

China's Burma Connection

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A Condensed Interview with Barron YoungSmith

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Brown Journal of World Affairs: Could you describe China's current resource relationship with Burma?

David I. Steinberg: Chinese resource penetration into Burma has many aspects. Strategically, China sees Burma as an extension of its geopolitical interests. As such, they are very concerned about the country—something clearly indicated by the high level of Chinese representatives appointed to Burma. This concern is strong because Burma is potentially an important element of Chinese relations with India.

Although China does not regard India as a substantial threat, some in India regard China as a potential enemy, as the former defense minister of India indicated some years ago. This is true in spite of present warm relations between the two states. From Delhi's perspective, Chinese penetration of Burma—both political and economic—indicates to India that it is surrounded by centers of Chinese influence. With the close alliance of China and Pakistan to the west, China's influence to the north, and an increasing Chinese role in Burma to the east, India feels threatened. This gives China access to the Bay of Bengal (where India tests its missiles) and the Strait of Malacca, allowing for potential Chinese naval activity in

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that region.

The Indians have significantly changed their policy toward Burma because of the extensive Chinese role there. Starting in the mid-1990s, India was the most anti-military of the major countries. However, in response to the degree of Chinese penetration, the Indians have begun sending aid to Burma, signing trade agreements, and building roads across the border. General Than Shwe, the senior general and Burmese head of state, visited Delhi in late October 2004, the first time a Burmese head of state has done so.

China has very good relations with Association of Southeast Asian Nations (ASEAN) as a whole. Their propaganda and peace offensive toward the organization has been extensive and very successful. Plans for a common market, the signing of the treaty of amity, and the temporary suspension of arguments about the Spratly Islands have helped immensely. Moreover, China's diplomatic offensive in the ASEAN region dwarfs the interest and effort shown by the United States.

China has also developed good relations with each of the ASEAN countries individually, not just Burma, although Burma is the most significantly penetrated by Chinese influence. Cambodia has been extensively economically influenced by China, and Chinese influence in Thailand has been very important.

China has undertaken a major search for energy, especially oil and gas. Had the China National Offshore Oil Corporation's (CNOOC) bid to buy UNOCAL been successful, the purchase would have been significant for two reasons. First, the largest U.S. investment in Thailand was UNOCAL. If the Chinese had bought it, the sale would have diminished U.S. presence in Thailand, and the Thai are already nervous about too great a Chinese role in their country. Second, the major U.S. investment in Burma is also UNOCAL, so the purchase would have increased Chinese influence in that country as well. Although the bid failed, the Chinese were certainly attempting to expand their role and energy acquisitions in the region.

Journal: How much political influence does China wield in Burma? Is the relationship an unequal one?

Steinberg: China has undertaken political penetration of Burma, not only in the interest of securing natural resources, but also in order to foster general development. As a result, there is a very close relationship between China and Burma at the upper governmental levels. There are innumerable delegations going back and forth, not only to Beijing, but also to provincial Chinese capitals, especially Yunnan. Military and other kinds of training are a significant aspect of the China-Burma

relationship. Militarily, China has provided Burma with about \$2 billion of military equipment and it trains a large number of Burmese soldiers in China.

That is not to say that the Burmese are happy about the relationship. There are rumors of Burmese dissatisfaction with some of the Chinese equipment, which is not up to the standards that they would like. The Burmese also recognize that overdependence on China would be dangerous and have taken steps to be less dependent; they bought MiG fighter jets from Russia, and they supposedly wanted to purchase health facilities from Moscow as well.

Journal: What is the extent of Chinese economic integration with Burma? Is this dependent on the Chinese diaspora, as in other parts of Southeast Asia?

Steinberg: The international statistics on foreign direct investment (FDI) to Burma list Chinese investment as very low over the years, although in 2004 it was the most extensive of a very small total amount. In actuality, however, China is probably Burma's largest source of investment, but this cannot be verified because most of China's FDI enters Burma informally so it does not go through the Myanmar Investment Commission. The amount of trade that takes place is also extensive. China accounts for over one quarter of Burma's legal imports, but the true figure is likely much higher since smuggling is rampant and goods are often undervalued for customs purposes. Often, Chinese investment does not even occur directly with the Burmese government, instead flowing through minority groups on the borders. This is most often true with investments in gold mines and exploitation of forests, both of which produce environmental problems that are not being addressed.

Energy is on the Chinese agenda. There are two kinds of energy that interest the Chinese. One, less obvious, is hydroelectric power. The Chinese have been assisting Burma in the building of dams, and a major dam is planned for construction across the Salween River in the Shan state. In addition, of course, there is the search for oil and gas supplies. The Chinese seem to have bought up the rights to newly discovered offshore oil and natural gas reserves (discovered by Daewoo, a South Korean firm) near the Indian border that were originally designated to supply India via a pipeline through Bangladesh. According to rumor, China is planning to build a pipeline through Burma to southwest China. Chinese access to the Bay of Bengal through Burma raises concern in many countries, not the least of which are the members of ASEAN, who originally admitted Burma in 1997 partly in order to limit Chinese influence. A retired Japanese general also told me that if China can import oil through Burma to southwest China and avoid the Malacca

Straits and the South China Sea, it would not be in Japan's national interests.

Beyond energy, China also has mineral concerns. China is going to invest, according to the Chinese press, in a nickel mine north of Mandalay. At current prices, this should produce revenues for the Burmese government of about \$450 million a year. Add to that the Burmese sale of Burmese gas to Thailand, plus the exploitation of the Arakan gas/oil find on the Arakan coast—this gives the Burmese government a very considerable foreign exchange accumulation capacity, beyond their normal exports of rice, teak, pulses, and sea products. Thus, while the foreign exchange holdings of Burma in 1988, around the time of the coup, were \$30 million, they have grown to \$720 million in 2005. So, even if the plight of the people in Burma has not improved and may have deteriorated since that time, the state has certainly become stronger.

There are four different avenues of Chinese involvement in the Burmese economy. The first is direct relations with the private sector, generally operating through Chinese who are inside the country investing in various businesses, usually smaller scale. The second is public Chinese investment with the state economic enterprises controlled by various ministries. These are usually joint ventures of one kind or another. The third is Chinese joint ventures with the non-public enterprises in Burma that are controlled by the military and registered separately from the public sector. Burma has two such organizations: the Myanmar Economic Holdings Corporation and the Myanmar Economic Corporation. Both of these organizations participate in multiple joint ventures with countries all over the world; they also employ hundreds of thousands of people. These enterprises are unique because, should the government, for example, try to sell off all its state economic enterprises (the public sector), these would not be touched. Chinese influence on that sector therefore can have a very important impact on the military government. The fourth avenue of Chinese involvement is Chinese investment that flows not through the central government but through the minority ceasefire groups. These investments are especially important in the Kachin state, most prominently in the teak extraction and gold mining industries. The Chinese therefore wield a great deal of influence on multiple sectors of Burmese society.

Economically, Chinese citizens have access to Burma through a no-visa policy. The agreement was reached based on the understanding that they should remain near the China border trading posts. They are not supposed to go all over the country, but they do. They buy up Burmese identity cards, which allow them to buy land and businesses, and all indications are that the Chinese economic penetration, especially of northern Burma, has been enormous.

This economic penetration is facilitated by the presence of ethnic Chinese in

Burma. Traditionally, there are some 300,000 Chinese residents in Burma, but informal migration from Yunnan has been extensive. The Australian Foreign Ministry notes that 20 percent of the Mandalay population is Yunnanese Chinese. The U.S. Embassy estimates that about 50 percent of Lashio, the most important city north of Mandalay, is Yunnanese Chinese as well. There are, according to informal sources, perhaps a million undocumented Chinese residents in Burma over and above the 300,000 who are registered with the Burmese government. Thus, informal migration has been extensive.

It is in the interests of the Chinese to encourage development in the country because it can easily become a market for Chinese goods. But the Chinese standard of living in Burma is much higher than that of the Burmese. If the disparity remains so apparent, there could be a negative backlash against ethnic Chinese, as happened in Jakarta. Of course, Burma does not have the same religious disjunctions that Jakarta has. But at the same time, the socioeconomic discrepancy may cause some significant disquiet.

Journal: What implications does the Sino-Burmese relationship carry for U.S. policy?

Steinberg: U.S. isolation of Burma has basically pushed Burma into a closer relationship with China. In that respect, U.S. policy has not been effective. The United States does not have to like the Burmese government, but it does have to be able to deal with it. If it wants reform, Washington must be able to talk to the Burmese leaders about the need for reform on their own terms. This has not happened. Attempting to isolate the state and calling for regime change—which is what the United States has done—only excites Burmese nationalism to a very high degree. I happened to be talking to Secretary General Khin Nyunt, the man who became prime minister three weeks after our discussion, just after the sanctions were passed in 2003. He showed me the picture of President Bush signing the sanctions and he said, “We will stand up to you Americans!” Nationalism is very important for the government’s own political agenda. To uphold the legitimacy of the national government, the generals in charge have to stand up to the foreigners. This does not mean that the United States cannot put pressure on the Burmese; but the pressure cannot be public pressure, which forces a reaction. The same thing has happened in North Korea and elsewhere. We seem to have learned a bit in terms of dealing with Iran, working as we are with the Europeans, that one has to dilute concerns in terms of a public response to these countries. We have not shown the same restraint in the case of Burma.

Sanctions have been equally ineffective. The analogy that people use with

regard to sanctions in Burma is South Africa. But the differences between that situation and this one are enormous. South Africa had a cluster of countries around it that were in favor of an embargo. The regime was tuned in to western Europe, as was the economy and the banking system. None of the above is true in the case of Burma. The only similarity is that both countries had very attractive and brave Nobel Peace Prize winners leading the political opposition, Nelson Mandela and Aung San Suu Kyi. That similarity is not a good basis on which to formulate Burma policy. Also, with the utmost respect for Aung San Suu Kyi, who is a brave and intelligent person, I think the U.S. policy of relying on any one individual—whether it is Prime Minister Tony Blair or President Vicente Fox or General Pervez Musharraf—is an error. It is too dangerous, because these individuals then have the ability, in effect, to control U.S. policy. I would argue that there is substantial proof that U.S. policy in Burma is controlled, indirectly, by Aung San Suu Kyi.

Journal: How will the Sino-Burmese resource relationship develop over the coming decades?

Steinberg: Resource politics (if by this we mean the exploitation of Burmese natural resources) will remain critical over the next century because of the proximity of Burma to China, which badly needs the energy that Burma could supply to China's southwest provinces via pipelines that are being planned. Timber and minerals will loom large, as will gas and energy produced via hydroelectric power.

Sino-Burmese relations are likely to be close over the next decade in spite of likely growing Burmese concerns of being too close to China. In part, that closeness may be dependent on negative attitudes toward Burma in the United States and EU. More isolation from the West will make Burma more dependent on its neighbors—most importantly China, but also India and ASEAN (in an attempt to balance Chinese influence).

There was a thirteenth century Burmese king who was pejoratively known as the "king who ran away from the Chinese." This regime could instead become known as the government that was in too close an embrace with the Chinese. 

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