trade. Myanmar is currently Yunnan’s largest trading partner among the ASEAN countries (Zhao Hong, 2011).

### **China–Myanmar Oil and Gas Pipelines Problems**

The China–Myanmar oil and gas pipelines project comes with many potential risks and challenges, especially when Myanmar’s new government is experiencing political and economic changes. While the present situation still gives China a comparative advantage over other competitors, its policies and approaches pose political, social and economic risks, including high cost of the pipelines, increasing resentment towards Chinese businessmen among local Myanmar people, concerns and worries from other neighbouring countries.

Firstly, the pipelines bear high cost and potential risks. It is estimated that the entire project (including a refinery and ethylene plant in Yunnan) cost approximately USD 5 billion. Moreover, the pipelines travel across a set of complex and diverse terrains, including transverse mountains, surging rivers and virgin forest and more importantly the route passes close to areas controlled by ethnic militias (Zhao Hong 2011).

There have been continuous conflicts between Naypyidaw and these ceasefire groups, following previous government demanded that they disarm or be integrated into Myanmar’s armed forces. Although it is yet to be seen whether the new government will continue pressuring non-compliant groups to transform into Border Guard Forces, if the government continues to push the issue, armed conflicts could resume across much of the north and east (Ashley South, 2011). Such scuffles have made Beijing concerned and nervous about the security of the pipelines. Secondly, the spread of economic effect of the boom created by China’s investment in Myanmar is less than it might seem. These years witnessed increasing Chinese enterprises (including CNPC) invest in Myanmar building pipelines and infrastructures. Due to different cultures and lifestyles, these Chinese companies cannot find enough qualified local workers to get involved in these projects neither

can they create many related downstream industries. Hence, the job opportunities and direct benefits that accrue to the local people by Chinese companies are limited. Moreover, as some foreign analysts observed that most of Chinese loans and investments were government-led and mainly flew to Myanmar's state-owned factories and major infrastructure projects which were launched between the two government levels, they failed to bring more benefits to ordinary people. For example, many Myanmar people believe that although China has build many hydropower stations in Myanmar, they do not feel enough benefits as most of the electricity generated was sent to China or Thailand (Zhao Hong, 2011).

There are 25 mega-dam projects in place or being planned to Myanmar's ethnic minority borderlands. But 90 per cent of the electricity generated in this way will be sold abroad, earning the Myanmar government an estimated USD 4 billion per annum. Thus the benefits it creates for the local residents are limited. Though in the long term, this sort of cooperation promises to benefit the future development of Myanmar, the current reality is that Myanmar still faces serious power shortage. The public discontent still exists. In this regard, the fact that Chinese companies have increasingly won bids for big projects in key sectors across Myanmar cannot help but reinforce worries and anti-Chinese feeling among Myanmar people. For the construction of oil and gas pipelines, some local villagers are concerned that these projects might lead to demolition, land erosion, deforestation and other related problems (Zhao Hong, 2011).

Beyond its clear energy strategic value, this oil and gas pipelines project creates other opportunities for economic cooperation and integration between China and Myanmar, and Southeast Asia. The Chinese and Myanmar governments are negotiating to build a highway and a railway along the pipelines to connect Kunming with the new deep-sea port and the industrial zone which is under construction at Kyaukpyu. Plans for the rout were first announced in the Myanmar Weekly Eleven News magazine in October 2010 and is expected to be finished in 2015. This will inevitably fuel progress for the entire population in the pipeline region, further enhance connectivity and long-term economic links between Kunming and Kyaukpyu. It is expected that a corridor of economic development will be eventually formed along the pipelines. It is believed that the pipeline project

is a “win-win” for China and Myanmar in terms of regional economic development (Zhao Hong, 2011).

Despite these promising benefits, the pipelines bring China a new set of headaches and in the words of a Chinese independent journalist, the project “seems to generate more problems than the Malacca Dilemma”. (Nicholas Borroz, 2014).

#### **Four Major Issues Cloud the Pipelines’ Future Prospects**

1) There is a lack of infrastructure in China to take in the oil expected to flow through the pipeline. As Chinese economic growth slows, the push to build up oil consumption-related infrastructure, such as refineries and new pipeline networks, is fading. This means that there is now a serious potential for the pipeline to be completed and the oil to have nowhere to go once it reaches Yunnan, causing a glut on the Burmese coast.

2) As Myanmar gains prominence in the international sphere, more countries are looking to invest in the former pariah state and benefit from its rapidly expanding markets. One of the immediate implications of these developments for the pipeline is that Myanmar is now in a better position to negotiate with China over the terms of the pipeline deal. Whereas previously China was one of the few players willing to do business with Myanmar, there are now several contenders. With its greater leverage, Myanmar may seek to change the terms of the pipeline agreement. Myanmar’s suspension of China’s Myitsone Dam project in 2011 is evidence of Myanmar’s increasing willingness to defy Chinese infrastructural plans.

3) There are numerous security concerns. The pipeline begins in Rakhine State, the site of the violence between Muslims and Buddhists in 2012 that some commentators have described as genocide. Further north, the pipeline passes through territories that until recently were in a state of open civil war with the Burmese central government.

4) Burmese-Chinese ethnic tensions cause another type of local resistance to the pipelines, distinct from the displacement issues mentioned above. The recent attack

on a relay station was allegedly catalyzed by a dispute between Burmese and Chinese workers. Ethnic Chinese living in Myanmar are often regarded negatively, both for reasons of hegemonic suspicions on behalf of the Burmese and the economic divides between impoverished Burmese and relatively wealthy Chinese; ethnic Chinese tend to occupy a higher economic class in Myanmar by benefiting from cross-border trading networks with communities in China (Nicholas Borroz, 2014).

### **Shwe Gas Movement**

An estimated 13,200 soldiers are currently positioned along the pipeline route. Past experience has shown that pipeline construction and maintenance in Myanmar involves forced labour, forced relocation, land confiscation and a host of abuses by soldiers deployed to the project area. A lack of transparency or assessment mechanisms leaves critical ecosystem under threat as well.

Yet it is not only the people of Myanmar who are facing grave risks from these projects. The corporation, governments and financiers involved also face serious financial and security risks. A re-ignition of fighting between the regime and ceasefire armies stationed along the pipeline route; an unpredictable business environment that could arbitrary seize property or asset; and public relations disasters as a result of complicity in human rights abuses and environmental destruction all threaten investments.

The Shwe Gas Movement is therefore calling companies and governments to suspend the Shwe Gas and Trans-Myanmar Corridor projects; shareholders. Institutional investors and pension funds to divest their holdings in these companies; and banks to refrain from financing these projects unless affected people are protected. Hundreds of residents protested against a China-backed petroleum pipeline project in western Myanmar's Rakhine state over inadequate compensation and demands that the project developer provide better transportation infrastructure and higher salaries for local workers. Around 400 people gathered to protest the Shwe Gas Project in Maday Island off the coast of Kyaukpyu town in the Bay of Bengal, also complaining that the project had polluted rivers which fishermen in the area had depended on for their catch.

The Shwe Gas Project was a joint venture between Beijing's state-owned China National Petroleum Corporation (CNPC) and Myanmar's national petroleum company Myanmar Oil and Gas Enterprise. A conglomerate of two other companies from Myanmar, another company from China, two firms from India and one from South Korea also have a stake in the joint venture South East Asia Gas Pipeline Co, Ltd (SEAGP). The residents had received compensation payment for only half of the area expropriated for the project, including a mountain owned by local residents from Maday Island, but CNPC representatives claimed the company had made the full payment, suggesting that part of the compensation has been unaccounted for. Protesters also wanted the company to build better transportation infrastructure from the crude oil jetty at Maday Island to the nearby villages of Kyauttan, Ywarma and Panhteinse and supply the area with electricity before continuing with the project. They also called on CNPC to create more job opportunities for local workers and to pay them at international rates.

The question that every individual in Myanmar raises is that, Where is the money going? The link between gas revenue and arms purchase is clear. The regime has been on an accelerated arms-buying spree since 2001, roughly when it received the first gas revenues from the Yadna pipeline. Examples of these includes the purchase of helicopters from a Polish company after receiving a bonus of US \$15 million from the total, the French operator of the Yadana/Yetagun gas pipeline, in 2001. A diplomat was quoted as saying that "the Myanmar paid us with total money." In that same year, the junta received US \$ 100 million from the state owned Petroleum Authority of Thailand, the purchaser of Yadana/Yetagun gas and then immediately purchased 10 MiG-29 fighter jets at the price of US \$ 140 million, using US \$ 40 million for a down payment of the planes. As the scramble for Myanmar's gas heats up, sale of military equipment to junta have also increased.

While the regime exports valuable energy resources to neighbouring countries, ordinary citizens receive neither electricity nor gas. Although Burma has some of the largest reserves of natural gas in Southeast Asia, the country faces chronic energy shortages. In late 2008 the total installed capacity of electric power in Burma was 1,719 MW (mega watt), compared to nearly 30,000 MW in neighbouring Thailand. The per capita electricity consumption in Burma is less than 5% that of neighbouring

Thailand and China. A stable supply of power is not even guaranteed in the largest city of Rangoon. Most business is forced to fuel generators because of the lack of stable electricity supply.

Arakan State, the source of the Shwe Gas, is not connected to the national power grid and electricity is extremely scarce. Over 90% of people in Arakan State use candles for light and firewood as the primary source of cooking fuel yet all of Shwe Gas will piped to China. A series of protest that began in 2007 were sparked by the military junta's directive to remove fuel subsidies which caused the price of diesel and petrol to suddenly rise as much as 66% and the price of compressed natural gas for buses to increase fivefold in less than a week. Daily commuters found that the bus fares had doubled overnight. The protests swelled to included tens of thousands and were led by highly revered Buddhist monks. The world was shocked when a violent crackdown on the peaceful demonstrations began on September 26 and a Japanese photo journalist was caught on film being shot at point-blank range on the street. While the official death toll remains 13, the UN Human Rights Council's Special Rappeteur has said that independent sources reported 30 to 40 monks and 50 to 70 civilian killed; the actual number of deaths may never be known. In the aftermath of the crackdown thousands were hunted down and arrested, monks were beaten and forced out of their temples and countless remain hiding or have fled the country.

A set of Chinese government guidelines that will require Chinese companies operating overseas to follow environmental standards is currently awaiting approval from the relevant authorities after being drafted by the Ministry of Environmental Protection and the Ministry of Commerce in China. According to the proposed guidelines, Chinese companies will be required to abide international environmental treaties China has signed as well as regulations in project host countries. If China's environmental standard is higher than the host countries', Chinese investors should follow Chinese standards. China's outbound investors will also be asked to review any environmental impact their projects might have before they are started. It is yet unknown whether these guidelines will be applied to the trans-Myanmar pipelines. To date, however, no environmental impact assessments of either the Shwe Gas

Project or the Myanmar-China oil transfer have been made public (Shwe Gas Movement, 2011).

## **Chapter IV**

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## **Implications of Sino-Myanmar Pipelines on the Regional Strategic Dynamics**

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The Sino-Myanmar pipelines have their significant implication not only for these two states but also for the entire region and beyond. The chapter discusses the implications of Sino-Myanmar pipelines on the regional strategic dynamic.

### **India-Myanmar Energy Cooperation**

India's interest in Myanmar began to recover from the early 1990s when the then Prime Minister of India Mr. Narasimha Rao assumed power, as could be seen in its shift towards a pragmatic strategic policy toward Rangoon. The main reason for India's shift was the growing concern and uneasiness over Myanmar's abandonment of its traditional 'strategic neutrality' policy and strategic tilt toward China and to remove Myanmar from China's orbit or sphere of influence. In India's strategic thinking, greater co-operation with Myanmar was on cross border counter-insurgency efforts, along with building possible pipeline from Myanmar's gas fields to its north-eastern region, which are among the most power starved provinces in the country, which may in a way defuse the secessionist movements in these areas. But more importantly, Myanmar's location is central to strengthening India's Look-East policy, energy security and counterbalancing China's influence in the Southeast Asia. In the long-term scenario India hopes, Myanmar will become an independent market as well as the transit country and a link between South and Southeast Asia (Hong 2007).

Recently, there has been a change in Indian approach towards meeting its energy needs. The effort is to shift its focus from crude oil to natural gas. This change in strategy has necessitated greater dependence on gas to meet India's energy needs. The rising demand has to be met, both by increasing domestic production and importing gas where India is making efforts on both the fronts. While domestic production has its limitations in spite of new gas fields in Arunachal Pradesh and Assam, the other option of obtaining gas from neighbouring countries appears to be the only way to meet the increasing energy needs (Shodhganga).

The Planning Commission of India has defined energy security as the ability to supply energy to all of its citizens to meet their effective demand. Energy security

subsumes the accessibility of continuous supply of energy to the entire population of a state to accommodate, at the least, their basic needs. According to the United Nations, inadequate energy security is one of the primary causes of poverty and environmental degradation. As of 2008, around 50% of Bangladesh's population and 42% of India's population remained below the international poverty line. The percentage of the populations with access to electricity in India and Bangladesh electricity being an essential aspect of energy security are 55.5% and 32% respectively, as of 2005. A constant supply of energy resources is necessary to continue the rapid industrialization that is taking place in India and Bangladesh as well as to provide basic electricity access to the citizens of both countries (Kesava, 2012).

The Myanmar-Bangladesh-India pipeline project was envisaged as a means of importing natural gas a major energy source for power supply in both countries. India's energy competition with China in Southeast Asia is typically reflected in gas rivalry in Myanmar, which is rich in oil and possesses Southeast Asia's largest natural gas reserves. More importantly, Myanmar pursues balanced relations with big powers and maintains good ties with China as well as India. Naypyidaw holds most of the cards in developing its relations with these two competitors. In the case of India and Myanmar, these two countries share an unfenced 1,640km border. Myanmar has a long coastline of 2,276km that covers parts of the Bay of Bengal, in particular, the surrounding areas of the Coco Islands and the Andaman Sea, which is very important to India's strategic policy. India sits astride a number of major commercial routes and energy lifelines. Three hundred ships and 40 tankers pass through Indian waters daily and US \$260 billion worth of oil pass through the Straits of Hormuz and Malacca annually. (Zhao, Hong, 2012).

### **Myanmar-Bangladesh-India Pipeline Project History**

In 1997, a Bangladeshi private firm called Mohona Holdings first proposed the construction of a pipeline that could transport natural gas from the gas fields of Myanmar into India traversing through Bangladesh. By early 2000s, with major Indian oil and gas companies such as GAIL, ONGC Videsh and Essar having invested considerably in the Myanmar hydrocarbons sector, the country began to actively pursue the feasibility of such a project. Following negotiations with

Bangladesh and Myanmar in early 2005, an agreement between all three countries for constructing the pipeline was reached. The expected cost of US \$1 billion was to be mostly borne by India and private sector partners, whereas Bangladesh would receive US \$125 million in annual transit fees. While gas would mostly be fed to the Indian market, Bangladesh would also be able to make use of gas imports from the pipeline should its own indigenous sources become scarce ((Kesava, 2012).

In January 2005, the Petroleum Ministers of India, Bangladesh and Myanmar approved in Yangon a trilateral joint press statement to transport gas from the Sittwe gas fields by pipeline through Bangladesh to India. It was agreed that officials from the three countries would prepare a tripartite Memorandum of Understanding (MOU), to pursue the implementation of the pipeline project.

The overland route of the pipeline passing through Bangladesh had two variations:

- a) A shorter route from Sittwe to Dhaka via Cox's Bazaar and Chittagong and then to Kolkata via Khulna and Basirhat.
- b) A longer overland route from Sittwe to Dhaka via the Indian State of Tripura, moving on to Dhaka through Comilla and then on to Kolkata via Khulna.

The advantage of the alternate (b) was that it would enable India to monetize its gas reserves in Tripura which have undeveloped for over twenty years. The proposed pipeline was seen as a win-win-win proposition since:

- a) It enabled the transportation of Myanmar gas to India through the most economical transitional pipeline route;
- b) It enabled Bangladesh to obtain transit fees for the length of the pipeline within its territory as also to transport its own gas from the east of the country where it is located to the west where it is required, at no cost to itself; and
- c) It enabled India to exploit its Tripura gas reserves besides meeting to the power and industrial needs of the east India.

Unfortunately, the trilateral government to government Memorandum of Understanding (MOU) could not be signed as Bangladesh insisted on the inclusion of certain India-Bangladesh issues in the MOU. (Devare, 2008).

In addition, India did not have the financial resources for the construction of a direct Myanmar-India gas pipeline. By 2009, India's primary competitor for Myanmar's gas, China, had secured a gas pipeline deal with Myanmar instead. India has however been far more successful in LNG import (Soumyajit, 2015).

Indo-Bangladesh bilateral negotiations fell through in 2005 however as additional conditions laid down by Bangladesh were unacceptable to India. At the same time, Myanmar also entered into negotiations with China regarding another bilateral pipeline project. By mid-2005, the pipeline project looked to be shelved indefinitely. Khondkar Saleque, one of Bangladesh's government-appointed pipeline negotiators stated that "gas from Myanmar can be available to India and Bangladesh only if the political governments of India and Bangladesh can resolve any other bilateral issues." M. K. Dhar, a former Indian intelligence officer, blamed the Islamist ideology of the Bangladesh government and the prevalence of strong anti-India perceptions for blocking any policies beneficial to India. By mid-2007 however, the Bangladesh government performed an about-face in expressing its intent to negotiate with India over the pipeline project, and in 2010, the project received approval from the government but as of today the project has yet to be implemented (Kesava 2012).

### **India's Approach to the Myanmar-Bangladesh-India Pipeline Project**

India's energy security policies have often been criticized for their incoherence and lack of planning; however the Integrated Energy Policy (IEP) released by the Indian government in 2006 highlights two underlying principles in India's energy policies: diversification of energy imports, and climate change mitigation. While energy independence remains a long-term aim, import and diversification of supply sources is emphasized in the IEP. Considering the limited energy resources in the country, there seems to be a tacit recognition in India regarding the impracticability of energy self-sufficiency. Since the oil crisis of the mid-1970s, India has sought to avoid an over-reliance on oil from the volatile Middle East by increasingly pursuing active diversification in obtaining energy sources such as oil, gas and even hydroelectricity from diverse regions. India is also a growing power with rising energy demand at an annual rate of 3.5% between 1990 and 2005. It is therefore under increasing international pressure to contain greenhouse gas emissions: India is a signatory to the Kyoto Protocol, and has also incorporated the National Action Plan on Climate

Change (NAPCC) in 2008 with environmentally friendly development as its stated aim. (CIARA, 2015).

As of 2005, Bangladesh's commercial energy sources were comprised of approximately 64% natural gas, 26% oil and 10% coal as a result natural gas is the overwhelmingly largest fuel source for commercial power generation in Bangladesh. The 2004 National Energy Plan (NEP) draft and the 1994 NEP outline exploitation of several indigenous energy sources, especially natural gas, but also include coal, oil and hydroelectric power, yet nowhere do they emphasize natural gas imports, let alone through gas pipelines. The reason is because Bangladesh has traditionally had considerable domestic energy sources; one analyst described the country as 'floating on gas'. However, from 2005 onwards Bangladesh has consistently suffered from a shortage of gas, mainly because its available reserves have not been tapped to its full potential, and fewer additional reserves have been discovered due to a severe lack of funds and investment. Only by the late 2000s has this precarious situation of depleting gas reserves gained recognition in Bangladeshi policy circles. Wood Mackenzie reported in 2006 that Bangladesh's available domestic gas reserves could be depleted as early as 2020. More researchers and state officials began to openly advocate gas imports through pipelines. In 2010, the Bangladesh government had finally given its approval of a potential Myanmar-Bangladesh-India pipeline (CIARA, 2015).

In 2010, natural gas contributed to 9% to India's primary power generation. Natural gas is viewed as an essential component of India's energy mix as it corresponds largely to India's energy security policies by the fact that it has a minimal effect on climate change unlike indigenous low-grade, carbon-producing coal; indigenous natural gas reserves are limited but these resources can be imported from diverse sources relatively economically. Therefore India's natural gas demand has unsurprisingly grown at 6.5% yearly in recent times faster than demand for any other fuel; its growth increasingly driven by the power sector.

However, the underdevelopment of indigenous reserves and growing demand by mid-2000s forced India to seriously consider importing gas. Indeed, its reserve: production ratio as of 2006 was calculated at 38, meaning that gas reserves in India are expected to effectively be depleted in 38 years, thereby increasing the importance of other sustainable sources of gas supply. The option of developing

natural gas pipelines goes back as far as the late 1980s but only in the mid-2000s, did India consider pipelines seriously as endogenous gas supply failed to meet demand as previously noted. The policy of gas imports led India to actively explore the option of several multilateral gas pipelines by 2005 including the Iran-Pakistan-India (IPI) pipeline, Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline as well as the Myanmar-Bangladesh-India pipeline (Kesava, 2012).

### **Bangladesh's Approach to the Myanmar-Bangladesh-India Pipeline Project**

Like India, Bangladesh does not have a tradition of concrete energy security policies. The government released a National Energy Policy (NEP) in 1995 and again in the 2004. Its three main policy aims may be discerned as exploitation of indigenous energy sources, diversification in energy type and tapping into the lowest cost fuels available. The 2004 NEP draft emphasizes what it calls “optimal development of all indigenous energy sources.” A significant issue for Bangladesh is its untapped and underdeveloped coal, oil and natural gas reserves. On the power side it seeks to augment the limited number of power plants in operation due primarily to a lack of finance and technical expertise. Bangladesh has therefore, since 1990s, collaborated with international oil corporations for oil and gas explorations and extraction. As late as 2010, exploitation of its indigenous resources still remains a primary goal for the Bangladesh government. In addition the importance of cheap power generation for Bangladesh cannot be understated; most of the indigenous resources have been left untouched due to the relatively high cost of extraction. Collaboration with international oil corporations and Indian private enterprise in oil and gas exploration, coal extraction, and construction of power plants is driven primarily by economic considerations (Kesava, 2012).

### **Indo-Bangladesh Energy Policies and the Pipeline Project**

One of the primary reasons for the failure of the 2005 pipeline negotiations between India and Bangladesh was the lack of convergence in the energy policies of the two countries India's energy policies then pointed naturally towards the pipeline while Bangladesh's policies did not feature it. This was because while India was able to recognize the importance of gas imports to meet domestic demand, Bangladesh did

not realize an impending crisis in its regional energy security in the form of depletion of gas reserves. Both Bangladesh and India traditionally emphasized a socialist-inspired policy of energy autarky. By early 2000s however, it was clear that indigenous sources – including gas sources, could not keep up with the high demand of a rapidly growing Indian economy. In addition, the pressure of using climate change-mitigating energy sources precluded excess usage of India's coal reserves. This led to India seriously considering the possibility of importing gas through pipelines, whether originating from Iran, Turkmenistan or Myanmar; India would enter into negotiations on all three projects in 2005.

Throughout the early-2000s Bangladesh's energy policies emphasized new investment into its domestic energy complex while considerations of substantial gas imports remained a fringe issue. For this reason even though Bangladesh was promised an annual transit fee as well as the option to import some of the gas from the pipeline during the 2005 negotiations, the proposition did not meet Bangladesh's energy policy requirements. The Bangladesh government was thus not prepared to be part of the project in the absence of additional incentives. It placed additional conditions during these bilateral negotiations – the facilitation of importing hydroelectricity from Bhutan being one of them (which incidentally was in line with the then policy of diversifying energy sources beyond gas) and in addition to the reduction of tariff barriers and its trade deficit as other preconditions. India refused for project for two reasons. First, it was strategically unviable for the Indian government to accept Bangladesh's additional conditions fearing that this would set a precedent in all future bilateral negotiations. Second, India at the time was also exploring other options, including the possibility of a Myanmar-India pipeline bypassing Bangladesh and other pipeline projects such as the Iran-Pakistan-India (IPI) project.

Alternative options for India fell through by 2006 however, the IPI project became mired in complications and a Myanmar-India pipeline bypassing Bangladesh was considered too expensive. Meanwhile in Bangladesh during the 2000s exploration into indigenous gas sources presented bleak results prompting the Bangladesh government to consider pipelines seriously for the first time in late 2000s. Even after this recognition of the need to rethink energy policy, the Bangladesh government had not automatically pursued energy collaboration with India; instead, in 2008,

Bangladesh first considered the feasibility of importing gas through a Myanmar-Bangladesh pipeline alone, excluding India from the picture. The high cost the project would entail however dissuaded the Bangladeshis and they once again had to consider alternatives, the Myanmar-Bangladesh-India pipeline being one of them. By 2009, elections in Bangladesh had heralded a more India-friendly government.

The new government, led by the secular and pro-India Awami League party had long-standing ties with the Congress-led government, and this led to a gradual improvement in Indo-Bangladesh bilateral relations. Such an improvement served to facilitate bilateral energy security collaboration, and thus enabled Bangladesh to seriously consider participating in the Myanmar-Bangladesh-India pipeline project; by 2010 the Bangladesh government finally approved the project. As of mid 2012 however, the pipeline project has still not been implemented, despite renewed energy policy convergence between India and Bangladesh. The primary reason for the inability in implementing the pipeline project is the competition from China.

As early as 2007, Janardhan Reddy of the Ministry of Petroleum and Natural Gas, India stated that “Myanmar’s growing closeness with China” had already hampered the Myanmar-Bangladesh-India pipeline project from taking-off. Myanmar had concomitantly been pursuing bilateral negotiations with China regarding a potential gas pipeline since 2004, at around the same time as with India and Bangladesh. China’s energy security policies had long been geared towards large-scale imports of energy sources including natural gas, and by 2009, China and Myanmar had reached an agreement on a joint pipeline project. By mid-2010, Myanmar in collaboration with China had commenced construction of the Myanmar-China gas pipeline. Both Myanmar-China and Myanmar-India-Bangladesh pipeline projects potentially relied on gas reserves from the Shwe Natural Gas Fields in Myanmar. Following the successful implementation of the Myanmar-China gas pipeline deal, the Myanmar government has shown considerable reluctance in going ahead with the Myanmar-Bangladesh-India pipeline not least due to limited gas reserves within the Shwe Gas Fields. Dr. Badrul Imam, writing in 2009, states that Bangladesh’s interest in the Myanmar-Bangladesh-India pipeline had come too late, so that “Myanmar decided not to waste further time on these partners and signed an agreement with China.”



Therefore, the inability of India and Bangladesh to initially find convergence in their energy security policies had contributed to China's successful pipeline deal with Myanmar. Myanmar's concerns about the finiteness of its gas reserves have meant that, even after Bangladesh's agreement to the project in 2010, the Myanmar-Bangladesh-India pipeline could not be effectively implemented. However, recent convergence in the energy security policies and needs of India and Bangladesh has pushed Bangladesh to seek other accommodations with India including participation in the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline project. The proposal to include Bangladesh within the TAPI project has been under discussion by energy experts in the South Asian Association for Regional Collaboration (SAARC) since mid 2011. At the same time negotiations on the Myanmar-Bangladesh-India pipeline have also continued, this time with India and Bangladesh working with rather than against each other. Perhaps it may require new discoveries of natural gas reserves in Myanmar to once again revive the Myanmar-Bangladesh-India pipeline project (Kesava, 2012).

India is highly dependent on oil imports, and approximately 70 per cent of India's oil is imported. By 2020 India is expected to import 80 per cent of its energy needs. Expecting an exponential growth in its energy demands from an expanding economy India has been trying hard to secure hydrocarbon energy supplies. Amongst other options, India has been looking eastwards to the extensive natural gas reserves of Bangladesh and Myanmar, which have become vital for India's economic growth. The geographic proximity of Bangladesh and Myanmar to India makes the import of gas not just convenient, but an economically attractive proposition. In addition, the energy needs of eastern India, particularly the north-eastern states, would be better served by gas from Myanmar and Bangladesh rather than from reserves in Iran and other distant fields (Bose, 2007).

Bangladesh has significant gas reserves that India could tap into to meet its energy requirements. As of January 2006, Bangladesh reportedly has five trillion cubic feet (tcf) of estimated natural gas reserves. To encourage natural gas exploration, the government opened the natural gas sector to foreign investments in 1993 and today foreign companies produce 501 million cubic feet per day (MMcf/d) of natural gas from four gas fields. The leading foreign producer is Chevron (previously Unocal),

which produces 331 MMcf/d from the Jalalabad and Moulavibazar fields in Sylhet district (Bose, 2007)

Both India and Bangladesh are heavily dependent on outside countries for their oil requirements. On the processing side though, refining is an area where in Bangladesh has refining capacity constraints that can be provided by Indian refining capacities. These Indo-Bangla synergies would eliminate triangulated/circuitous movements of refined products into Bangladesh. There is, therefore significant scope for trading in refined oil between them that is still unutilized. Bangladesh has discovered coal resources of its own much of which are not yet utilized and India might help Bangladesh to access these resources. Transported-traded gas is yet another area of potential cooperation around which promise continues to exist.

India being one of the most energy hungry countries in the world has long been keen on exploring various options for accessing energy. Within the region, excepting China, there is no country more acutely in need of energy than India. Amongst different sources of energy, gas provides a highly competitive alternative, not only in terms of environmental benevolence but also helps in securing energy needs. Gas, thus provides, a better political and financial option and for these reasons search for gas has increasingly become a policy imperative in India. One critical aspect about securing access to gas is that transport related reasons underscore the importance of gas rich neighbours. The Indian access to assured gas supplies continues to be uncertain and India frequently pays higher pricing for spot LNG purchases (Nitya Nanda and Krishna Dwivedi).

The energy situation has also changed significantly in Bangladesh. It has started facing a shortage of gas, mainly due to its inability to tap full potential as well as failure to find significant additional reserves due to a severe lack of funds. Realizing that a Myanmar Bangladesh pipeline was not economically viable, in 2010, the Bangladesh government has finally given its approval of a potential Myanmar-Bangladesh-India pipeline (Chandra 2012).

The lack of convergence in the energy security policies of India and Bangladesh could have significant opportunity costs. The failure of Myanmar-Bangladesh-India (MBI) pipeline project, notwithstanding, it needs to be borne in mind that. The natural gas reserves in Myanmar are limited and at this stage Myanmar is not in a

position to accommodate the needs of both China and the Indo-Bangladesh partnership. If the project is revived at a future date as and when both Bangladesh and India find common interest, there could be a possible way for the multilateral gas trade. (Nitya Nanda and Krishna Dwivedi).

### **Implications for India**

Strategically, India is afraid that China will attempt to form a “strategic encirclement” against India, using Myanmar as a point to contain India. The Indian government was particularly worried about the China–Myanmar strategic links and the prospects of the Chinese Navy gaining a foothold in the Bay of Bengal. India sees China which has close relations with Pakistan and Myanmar as a potential threat. China’s involvement in Myanmar could mean that India would be surrounded on three sides by Beijing and its area of influence, leaving no buffer states. India feels that it badly needs to improve its strategic relations with Myanmar so as to break down China are encircling strategy (Sinha 2009).

On the other hand, India has clearly lost an important diplomatic initiative in the attempt to counter Chinese influence in Myanmar. Even after the deal was sweetened with US\$ 20 million in "soft credit" and the proposed construction of a power plant in Myanmar, it would appear that Indian influence was quietly denied by the inevitability of China's international support for Myanmar. Beijing's use of its veto to keep Myanmar's human rights record off the UN security Council agenda turned out to India's voice within the upper echelon, like that of the relationship currently enjoyed by China and Myanmar (Shodhganga).

Finally, the pipeline seemed set to heighten attempts for greater integration and further military and economic co-operation along the Myanmar-Indian border. Trade initiatives to date have failed to establish in the Indian north-eastern border region, while security initiatives have occurred in a stovepipe fashion with only communication between the two states rather than truly co-operative exercises. India will likely make more overt efforts in the future to establish a stronger presence in the face of Chinese diplomatic success in Myanmar. It is likely that joint military initiatives in the border region will be initiated and more direct military aid like the proposed light attack helicopter sales from India to Myanmar will continue.

Transfers of military equipment have increased significantly in the last two years between India and Myanmar, while joint counter insurgency operations have been proposed, which would see an unprecedented level of co-operation and therefore much higher counter insurgency activity, between the two countries. These efforts would have had a far greater chance of success when combined with the development possibilities that the pipeline may have provided (Shodhganga).

### **Pipeline Politics in Asia: Implications for the United States**

In the early 1990s, the United States, European Union and other countries instituted economic sanctions on Myanmar, also called Burma, after the controlling military junta brutally cracked down on political demonstrations. As recently as 2005, Secretary of State Condoleezza Rice lumped the country in with the likes of North Korea, Iran and Cuba as “outposts of tyranny.” (Outposts of tyranny was a term used in 2005 by United States Secretary of State Condoleezza Rice and subsequently by others in the U.S. government to characterize the governments of certain countries as being totalitarian regimes or dictatorships. In addition to specifically identifying Belarus, Burma (Myanmar), Cuba, Iran, North Korea and Zimbabwe as examples of outpost of tyranny, Rice characterized the broader Middle East as a region of tyranny, despair, and anger.) The sanctions drove Myanmar closer to China, which seemed to have little compunction about military, political and economic engagement with its neighbour to the south. However, with Myanmar’s embrace of democratic reforms during the past two years, the U.S. has quickly warmed to the country (Olson, 2013).

The role of the US in China’s Myanmar policy has undergone rapid changes in the short three years between 2010 and 2013. Before the beginning of Myanmar’s political reform in 2011, Beijing perceived the US primarily as a security threat and a diplomatic sore point to Myanmar. Washington followed a human rights-centered agenda and pursued a harsh sanctions policy against the military government for its human rights transgressions and unwillingness to abide by the results of the 1990 elections. The policy was designed for regime change, which in China’s view threatened the national security of both Myanmar and China, as the collapse of Myanmar’s military government or a US military invasion of Myanmar would

inevitably change the security outlook of China's southwest border region (Yun Sun, 2014).

In order of importance, U.S. interests in Myanmar relate to security, democracy and human rights and the economy. These interests are often mutually reinforcing. A democratic Myanmar will positively impact peace and stability in Southeast Asia and the broader Asia-Pacific region (Lynn, 2014). Myanmar is located between two of Asia's behemoths, China and India, and is of geostrategic importance to both countries as well as to the Association of Southeast Asian Nations (ASEAN) and its member states. The rise of China has only made Myanmar more vital. China and Myanmar have a longstanding relationship, with the PRC having recognized and assisted the pariah state while the United States was leading the world away from Myanmar. Given the strategic relevance of these actors, it is important that the United States shape the China-Myanmar relationship to the advantage of U.S. interests. China in particular, has been consistent about expanding its influence in Myanmar. During decades of Western sanctions, China moved swiftly to become Myanmar's main diplomatic and military ally, as well as its sources of financial assistance and economic expertise (Lynn Kuok 2014).

U.S. interests, defined as security, economic growth, universal values, and international cooperation by the 2010 U.S. National Security Strategy, provide the lens through which to view the China-Myanmar relationship. Myanmar has the potential to serve as a major new market; stands as a potential partner on China's doorstep amidst growing security concerns; serves as an opportunity for the United States to support universal liberal values; and, through increased global interest, provides an opportunity for international cooperation. The United States must promote a China-Myanmar relationship which best assures the maintenance of these interests (Taylor, 2013).

### **Policy Options on the China-Myanmar Relationship**

***Contain- Limit China-Myanmar Partnership:*** This position asserts that the United States has the upper hand and strong potential for developing a unique relationship with Myanmar. The limiting of the China-Myanmar partnership can then be utilized to better pursue U.S. interests. The United States can leverage frustrations with

China, increased investment and support of Myanmar's emerging democracy to bring Myanmar under its political wing. The potential positive impact extends beyond Myanmar to the United States strategic position.

***Caution- Defer to China-Myanmar Partnership:*** This position asserts that China has the upper hand and greater potential for maintaining a unique relationship with Myanmar. It could direct large amounts of investment into Myanmar via the state, leveraging Myanmar to temper its relationship with the United States. China could also utilize conflict on the China-Myanmar border to decrease security and discourage U.S. involvement and investment. The United States may avoid potential repercussions by allowing the traditional alliance.

***Hedge- Promote Myanmar's Neutrality toward China and the United States:*** This position asserts that while it is not in U.S. strategic interests for Myanmar to be an ally of China, per the concept of security dilemma it is also not in U.S. interests for Myanmar to antagonize China. U.S. relations with China, as well as Myanmar's relations with the United States and China, should not be perceived as a zero-sum game. It is in part China's zero-sum policies that have strained its relations with Myanmar, and as such the United States must not repeat China's mistake by keeping Myanmar on a chain. Economic interconnectivity between all China, Myanmar, and the United States can moderate relations per interdependence theory (Taylor, 2013).

In 2009, the Obama administration undertook a review of the US' Burma policy review and subsequently announced a new engagement strategy toward Burma. This raised concerns in China about the possibility of US-Myanmar rapprochement that may go beyond the easing of tensions between Washington and Yangon to something more meaningful – and the impact of this on Sino-Myanmar ties. However, such concern was soon dissipated when Washington criticized Myanmar's 2010 elections as “neither free nor fair.” China assumed that Myanmar's new government would not pursue major political reform in the near future, and therefore the policy options for the US would continue to be constrained by its domestic politics, which would not favour a change of tone with Myanmar. Within this context, China welcomed the pragmatic engagement policy of the Obama

administration. Beijing saw a degree of improvement in relations between the US and Myanmar as beneficial to China by reducing international criticism of China for supporting the military government, but not reaching a level that would jeopardize China's existing ties with Myanmar. As explained by the Global Times, a government mouthpiece under China's People's Daily, China had no objection to Myanmar seeking improved relations with the West, so long as it was not "based on stomping China's interests." However, beginning with President Thein Sein's historic meeting with Aung San Suu Kyi in August 2011, US-Myanmar relations began to improve at a dazzling pace. As a reward for Myanmar's political liberalization, the US lifted most of its financial sanctions on the country. US recognition of Myanmar's political progress was also demonstrated with visits by then-Secretary of State Hillary Clinton and President Barack Obama in 2011 and 2012 respectively, as well as the appointment of a US Ambassador to Burma for the first time since 1990. The speed and depth of US-Myanmar rapprochement greatly exceeded China's original expectation. In China's perception, the rapid improvement of US-Myanmar relations has greatly affected China's existing interests in Myanmar. Most importantly, the warming of US ties with Myanmar is perceived to be a key element of the US rebalancing to Asia strategy, which China regards as a containment policy toward China (Yun Sun, 2014).

In Beijing's understanding, the US successfully alienated Myanmar's traditional ties with China and damaged existing Chinese commercial projects in the country, as evidenced by the suspension of the controversial Chinese Myitsone dam. Although President Thein Sein's suspension decision was made in accordance with the "people's will," the Chinese nonetheless believe that the Myanmar government suspended the project at least partially in order to curry favour with the US. In addition, the Chinese saw NGOs, operating with the support and potential guidance of the US government, as having played an insidious role in undermining Chinese investment projects in Myanmar. To China, these developments confirmed suspicions of the China-related orientation of US strategic intentions in Myanmar.

Chinese analysts invariably frame the issue of US-Myanmar ties in a broader context of US-China relations. Their perception of US presence in Myanmar is essentially zero-sum: the gains made by the US have come at China's expense. When told by

US officials that US policy in Myanmar is driven by American and Burmese domestic politics, Chinese analysts often question the genuineness of such statements or argue that, at the very least, the US has been inconsiderate of China's vested interests in and relations with Myanmar. Although there is a general acknowledgement of China's own failures to better manage relations with Myanmar, to China this does not negate the fact that the US exploited those opportunities to expand and deepen the frictions between China and Myanmar (Sun, 2014).

### **The Objectives of the Obama Administration's Burma Policy**

Beyond the goal of promoting political freedoms and democratic governance in Myanmar, the adoption of a more pragmatic Burma policy also served other objectives. One was the strengthening of US relations with ASEAN. Although the George W. Bush administration had not overlooked Southeast Asia, Washington was soon primarily preoccupied with operations in Iraq and Afghanistan to the perceived detriment of its ASEAN ties. Bush's critics within the US had pointed to significant long-term policy drift that put at risk American economic, political and security interests, and called for a comprehensive ASEAN strategy that recognised both Southeast Asia's interest in global free trade and its important role in structuring regional security dialogues (Haacke, 2012).

The Obama policy team had also appreciated that President Bush's hard-edged Burma policy had to some degree complicated relations with the Association as a whole because Washington had applied pressure on ASEAN countries to advance political change in Myanmar. Though promoting such change was to some extent shared by regional countries, ASEAN governments generally thought that a policy focused on sanctions and ostracism was counterproductive. They preferred economic and diplomatic engagement. Worrying though from a Southeast Asia perspective was that Washington seemed prepared to hold the further development of ties with ASEAN hostage to the situation in Myanmar. Such perceptions and assessments, not least those from within ASEAN, required a response.

The review of US Burma policy and Washington's decision to embark on a more pragmatic approach can thus be seen as part of an attempt not only to be effective in



bilateral relations with Myanmar, but also to refashion US ties with ASEAN. When the policy adaption was announced, ASEAN countries welcomed it (Haacke, 2012).

The Obama administration's focus on strengthening ties with ASEAN as an organisation, as well as with its member-states cannot, however, really be considered outside the context of China's rise as a great power and its deepening ties with Southeast Asia. China's relations with the ASEAN states had greatly improved on the back of the China-ASEAN free-trade agreement and Beijing's offer of Chinese aid, especially to countries in continental Southeast Asia, not least Myanmar. It seemed that even countries such as the Philippines and Indonesia were susceptible to China's charm offensive and associated economic carrots. When the East Asia Summit, organised and nominally led by ASEAN, held its inaugural leaders' meeting in 2005, Washington was excluded, much to its concern. To be sure, the United States has for some time generally welcomed China's growing stature and weight. However, Washington has also been concerned about China's growing military capabilities and it has sought to influence China's foreign policy choices by shaping the latter's regional environment, not least by revitalising relations with alliance partners and friendly states (Haacke, 2012).

The Bush administration suggested in 2005 that China should become a 'responsible stakeholder' in regional and international society, while simultaneously hedging against the possibility that Beijing would not. The Obama administration advanced a similar official position vis-a-vis China by emphasising the need for 'strategic reassurance', while continuing a dual strategy of engagement and balancing. The Obama administration has not only been prepared to counter and offset China's earlier charm offensive in Southeast Asia, but also to confront, for instance, what has been perceived as renewed Chinese assertiveness in the South China Sea. This has involved emphasising the importance of the freedom of navigation and diplomatically challenging Beijing regarding its actions and claims in the South China Sea. In November 2011, for instance, Hillary Clinton made clear that while Washington did not take a position on any territorial claim, the claimants should not resort to intimidation or coercion to pursue the latter. That month, the United States also announced the deployment of a rotating contingent of 2,500 troops to Darwin, Australia (Haacke, 2012).

Notably, the Obama administration continues to argue that it wants a ‘strong progressive partnership’ with Beijing, while asserting that the US is ‘destined to play a strong critical, primary role in the Asia Pacific region for decades to come’. To secure America’s leadership role in the Asia-Pacific, the administration has identified six lines of action:

1. Strengthening bilateral security alliances;
2. Deepening US working relationships with emerging powers;
3. Engaging with regional multilateral institutions;
4. Expanding trade and investment;
5. Forging a broad-based military presence;
6. Advancing democracy and human rights.

These lines of action all form part of what has been referred to as Obama’s ‘pivot’ towards the Asia-Pacific. In substantive terms, this involves, for instance, promoting the Trans-Pacific Partnership and joining the East Asia Summit. However, what Hillary Clinton called ‘forward-deployed diplomacy’ aims to make use of the full range of US diplomatic resources to ‘every country and corner of the region’. These diplomatic efforts to advance the security and prosperity of the region are underpinned by the US military’s ‘rebalancing’ towards the region. Put differently, the US military is tasked to back principles of open and free commerce, the rule of law, open access by all to their shared domains of sea, air, space, and cyberspace, and resolving disputes without coercion or the use of force. To achieve this task Secretary of Defence Leon Panetta has announced ‘a sustained series of investments and strategic decisions to strengthen our military capabilities in the Asia Pacific region’.

Obama administration officials may insist that their goal is to improve ‘strategic trust’ between China and the United States. However, it is difficult to conclude that there is not a significant lack of trust that is very difficult for both sides to overcome. Chinese analysts increasingly see Washington moving beyond strategic ambiguity to embracing a containment strategy (Haacke, 2012).

Given this broader context of US-China relations, the United States’ new Burma policy remains geared to the promotion of democratic governance and national

reconciliation, but under President Obama it has arguably from the start also been made with China very much in mind. Statements regarding Myanmar initially made by administration officials may not always fully acknowledge this, given the significant and longstanding bipartisan support for regime change in Burma. However, the larger strategy outlined by the Obama administration supports this assessment. Also, it is useful to recall, for instance, that Assistant Secretary of State Kurt Campbell, who has been personally very much involved in leading the shift in Washington's approach toward Myanmar, not only focused extensively on China's rise and the balance of power in Asia before joining the administration, but has also been at the very heart of recalibrating US strategy toward the region. Similarly Ambassador Derek Mitchell, who in 2011 became the special representative and policy coordinator for Burma and then took up the long vacant post of US ambassador to Burma, may have had a longstanding interest in Myanmar, but he also remains known for his very significant expertise and contributions on developing strategy toward Southeast Asia and the wider East Asia-Pacific (Haacke, 2012).

### **Japan's Interest in Myanmar**

Japan's interest in Myanmar is primarily economic, although it announced in November 2011 that it may resume full-fledged development aid. Myanmar, with a strong potential for industrialisation, can serve as Japan's gateway to India. Myanmar's southern port of Dawei, currently the focus of a large Thai development project, is the key port of entry. The amount of time it will take to ship cargo from Chennai to Bangkok, currently six days, will be halved using the Dawei connection. This, in turn, will push integration in East Asia. Japan's interest in investing in Myanmar stems from its good human resources and high literacy rate. Yet, JETRO pegs its labour costs at only 13% of a Chinese worker's salary. (Maxwell, 2013).

Japan has had its geo-politic and economic interests in Burma/Myanmar since World War II. During the Second World War period Japan saw Burma as a strategic land bridge to China for Japanese military. Abundant natural resources in Burma provided another interests to Japan to sustain its army as well as its military ambitions in Asia. During the Cold War, Japan along with the US was the biggest investor in ASEAN countries. Both employed economic development as a means to

contain communism in the region. Since the rapid change in the international society and the transformation of Asia ever since the end of the Cold War, Japan's interests towards Myanmar have been not only as a supply base of natural resources, cheap and qualified labour forces and a future economic potential market but also an increasingly important avenue to counterbalance the Chinese expanding power into the region and the future economic integration of Southeast Asia and South Asia through Asian highway projects. Because of the strategic location of Myanmar, and its membership in ASEAN, Myanmar became one of the most important frontiers of Japan's diplomatic strategy to serve its national interests.

One may view that Japan has had dilemma in achieving its economic interests in Myanmar. But as the largest trading partners and security alliance with the US, it is with no surprise for Japan to strictly impose its self-restriction on normal trade and investment relations there to protect its ultimate national interests while piping its unending connection with the country through *Official Development Assistance* (ODA) scheme. Thus Japan's trade and investment volumes were minimal comparing to ASEAN countries, some European countries and even the US. The Government of Japan neither encourages nor discourages Japanese business activities in the country, but the government briefs business organizations from time to time on the political and economic situation in Myanmar and international opinion regarding the country. It should be noted that the Japanese government places no constraints on investment in or trade with Myanmar and there is no pressure from corporate shareholders and lawsuits like American companies. In fact, Japanese business companies in Myanmar has been decreasing partly due to the US threat of boycotts and embargo towards the Myanmar military regime, which presents some unique challenges for their Myanmar opportunity and partly because of Myanmar government's inconsistent investment policy. In November 2004 there were only 23 Japanese companies operating its business in the country with only \$US 0.2 million in 2003 (Pongyelar, 2007).

Southeast Asia is important to Japan in various dimensions. That is access to Southeast Asia's resources for its resource security and the benefits that flow from the Southeast Asian market and investment networks that have evolved over three decades between Japan and the region remains at the heart of Japan's interests. Japan is the largest trading partner and the largest source of foreign investment for many

Southeast Asian countries. In addition, strategically Southeast Asia takes a sea-lane security role for Japan's economy. Almost 80% of Japan's oil and about 70% of its shipping transits Southeast Asia.

Moreover, China factor contributed uncertainties to the viability of the alliance with the US as seen from Japan. The root of the problem was the warming of American's relations with China rather than the effect of Chinese criticism of the enhanced security role that Japan had assumed with the concurrence of the US. Also some analysis mentioned that since late 20th century, China has been attempting to surge its role over Japan as the most influential Asian state in Southeast Asia through its steadfast economic growth and its hand-over assistance to Southeast Asian countries during the financial crisis while Japan have failed to come to Southeast Asian rescue before China during the crisis besides its becoming more interested in playing on the world stage than in consolidating a role in Asia. ((Pongyelar, 2007).

In Myanmar, Japan was seen to make several approaches to counter the Chinese challenges in economic progression and military security. To give some instances, Japan announced its first partial resumption of aid shortly after Chinese Premier Lee Peng visited Yangon in December 1994. Following by Beijing announced a 70 million yen loan to Yangon and a new economic cooperation agreement in March 1997, Japanese officials grew alarmed that China's "aid offensive" in Myanmar was aimed at gaining naval access to the Indian Ocean. Subsequently, in the same year the Japanese government announced its formal support for Myanmar's membership in ASEAN. It is also said that MOFA's Asian Affairs Bureau officials often describe their policy objectives in Myanmar in terms of shoring up ASEAN against Chinese influence.

Further, Tokyo attempted to counter the fluctuations and changes triggered by the end of the Cold War by approaching ASEAN in several ways particularly since mid 1990s such as concluding free trade agreements, actively participating (leading only on financial matters) in ASEAN Regional Forum (ARF) and ASEAN Plus Three (A+3), attempting to create a new group called East Asian Community (EAC) and finding a new framework of ASEAN Plus Three and India, Australia and New Zealand by established the Council on East Asian Community (CEAC). Suetō Sudo also raised the strategic importance of ASEAN to Japan in the late 1990s and Japan

attempted to mobilize a new regional movement in the region. He noted that Japan proposed to play a greater role in Southeast Asia beyond the principle of the 1977 Fukuda Doctrine although it was in the mounting aftermath of the bubble economy and faced its paralysis on all fronts: domestic, regional, and international. Correspondingly, Japan's role in the region is in line with ASEAN interests. Malaysia together with Singapore, the Philippines, Indonesia and Thailand urged Japan to play a more active role as regional leader. Some observers interpreted that these countries wished Japan to counter-balance the emerging China. Simultaneously, Japan also needs ASEAN as its back door to develop its own Asian vision in order to overcome its fear of China and its dependence on the US. Also in its reverse strategy, Japan chose to get closer and cooperate with China, its regional rival since historical time while putting effort to keep on its ODA support to Myanmar military regime (Pongyelar, 2007).

## Conclusion

Myanmar and China have a long standing relationship since the traditional era; Myanmar has been for all practical purpose the younger sibling in the Puakphaw relationship with China. Myanmar was the first non-Communist country to recognize the Communist-led People's Republic of China after its foundation in 1949. Myanmar and the People's Republic of China formally established diplomatic relations on June 8, 1950, also China and Myanmar signed a treaty of friendship and mutual non-aggression and promulgated a Joint Declaration on June 29, 1954, officially basing their relations on the Five Principles of Peaceful Co-existence. However, Myanmar maintained a neutralist foreign policy in the 1950s and 1960s. Anti-Chinese riots in 1967 and the expulsion of Chinese communities from Myanmar generated hostility in both countries. Relations began to improve significantly in the 1970s. Under the rule of Deng Xiaoping, China reduced support for the Communist Party of Burma ("CPB") and on August 5, 1988 China signed a major trade agreement, legalizing cross-border trading and began supplying considerably military aid. Following the violent repression of pro-democracy protests in 1988, the newly formed State Peace and Development Council, facing growing international condemnation and pressure, sought to cultivate a strong relationship with China to bolster itself.

Following a 26 years of isolation Myanmar finally opened up its business to the international community which was further possible only through the establishment of the SLORC. Although, Myanmar is a small country sandwiched between Asia's two biggest countries China and India, its role is rather enthralling. It has been able to gain attentions from various countries as for it is rich in natural gas, oil and other mineral resources. China, who shares the longest border with Myanmar, also happens to be its largest trading partner and the largest investor in Myanmar, China's interest in Myanmar grew rapidly only when the international community abandoned Myanmar. China's growing need for oil and natural resources led China to invest in Myanmar, besides from a strategic point of view China's interest in Myanmar lies in Beijing's pragmatic foreign policy and Myanmar's geographic position.

Within the context of this "Pauk-Phaw" friendship, although the Sino-Myanmar relationship is an asymmetric one, tilted in favor of Beijing, Myanmar has skillfully played the "China card" and still enjoys considerable space in her conduct of foreign relations. In the Pauk-Phaw relations there are certain factors that prevent China from realizing its goal: first, an increase in border instability; second, growing resentment against the Chinese; third, weak Myanmar governance. Since Beijing has a huge economic and development assistance at stake in Myanmar, they cannot think of losing the opportunity. These factors have brought a problems and major hurdle in the development of Sino-Myanmar relations as each of these factors has a significant impact on the Chinese interest in Myanmar and correspondingly Beijing want to find an alternative to get away with this dilemma.

Myanmar's strategic status in China's regional diplomacy used to serve as a paragon of friendship and cooperation in the foreign relations of both countries. However, the close relations between the two countries could survive for a certain period of time, which is from 1988-2011, as for, Myanmar was aware that while trying to maintain a peaceful relation with China, the country could not itself ignore the interests of the non-state actors when the Myanmar President Thein Sein suspended the construction of the Chinese backed Myitsone dam putting all the Chinese economic and strategic interest at stake. As a result, suspension of the Dam raised a whole host of issues which China had never before had to address in public. It is extremely rare for a developing country government with a long history of friendly relations with China and seeking its investment, to publicly challenge the Chinese government in such a manner. Even more interestingly, it was one of the first instances when major Chinese government-owned companies had been forced to deal with issues related to contract cancellation and de facto expropriation of Chinese assets related to Overseas Foreign Direct Investment (OFDI). The Chinese government therefore learned that it is ultimately as powerless as any other government when contracts are cancelled in another country. As for which the construction of the dam still remains suspended.

While on the other hand, China signed a deal with the Myanmar government to purchase oil and natural gas in 2005 for 30 years. Based on this agreement, the parent company of Petro China, China National Petroleum Corporation (CNPC),



signed on 25 December 2008 a contract with the Daewoo International-led consortium to purchase natural gas from the Shwe gas field in A-1 offshore block, which symbolized China's willingness to invest in Myanmar in order to achieve its energy acquisition objectives. Inaugurated in the year 2009 and commencing its operation in the year 2013, a total of 479 miles long pipeline will transport oil from Kyaukphyu to Kunming capital of Yunnan province while natural gas pipeline will extend further from Kunming to Guizhou and Guangxi in China, running a total of 2,806 kilometres (1,700 miles). The completion of the port was also a long-held strategic ambition of China in terms of its ability to project its military power in the region. So, it is fair to say that bilateral economic relations have never been better between the two countries, nor has Myanmar's economic significance to China ever been higher. While at the same time China should be aware that while time and tide changes similarly the Government of Myanmar will also change and that it would be the same as the old military dictatorship and that China cannot rely on working with its old business models designed to guarantee commercial success and new investment opportunities.

Since Myanmar is the only country sharing its borders with China who also has access to the eastern Indian Ocean, particularly the Bay of Bengal and the Andaman Sea Myanmar could be considered as a geopolitical pivot that could dictate the behaviour of a geostrategic player like China, also Myanmar has been considered as one of the 'string of pearl' strategy in Indo-Pacific region. U.S. and India on the other hand have been considering as a threat that Chinese interests and presence in Myanmar have been undermining their strategic interests in the Indo-Pacific region. Therefore, India has been continuously trying to maintain a cordial relationship with Myanmar although; India has lost out a lot in terms of energy from Myanmar to China through pipeline projects. However, India's loss in the competition does not stop India from entering and staying in Myanmar's energy sector. In February 2010, the Indian Cabinet Committee on Economic Affairs approved requests by ONGC and GAIL to invest \$1.35 billion in Myanmar, and increase their stakes in Blocks A-1 and A-3 of the Shwe fields. Also, the fact that the Myanmar government is allowing India to increase its stakes in the China-bound pipeline projects is proof of the fact that the government is very proficient when it comes to balancing great powers and that the government is not subject to the influence of any foreign power.

Since, Myanmar does not have a good economic background of its own neither does it have its own infrastructure to support the country, therefore in order to survive and compete with the growing world it cannot alienate China as for it needs China in order to meet its economic interests and political interest by recalibrating its relations with China, the United States and the other powers in the region. Myanmar is clear regarding the fact that China not only benefits the current regime but also the fact that it is the only way to get through the hardship imposed by the sanctions of Western countries and that no matter which ever government comes to power it will still have to rely on China for the sake of Myanmar's strategic interests and economic development.

The Myanmar general election of 2015 marked a new beginning for the victorious National League for Democracy with Aung San Suu Kyi as the party leader; China hopes to start a new era in its relations with Myanmar. China expects a new page in Myanmar's domestic politics and foreign policy under the new government to be inaugurated at the end of March 2016. Now that the new government has formed and yet is not similar as that of the previous governments like the military dictatorship, China is in the dilemma about whether (and if so, how) China should once again adjust its policy toward Myanmar.

After 20 years of unbalanced ties under the military government and five years of turbulent corrections under the Thein Sein government, China and Myanmar are standing at a historic moment with a genuine opportunity to make their relationship truly normal. It will require supreme political wisdom, courage and leadership from both governments. Neither will get everything they want, but both will benefit from dialogue and cooperation. China should understand that an NLD government will be more responsive to the people's will and accept the new political reality in Myanmar. And the NLD government should seek maximum strength from popular support for its policies since that is the last thing China can defeat with coercion and/or economic enticement.

China needs Myanmar for a variety of reasons; such mutual dependence is hardly symmetrical. China has much to lose if the bilateral relationship and energy cooperation turn sour. Moreover, from the perception of Myanmar's security, as long as Myanmar does not undermine the fundamental strategic interests of China in

Myanmar, it is likely that China will tolerate its foreign policy realignment. While China can also play a greater role in assisting Myanmar at its critical economic transitional phase relating with the China-Myanmar pipeline projects.

How the relationship would fare under Myanmar's new government leaders led by the newly elected Myanmar National League for Democracy party leader Aung San Suu Kyi remains to be seen.

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