

China's Myanmar Strategy: Elections, Ethnic Politics and Economics

I. OVERVIEW

Myanmar's 2010 elections present challenges and opportunities for China's relationship with its south-western neighbour. Despite widespread international opinion that elections will be neither free nor fair, China is likely to accept any poll result that does not involve major instability. Beijing was caught off-guard by the Myanmar military's offensive into Kokang in August 2009 that sent more than 30,000 refugees into Yunnan province. Since then it has used pressure and mediation to push Naypyidaw and the ethnic groups that live close to China's border to the negotiating table. Beyond border stability, Beijing feels its interests in Myanmar are being challenged by a changing bilateral balance of power due to the Obama administration's engagement policy and China's increasing energy stakes in the country. Beijing is seeking to consolidate political and economic ties by stepping up visits from top leaders, investment, loans and trade. But China faces limits to its influence, including growing popular opposition to the exploitation of Myanmar's natural resources by Chinese firms, and divergent interests and policy implementation between Beijing and local governments in Yunnan.

The Kokang conflict and the rise in tensions along the border have prompted Beijing to increasingly view Myanmar's ethnic groups as a liability rather than strategic leverage. Naypyidaw's unsuccessful attempt to convert the main ceasefire groups into border guard forces under central military command raised worries for Beijing that the two sides would enter into conflict. China's Myanmar diplomacy has concentrated on pressing both the main border groups and Naypyidaw to negotiate. While most ethnic groups appreciate Beijing's role in pressuring the Myanmar government not to launch military offensives, some also believe that China's support is provisional and driven by its own economic and security interests.

The upcoming 7 November elections are Naypyidaw's foremost priority. With the aim to institutionalise the army's political role, the regime launched the seven-step roadmap to "disciplined democracy" in August 2003. The elections for national and regional parliaments are the fifth step in this plan. China sees neither the roadmap nor

the national elections as a challenge to its interests. Rather, Beijing hopes they will serve its strategic and economic interests by producing a government perceived both domestically and internationally as more legitimate.

Two other factors impact Beijing's calculations. China sees Myanmar as having an increasingly important role in its energy security. China is building major oil and gas pipelines to tap Myanmar's rich gas reserves and shorten the transport time of its crude imports from the Middle East and Africa. Chinese companies are expanding rapidly into Myanmar's hydropower sector to meet Chinese demand. Another factor impacting Beijing's strategy towards Myanmar is the U.S. administration's engagement policy, which Beijing sees as a potential challenge to its influence in Myanmar and part of U.S. strategic encirclement of China.

Beijing is increasing its political and economic presence to solidify its position in Myanmar. Three members of the Politburo Standing Committee have visited Myanmar since March 2009 – in contrast to the absence of any such visits the previous eight years – boosting commercial ties by signing major hydropower, mining and construction deals. In practice China is already Myanmar's top provider of foreign direct investment and through recent economic agreements is seeking to extend its lead.

Yet China faces dual hurdles in achieving its political and economic goals in Myanmar. Internally Beijing and local Yunnan governments have differing perceptions of and approaches to border management and the ethnic groups. Beijing prioritises border stability and is willing to sacrifice certain local commercial interests, while Yunnan values border trade and profits from its special relationships with ethnic groups. In Myanmar, some Chinese companies' resource extraction activities are fostering strong popular resentment because of their lack of transparency and unequal benefit distribution, as well as environmental damage and forced displacement of communities. Many believe such resentment was behind the April 2010 bombing of the Myitsone hydropower project. Activists see some large-scale investment projects in ceasefire areas as China playing into Naypyidaw's strategy to gain control over ethnic group territories, especially in resource-rich Kachin State.

This briefing is based on interviews conducted on both sides of the China-Myanmar border, including Yunnan province, Kachin State and Shan State, as well as in Beijing, Kunming, Yangon, Chiang Mai, Bangkok, New York and Washington DC. Crisis Group spoke to a wide range of individuals, including: Chinese experts and officials, ethnic group representatives, members of Burmese civil society, and local and international NGOs. Most interviewees asked to remain anonymous, due to the sensitive nature of the subject.

II. CHINA AND ETHNIC POLITICS¹

China and Myanmar² are bound by geography, economics and politics in a dependent but asymmetrical relationship.³ Myanmar is the weaker partner. Its powerful neighbour protects it in the UN Security Council,⁴ neutralises attempts to isolate it internationally and bolsters its economy with trade and investment. While China sees problems with the status quo, its preferred solution to the long-term standoff between Naypyidaw and many of the

country's ethnic groups is gradual policy adjustment by a strong central government, not federalism or liberal democracy and certainly not regime change. Its priority is maintaining stability and protecting economic and strategic interests in the country above any democratic or political reforms.

A. LEGACY OF THE KOKANG CONFLICT

Beijing's top concern in Myanmar is the security of its 2,192km shared border.⁵ Unrest on the border could disrupt China's domestic stability and regional economic development.⁶ The August 2009 Kokang conflict created the largest refugee crisis on China's border since the Sino-Vietnam War.⁷ Beijing was caught off-guard by Naypyidaw's attack on the ethnically Chinese troops of the Myanmar National Democratic Alliance Army (MNDAA Shan State-North, Special Region-1) just a few kilometres away in the Kokang region of northern Shan State.⁸ The assault was the first to break the ceasefire agreements in existence since 1989.⁹ Beijing was forced to deploy People's Liberation Army (PLA) units to support People's Armed Police forces to stabilise the border region.¹⁰

The Kokang conflict has dramatically changed China's view of the ethnic groups. Prior to the crisis, Beijing viewed them mostly as buffers that provided strategic leverage over Naypyidaw. It was able to maintain the status quo by using its influence with both sides.¹¹ But the Kokang conflict made China realise it had underestimated Naypyidaw's willingness to use force against the ethnic groups and to seize control of territory.¹² Beijing began to increasingly perceive the ethnic groups as

¹ The briefing focuses on the ethnic groups along the China-Myanmar border and their military wings including the United Wa State Army (UWSA), Kachin Independence Organisation (KIO) and National Democratic Alliance Army (NDAA Shan State-East, Special Region-4).

² This report uses the name Myanmar, in line with the practice of the UN and most countries outside North America and Europe. This is not a political statement or a judgment on the right of the military regime to change the name of the country.

³ For earlier Crisis Group reporting on Myanmar, see Crisis Group Asia Briefing N°105, *The Myanmar Elections*, 27 May 2010; Asia Report N°177, *China's Myanmar Dilemma*, 14 September 2009; Asia Report N°174, *Myanmar: Towards the Elections*, 20 August 2009; Asia Report N°161, *Burma/Myanmar After Nargis: Time to Normalise Aid Relations*, 20 October 2008; Asia Report N°144, *Burma/Myanmar: After the Crackdown*, 31 January 2008; Asia Briefing N°58, *Myanmar: New Threats to Humanitarian Aid*, 8 December 2006; Asia Briefing N°34, *Myanmar: Update on HIV/AIDS Policy*, 16 December 2004; Asia Report N°82, *Myanmar: Aid to the Border Areas*, 9 September 2004; Asia Report N°78, *Myanmar: Sanctions, Engagement or Another Way Forward?*, 26 April 2004; Asia Report N°52, *Myanmar Backgrounder: Ethnic Minority Politics*, 7 May 2003; Asia Briefing N°21, *Myanmar: The Future of the Armed Forces*, 27 September 2002; Asia Briefing N°15, *Myanmar: The HIV/AIDS Crisis*, 2 April 2002; Asia Report N°32, *Myanmar: The Politics of Humanitarian Aid*, 2 April 2002; Asia Report N°28, *Myanmar: The Military Regime's View of the World*, 7 December 2001; Asia Report N°27, *Myanmar: The Role of Civil Society*, 6 December 2001; Asia Report N°11, *Burma/Myanmar: How Strong is the Military Regime?*, 21 December 2000.

⁴ Crisis Group Report, *China's Myanmar Dilemma*, op. cit., pp. 4-5.

⁵ Ibid, p. 3.

⁶ Ibid, p. 3.

⁷ Tom Kramer, "Burma's Cease-fires at Risk", Transnational Institute, 15 September 2009.

⁸ Crisis Group interview, Burmese analyst, Ruili, June 2010; Kunming and Beijing, September 2009.

⁹ Thomas Fuller, "Fleeing battle, Myanmar refugees head to China", *New York Times*, 28 August 2009; Ian Storey, "Emerging Fault Lines in Sino-Burmese Relations: The Kokang Incident", Jamestown Foundation, *China Brief*, vol. 9, no. 18, (10 September 2009); Hannah Beech, "Inside Burma's war", *Time*, 21 September 2009.

¹⁰ These units were responsible for distributing humanitarian assistance and disarming remnants of the Kokang forces. Drew Thompson, "Border Burdens: China's Response to the Myanmar Refugee Crisis", *China Security*, vol. 5, no. 3 (2009), p. 11, 13.

¹¹ Crisis Group interviews, Beijing and Kunming, March 2009.

¹² Crisis Group interview, Kunming, June 2010. Also see Crisis Group Briefing, *The Myanmar Elections*, op. cit.

potentially destabilising and a liability to its interests.¹³ The Kokang offensive also heightened China's perception of the State Peace and Development Council (SPDC) as being less trustworthy and capable of unpredictable behaviour.¹⁴

B. BORDER GUARD FORCES PROPOSAL

The Myanmar government first announced in April 2009 its plan to convert certain ethnic group militias into Border Guard Forces (BGF) under central military control. Under the plan, the ceasefire groups would become state-controlled border guards subordinate to the military's regional commanders and would cede the right to manage their day-to-day affairs.¹⁵ Following substantial opposition to the plan, the government extended the deadline four times between December 2009 and April 2010.¹⁶ While some smaller ethnic armies were forced to join, the major ceasefire groups along the border refused, including the United Wa State Army (UWSA), Kachin Independence Organisation (KIO) and National Democratic Alliance Army (NDAA, Shan State-East, Special Region-4).¹⁷ These groups see their weapons as

the last source of leverage in their long-running battle for autonomy with the military government.

Fearing that Naypyidaw may launch another offensive similar to that in Kokang¹⁸ the major ceasefire groups along the border have been building up their forces.¹⁹ In spring 2010, the Kachin Independence Army (KIA), the military wing of the KIO, ordered soldiers to prepare for military mobilisation and guerrilla warfare.²⁰ The group positioned its forces defensively and increased recruiting.²¹ Many in the KIO civilian administration were ordered back to the jungle.²² Soldiers in UWSA-controlled areas and Special Region-4 also stepped up training and dug trenches in territory close to government-held areas.²³ Families of SPDC officials in the area were told to return to the capital while government troop levels increased near ceasefire group-controlled territory.²⁴ Ethnic group officials and Chinese analysts agreed that under these conditions, the most likely trigger of war was unlikely to be a full-scale military offensive but rather a misfire or skirmish that could trigger a wider conflict. Quoting Mao Zedong, several Chinese analysts and ethnic areas officials described the situation as: "A single spark can start a prairie fire".²⁵

China only became concerned about the border guard forces proposal after the Kokang conflict.²⁶ Initially, Beijing welcomed it, particularly the possibility of having a negotiated resolution to the ethnic group issue.²⁷ It endorsed related negotiations (see below) and opposed any agreement unilaterally dictated by the military government.²⁸ While Beijing did not press the groups to accept the plan, it urged them to negotiate about its de-

¹³ In contrast, ethnic groups still largely view themselves as a strategic asset to China in its dealings with the Myanmar government. Crisis Group interviews, Kachin State and Shan State, June 2010.

¹⁴ Crisis Group interviews, Beijing and Kunming, September 2009.

¹⁵ Unofficial English translation of instructions given by Lt. General Ye Myint and other senior officials of the Myanmar government to ethnic ceasefire groups on 28 April 2009, provided by Western analyst in August 2010.

¹⁶ The original deadline for disarmament was October 2009, but due to inconclusive negotiations, Naypyidaw extended the deadline four times, first to December 2009 then to February, March and April 2010. Brian McCartan, "Myanmar ceasefires on a tripwire", *Asia Times*, 30 April 2010.

¹⁷ Solomon, "Junta sets deadline for ceasefire groups to transform", *Mizzima*, 6 May 2009. Also see "Election 2010", *Mizzima*, www.mizzima.com/election2010.html. Myanmar's official newspaper, *New Light*, reported in mid-May that Shan State-East Special Region-4 (National Democratic Alliance Force) had been transformed into Shan State-East Border Guard Force. See "Shan State-East border guard force formed in Myanmar", *People's Daily*, 19 May 2010. However, *People's Daily* noted two days later that *New Light* failed to specify the status of Shan State-East Special Region-4. "Myanmar strives for transformation of more border guard forces ahead of election", *People's Daily*, 22 May 2010. According to individuals interviewed in Yunnan and Shan State-East Special Region-4, the National Democratic Alliance Force has not accepted the border guard forces proposal. Crisis Group interviews, Yunnan, Shan State-East Special Region-4 and Tachilek, June 2010; McCartan, "Myanmar ceasefires on a tripwire", op. cit.

¹⁸ Crisis Group interview, Shan State-East, Special Region-4, June 2010.

¹⁹ Crisis Group interviews, Western analyst, Yangon; Chinese analysts, Kunming, June 2010.

²⁰ Crisis Group interview, Beijing, May 2010.

²¹ Crisis Group interview, KIO official, Kachin State, June 2010.

²² Crisis Group interview, Western analyst, Yangon, June 2010.

²³ Wa soldiers also stepped up inspections of travellers and vehicles moving between ceasefire areas and the rest of Eastern Shan State, due to fears of espionage. Sources said that three Burmese travellers to UWSA-controlled areas were reportedly executed in early 2010 under the charge of espionage. Crisis Group interviews, Shan State-North, Special Region 2, Shan State-East, Special Region-4, Kyiang Tong, Tachilek, June 2010.

²⁴ Ibid.

²⁵ Crisis Group interviews, Beijing, Kunming, Banna, Tengchong, Shan State-East, Special Region-4 and Special Region-2, Yangon, June 2010.

²⁶ Crisis Group interview, Beijing, March 2010.

²⁷ Crisis Group interview, Beijing, August 2010.

²⁸ "China wants a negotiated settlement", *Shan Herald News*, 30 June 2010.

tails, including the ceasefire forces' status, size and relations with the new government.²⁹ Beijing worried that forceful disarmament could lead to conflict that might threaten the elections and border stability.

C. CHINESE PRESSURE AND MEDIATION

Beijing has consistently called for "national reconciliation" in Myanmar, but these calls became urgent after the Kokang conflict.³⁰ Top Chinese leaders made border stability a priority during high-level visits. During Vice-President Xi Jinping's trip in December 2009, Senior General Than Shwe offered an almost apologetic reassurance that "Myanmar deeply understands and knows that maintaining peace and stability on the border is extremely important to both countries".³¹ Six months later, Premier Wen Jiabao visited Naypyidaw and signed an agreement "on protecting the peace and stability of the (Myanmar) border regions".³² During Than Shwe's visit to Beijing from 7-11 September 2010, the two countries' leaders emphasised the importance of cooperation to "maintain the peace and stability of the border regions".³³

In January 2010, two events in towns close to the border compelled Beijing to take a hands-on approach: the assassination of NDAA leader Min Ein and the discovery of a bomb at a UWSA office in Muse.³⁴ Naypyidaw's involvement was widely suspected, leading the Chinese Ministry of State Security to send multiple officials to the border areas to assess tensions.³⁵ The Chinese ambassador also reportedly met Myanmar's information minister to emphasise Beijing's concerns.³⁶ The prospect of

imminent conflict also prompted China to step in to mediate privately between the two sides and to intensify engagement with ethnic leaders and groups that operate near the border, including the Wa, Kachin, the NDAA and the Shan State Army-South.³⁷

In January and February, China intervened after UWSA chairman Bao Youxiang twice declined Chinese requests to meet with representatives from Naypyidaw to discuss the border guard forces proposal.³⁸ After learning that Bao rejected the meetings because he feared assassination, Beijing privately pressed Naypyidaw to ensure his safety. Negotiations took place on 25 February in government-controlled territory with the participation of Chinese officials.³⁹ Though the talks were inconclusive, China remains confident that further negotiations will take place.⁴⁰

In addition, at least thirteen rounds of negotiations took place between the KIO and the government between April 2009 and April 2010.⁴¹ Chinese officials encouraged both sides to talk while counselling them to exercise restraint.⁴² The KIO and other ethnic armies distrust the Burman-majority military government and its ability to stick to deals; some groups have suggested that China could be involved in negotiations as a guarantor.⁴³

²⁹ Some analysts and ceasefire group officials believed that Beijing endorsed the plan because it would simplify its political and commercial relations with Myanmar. Crisis Group interviews, Chiang Mai, Ruili and Kachin State, June 2010.

³⁰ See Chinese Ministry of Foreign Affairs press conferences on 10 October 2007; 20 December 2008; 28 August 2009; and 1 September 2009, available at www.fmprc.gov.cn.

³¹ Ben Blanchard, "China gets Myanmar assurances on pipeline, border", Reuters, 21 December 2009.

³² Aung Hla Tun, "China signs agreement with Myanmar on border stability", Reuters, 3 June 2010.

³³ «缅甸最高领导人丹瑞访华与胡锦涛会谈» ["Top Myanmar leader Than Shwe visits China and meets with Hu Jintao"], *China News*, 8 September 2010; "Senior General Than Shwe meets PRC State Council Premier Mr. Wen Jiabao", *The New Light of Myanmar*, 13 September 2010.

³⁴ Wai Moe, "Chinese Ambassador meets Burmese Minister as uncertainty mounts on the Sino-Burmese border", *The Irrawaddy*, 30 January 2010.

³⁵ Crisis Group interviews, Burmese analyst, Chiang Mai, June 2010; Kunming, June 2010.

³⁶ Wai Moe, "Chinese Ambassador meets Burmese Minister as uncertainty mounts on the Sino-Burmese border", *The Irrawaddy*, 30 January 2010.

³⁷ The Wa have a close relationship with China – twelve of the top UWSA commanders are ethnically Chinese Wa. The Kachin's relationship with China is more complicated because of the group's history of relationships with Taiwan, India and the U.S. China also believes Kachin share a connection with the U.S. because many Kachin are Christians. Crisis Group interviews, Burmese analyst, Ruili; Crisis Group interviews, Kunming, Tengchong, Mengla, June 2010.

³⁸ Crisis Group interviews, Kunming, March 2010. Bao first rejected the request for personal health reasons. When China stepped up pressure, he subsequently cited the Chinese New Year as an excuse not to attend negotiations.

³⁹ The negotiation did not yield much progress because UWSA and Naypyidaw could not agree on the number of armed forces to be transformed into border guard forces, the appointment of commanders and the future territory of UWSA. UWSA could not accept Naypyidaw's proposal to keep two battalions of its combat force. However, China is prepared to continue to exert pressure to facilitate talks. Crisis Group interviews, Kunming and Tengchong, March and June 2010.

⁴⁰ Crisis Group interviews, Kunming and Beijing, June 2010.

⁴¹ "Kachin leaders to speak out about failed negotiations to form the BGF", *Taungzalat News*, 9 April 2010.

⁴² Crisis Group interview, member of Burmese civil society, Yangon, June 2010. The KIO maintains close contact with officials from both Beijing and Kunming. Crisis Group interviews, Kachin State, June 2010.

⁴³ Crisis Group interview, Western analyst, Yangon, June 2010. Underscoring the ethnic dimension of the conflict and the mistrust between Myanmar's myriad ethnic groups, a KIO official commented: "the Burmans can't be trusted. They make

KIO central committee officials travelled to Beijing for a meeting during the border guard forces proposal crisis.⁴⁴ China also pushed the NDAA, but not as much as other groups given that its position is heavily influenced by the UWSA.⁴⁵

Tensions peaked at the end of April 2010 (the final deadline for ceasefire groups to accept the border guard forces proposal). Many analysts – Chinese, Western and Burmese – cited Beijing's mediation and pressure as a key factor in ensuring that tensions did not boil over.⁴⁶ According to a Burmese analyst: "The reason the situation with the Wa cooled down was because of the China factor. The relationship between the UWSA and China is too integrated for the latter to support a crackdown on the Wa".⁴⁷

Beijing was relieved to see Naypyidaw back off from the border guard forces proposal when tensions escalated in late spring 2010. Chinese analysts reasoned that Naypyidaw had little to lose by leaving the issue until after the elections, as most ceasefire groups were in a defensive posture and not seeking to expand their territory.⁴⁸ Beijing emphasised to the Myanmar government that conflict with the Wa and Kachin would be more difficult and costly than its offensive into Kokang.⁴⁹ The ethnic groups in turn also recognised that they were unlikely to win, and could at most only delay a government victory by launching guerrilla attacks.⁵⁰

promises one day only to wiggle out of them the next. If Beijing takes one shoulder and [New] Delhi the other, they can stop the Burmans from wiggling". Crisis Group interview, KIO official, Bangkok, May 2010.

⁴⁴ Crisis Group interview, KIO official, Kachin State, June 2010.

⁴⁵ According to Mongla business owners with close ties to NDAA, the UWSA has pressed them to refrain from negotiating or compromising with the military government on the BGF proposal. Reportedly, UWSA told NDAA that if they were to surrender to SPDC, they may as well just surrender to UWSA. China understands the dilemma NDAA faces and has therefore focused its pressure on UWSA instead. Crisis Group interviews, Mongla, Shan State-East, Special Region-4, June 2010.

⁴⁶ Crisis Group interviews, Bangkok, Beijing, Chiang Mai, Kunming, Ruili and Yangon, May-June 2010.

⁴⁷ Crisis Group interview, Yangon, June 2010.

⁴⁸ Crisis Group interview, Kunming, June 2010.

⁴⁹ The militia in Kokang has been estimated as at most 1,500 persons. Mungpi, "Spurt in tension between Burmese army and Kokang rebels", *Mizzima*, 25 August 2009. The UWSA has a reported 15,000 troops. Crisis Group interview, Kunming, March 2010. The KIO has an estimated 10,000 troops, in addition to the reported 20,000 members of its auxiliary forces. Crisis Group interview, KIO official, Kachin State, June 2010.

⁵⁰ Crisis Group interviews, Kunming, Chiang Mai, Yangon and Kachin State, June 2010.

D. RESPONSES FROM NAYPYIDAW AND ETHNIC GROUPS

Naypyidaw has largely accepted China's role in facilitating negotiations, although it still views China's ties with the UWSA and KIO with suspicion given China's consistent support to the Burmese Communist Party until 1989.⁵¹ Chinese analysts say Naypyidaw is now convinced that Beijing will not obstruct it in solving the issue of the ethnic groups, which was not the case prior to the Kokang conflict.⁵² Yet China's objection to any use of force irritates hardliners within the Myanmar military who are eager to take a more aggressive stance to bring the ethnic groups under central government control.⁵³

The ethnic groups' perceptions of Chinese strategy are more complex. While some appreciate China advising Naypyidaw against military action, others including the Wa feel that Beijing, by forcing them to the negotiation table, has betrayed or abandoned them to protect its own security and commercial interests.⁵⁴ In their view, despite Chinese pressure and mediation, any premature agreement on their future is not likely to bring peace and stability.⁵⁵ Some ethnic group leaders are also sceptical of Beijing's support because of its growing relationship with the SPDC: "We don't know what game China is playing and are concerned what it may ask from us in return for its continued support".⁵⁶

A Kachin activist noted that China had played a positive role in helping to stem ethnic conflict in the past few years through its expression of private concerns, sending

⁵¹ Crisis Group interview, Yangon, June 2010. See also Crisis Group Report, *China's Myanmar Dilemma*, op. cit., p. 1.

⁵² Crisis Group interviews, Chinese diplomats and scholars, Yangon, Beijing and Kunming, June 2010.

⁵³ Crisis Group interviews, Yangon and Kunming, June 2010.

⁵⁴ Many Wa consider themselves more Chinese than Burmese. They feel that China first abandoned them during the border negotiation with Myanmar in the 1950s, when Beijing ceded border territories to please the Myanmar government and break China's international isolation. In the late 1980s, China abandoned the Burmese Communist Party (BCP) as it shifted away from its revolutionary foreign policy of the Cultural Revolution. This led to the 1989 ceasefire agreements and the disintegration of the BCP into border ceasefire groups. Crisis Group interview, Northern Shan State, June 2010. China observes a "Four No's" policy towards border groups: no political recognition; no military support; no organisational exchanges; no economic aid. Some members of the ethnic groups justify their drug and other illegal businesses by citing Chinese abandonment. Crisis Group interview, Chinese analyst, Kunming, June 2010.

⁵⁵ Crisis Group interview, KIO official, Kachin State, June 2010.

⁵⁶ Crisis Group interview, Burmese civil society activist, Ruili, June 2010.

the message that the SPDC “cannot do as it wishes in the border areas”.⁵⁷ A KIO official who hoped China would help the two sides reach a political settlement said that the group has had “basic discussions” with Beijing over the contours of a “genuine union” in which the ethnic groups would have autonomy, possibly like the Chinese Special Administrative Regions (SARs).⁵⁸ The Kachin are working on a common peace proposal for which they plan to seek Beijing’s backing.⁵⁹ They believe Chinese involvement might help prevent the government from renegeing on any deal reached, and that China would be the “best custodian of a peace process between the ethnic groups and the army”.⁶⁰ Others are more sceptical. A commander from an armed group on the border said: “It’s very possible that we [Myanmar armed groups] are pawns in China’s game with the junta. Most Burmese are inclined towards the West. If the situation in Burma is more stable than Burma won’t need China as much. Burma could then turn to other countries for help”.⁶¹

Other groups, like the Shan, are also seen increasingly turning to China rather than Western countries as they used to do in the past: “We have to deal with them. We can’t put out a fire on our doorstep with water that is far away [the West]. We have to use the water we have [China]”.⁶² These groups believe that China is the only external actor that has real leverage with the SPDC.⁶³ Many ethnic groups also express the desire for those outside the region to pressure China, as well as India and the Association of Southeast Asian Nations (ASEAN), in order to improve their situation.⁶⁴

⁵⁷ Crisis Group interview, Burmese civil society activist, Yangon, June 2010. KIO officials heard that Wen Jiabao told the SPDC not to prepare for war before the election, indicating China’s support for the election process. Crisis Group interview, KIO official, Kachin State, June 2010.

⁵⁸ Crisis Group interview, Bangkok, May 2010. At present, China has two SARs, Hong Kong and Macao, which were British and Portuguese territories before 1997 and 1999 respectively.

⁵⁹ Crisis Group interview, Kachin State, June 2010.

⁶⁰ Crisis Group interview, KIO official, Kachin State, June 2010.

⁶¹ Crisis Group interview, Kachin State, June 2010.

⁶² Crisis Group interview, Burmese analyst, Chiang Mai, June 2010.

⁶³ Crisis Group interview, Yangon, June 2010.

⁶⁴ For example, Mon civil society members expressed a desire for greater lobbying of and dialogue with the international community, in particular Russia and China. “[There should be] more lobbying to China and Russia government. They have veto power in the world ... We need to lobby to make them understand the real situation in our country, how it works. We need to know how different those two governments look at the situation in Burma”, *Listening to Voices from*

E. ATTITUDES TOWARDS ELECTIONS

China would like to see the broadest participation possible from the ethnic groups in the elections to boost the credibility of the polls.⁶⁵ Refusal to participate also increases the risk of military confrontation with a central government that might feel its legitimacy and authority challenged.⁶⁶ But many ethnic groups are reluctant to participate precisely because this would indicate acceptance of the 2008 constitution, which deprives them of the right to self-determination and dismisses all armed groups, except the Myanmar military, as illegal.⁶⁷ Several ethnic leaders warned: “Most of us think the new constitution will cause more conflict, possibly violent, if it’s not amended”.⁶⁸

At the end of August, the Wa rejected the elections by stating they would deny poll workers access to their territories.⁶⁹ Participation in elections would imply acceptance of the constitution, which the Wa reject because it [the constitution] does not recognise its [the Wa’s] southern region on the Thai border and instead establishes a self-administered division under the Shan State parliament, rather than a “state” or territory under national-level administration.⁷⁰ Participation would also

Inside: Ethnic People Speak, Centre for Peace and Conflict Studies, June 2010, p. 204.

⁶⁵ Crisis Group interview, Kunming, June 2010.

⁶⁶ Crisis Group interview, Yunnan, June 2010. See also Crisis Group Briefing, *The Myanmar Elections*, op. cit.

⁶⁷ The 2008 constitution includes the creation of a “self-administered division” for Wa and UWSA as well as fourteen assemblies in areas that are home to the major ethnic groups. However, the Myanmar military has the power to appoint a fourth of the members and the chief minister of the region. With such provisions the ethnic groups will lose their right to choose their chief. C.S. Kuppuswamy, “Myanmar: Elections 2010 – A Curtain Raiser”, *South Asia Analysis*, 28 December 2009. Some analysts in Yangon suggest the generals might request the next government to recognise the ceasefire agreements to avoid them being declared illegal and give both sides time to revisit the border guard force proposal or a similar initiative. But others note that having armed groups around after the election gives the army an escape route if the elections do not go its way. For example, a violation of the constitutional ban on armed groups could give the army an excuse to delay the charter’s implementation, declare a state of emergency or stage another coup to prevent the parliament from sitting. Crisis Group interviews, Burmese civil society activist and Western analyst, Yangon, June 2010.

⁶⁸ Crisis Group interview, KIO official, Kachin State, June 2010. Also, Crisis Group interviews, KIO official, Bangkok, May 2010; Burmese civil society activist, Yangon, June 2010; KIO official, Kachin State, June 2010.

⁶⁹ “Wa, Mongla will not allow Election Commission entry”, *Shan Herald Agency for News*, 31 August 2010.

⁷⁰ Crisis Group Briefing, *The Myanmar Elections*, op. cit.

imply acceptance of the SPDC's design for the country's political future, including the status of ceasefire groups which in the UWSA's eyes is undecided.⁷¹ The Wa have also successfully exerted pressure on the NDAA, which similarly announced that it would not let election commission workers into its territory.⁷²

With regard to the Kachin, in mid-September the Union Election Commission reportedly barred three out of four Kachin-affiliated political parties and blocked a dozen senior leaders from running as independents.⁷³ In contrast to the Wa, the KIO wanted to participate in elections because it feared the violent example of the Kokang conflict and did not want to be left out of shaping post-election policies.⁷⁴ But only one (pro-government) Kachin party registered, leaving many Kachin with no meaningful stake. An influential member of the Kachin community said in June: "If the KSPP is denied registration, the KIO and the armed resistance would gain ground; it will just make KIO stronger", and "certainly makes war more likely".⁷⁵

China does not consider the elections in Myanmar a challenge to its interests as long as they do not result in instability. Beijing supports political reforms only on this basis. Emphasising that the elections are Myanmar's internal affair, China has not explicitly endorsed the process and has called on the international community not

to interfere.⁷⁶ Beijing hopes that elections, if conducted smoothly, will help chart a path for the country towards stability and legitimacy.⁷⁷ It has been disappointed that both the National League for Democracy and some ethnic groups have rejected the elections, because this diminishes the credibility of the polls.⁷⁸ While Beijing anticipates Western condemnation of the elections,⁷⁹ it believes that in the long term they may help mitigate international criticism of China for its political support to and business deals with Naypyidaw.⁸⁰ China does not expect the polls to lead to a democratic government which could align more closely with the U.S., India and Western democracies.⁸¹ While a more accountable government in Myanmar would likely offer a more stable business environment, it could also increase public scrutiny of large-scale Chinese investments.⁸²

⁷¹ Crisis Group interviews, Yunnan, Shan State-East, Special Region-2 and Special Region-4, June 2010.

⁷² "Wa, Mongla will not allow Election Commission entry", *Shan Herald Agency for News*, 31 August 2010.

⁷³ "Myanmar bars some ethnic leaders from polls: source", Reuters, 15 September 2010. The parties banned include: the Kachin State Progressive Party (KSPP), United Democracy Party (Kachin State) (UDPKS) and the Northern Shan State Progressive Party (NSSPP). The KIO, for example, tried to indirectly participate in the election but was unable to register its proxy party, the Kachin State Progressive Party (KSPP). The relationship between KSPP and KIO is controversial. The party was first formed in March 2009 by three ceasefire groups: KIO, New Democratic Army-Kachin and Lasang Awng Wa Peace Groups. Dr. Manan Tuja, the party's leader, is a former KIO vice chairman. The Myanmar government views KIO and KSPP as one and the same: both oppose the government. Lawi Weng, "Kachin party links to KIO criticized", *The Irrawaddy*, 7 June 2010. Most Chinese analysts think that the KSPP represents KIO. Crisis Group interviews, Tengchong, Kunming and Yunnan, June 2010. However, Kachin representatives from the KIO and the KSPP insist there are no official links. Crisis Groups interviews, Yangon and Kachin State, June 2010.

⁷⁴ *Listening to Voices from Inside: Ethnic People Speak*, Centre for Peace and Conflict Studies, op. cit.

⁷⁵ Crisis Group interview, Kachin community leader, Kachin State, June 2010.

⁷⁶ Chinese Ministry of Foreign Affairs press conference on 7 September 2010, available at www.fmprc.gov.cn.

⁷⁷ Premier Wen Jiabao said, "China sincerely wishes that the elections will be conducted smoothly and it wishes stability for Myanmar's nation, unity for its people, and economic development". 《国务院总理温家宝 3 日与缅甸总理登盛举行会谈》 ["State Council Premier Wen Jiabao Meets with Myanmar Prime Minister Thein Sein on the 3rd"], 中央政府门户网站 [website of the Central People's Government of the People's Government of China], 3 June 2010. China believes that the election deserves the "understanding and respect" of the international community. 《中国驻联合国代表：缅甸选举应得到国际社会尊重》 ["Chinese Representative to the UN: Myanmar Election Deserves Respect of International Community"], Huanqiu.com, 24 March 2010.

⁷⁸ Although the reasons for the NLD's decision not to participate were understood, the move was seen within China as unwise and regrettable. Crisis Group interview, Kunming, June 2010.

⁷⁹ U.S. Assistant Secretary of State Kurt Campbell commented in March 2010 on the electoral laws in Myanmar: "This is a step in the wrong direction. The political party law makes a mockery of the democratic process and ensures that the upcoming elections will be devoid of credibility". David Gollust, "U.S.: Burma election law 'mockery' of democratic process", *VOA News*, 10 March 2010.

⁸⁰ Many interviewees suggested that the elections will partially legitimise the SPDC and make the military government less of a liability to do business with. One commented: "The elections whitewash the army, not only for Beijing, but also for other members of the international community". Crisis Group interviews, Burmese civil society activists, Ruili, 23 June 2010.

⁸¹ Crisis Group interviews, KIO official, Kachin State; Burmese civil society activist and Burmese analyst, Ruili, June 2010.

⁸² Crisis Group interview, Burmese analyst, Ruili, June 2010.

III. STRATEGIC CONCERNS: BEYOND A STABLE BORDER

A. ENERGY SECURITY: PIPELINES, NATURAL GAS AND HYDROPOWER

Trans-shipment of oil and the country's natural gas are among China's foremost interests in Myanmar. In June 2010, China National Petroleum Company (CNPC) began construction of major oil and gas pipelines from the deep-water port of Kyaukphyu (Sittwe) in Myanmar to Kunming, the capital of Yunnan province.⁸³ Once complete, the pipelines will improve China's access to crude oil from the Middle East and Africa, cut transportation time, and provide an alternate energy supply route should access to the Straits of Malacca be reduced because of conflict, piracy or terrorism.⁸⁴ The pipelines will also make China the primary recipient of natural gas from the Shwe fields; by 2013, China is expected to replace Thailand as the largest consumer of Myanmar's natural gas.⁸⁵

Myanmar's hydropower resources are also a target for investment because they offer an abundant source of inexpensive energy close to the border that can be used to satisfy growing Chinese demand.⁸⁶ Beijing also hopes

that Myanmar's hydropower resources can help improve the ratio of clean energy in its power companies' output.⁸⁷ All five state-owned Chinese power companies are investing in Myanmar's hydropower sector. The Chinese company Huaneng constructed the Shweli River I Power Station, Myanmar's largest hydropower project, and has signed a memorandum of understanding with the Myanmar government for the follow-on Shweli II facility.⁸⁸

B. ACCESS TO THE INDIAN OCEAN AND THE MALACCA DILEMMA

Myanmar is a strategic corridor allowing China to secure access to the Indian Ocean.⁸⁹ China is constructing transport routes and oil and gas pipelines in the country that provide it access to port cities.⁹⁰ Myanmar also serves as a continental bridge into South and South East Asia, as well as a buffer between China and other major powers around the Indian Ocean. Some Chinese and foreign analysts refer to China's efforts to "overcome its 'single-ocean strategy'" (the Pacific) and to pursue a "two-ocean strategy" (the Pacific and Indian Oceans).⁹¹ Myanmar's

flock to Southeast Asia for hydropower development and transferring power from west to east China", 《21世纪经济报道》 [21st Century Business Herald], 9 April 2010.

⁸⁷ China counts hydropower as clean energy and is trying to rely on it more to reduce greenhouse gas emissions. Although the World Bank considers hydropower a clean renewable energy source, environmental groups disagree due to the negative impact on local ecosystems and communities. "Directions in Hydropower", World Bank, 2009.

⁸⁸ The Shweli River I Power Station was built under a build-operate-transfer agreement. It started operating in 2009 with an installed capacity of 600MW. It has boosted Myanmar's hydropower capacity by nearly one third. 85 per cent of the output goes to China. China Power Investment Corporation is investing \$30 billion in the Shweli II facility. See 于洪海 [Yu Honghai], 《开发东南亚水电, 助力西电东送》, ["Develop Southeast Asian hydropower, support transferring power from Western China to Eastern China"], op. cit.

⁸⁹ 健君 [Jian Jun], 《云南大通道》 ["Yunnan the Grand Corridor"], 《瞭望》 [LiaoWang], 2 August 2010.

⁹⁰ For example, the Kyaukpyu-Kunming oil and gas pipeline project under construction and the proposed highway between Ruili in Yunnan province with Kyaukpyu will link China with the Indian Ocean through Myanmar. China is developing port facilities in Hainggyi, Coco, Sittwe, Zadetkyi Kyun, Myeik and Kyaukphyu, as well as in Pakistan, Bangladesh, Sri Lanka, Thailand and Cambodia. Crisis Group Report, *China's Myanmar Dilemma*, op. cit.

⁹¹ 李晨阳、梁晨 [Li Chenyang, Liang Chen], 《1988年以来中国与印度对缅甸政策的比较》 ["Comparative Studies of China and India's Myanmar Policies Since 1988"], published at the Yunnan University Conference on 60th anniversary of diplomatic normalisation between China and Myanmar, Kunming, 5-6 June 2010. 蔡裕明 [Cai Yuming], 《两洋突围-

⁸³ 《中缅油气管道项目正式开工》 ["Sino-Myanmar oil and gas pipeline project officially launched"], CNPC News, 3 June 2010.

⁸⁴ Nearly 80 per cent of China's imported oil must pass through the Straits of Malacca. Proponents of the Myanmar pipeline argue that it will reduce China's reliance on the straits for oil transportation by at least one third, and provide easier access to crude oil for China's inland refineries. It will also shorten the route from Africa and the Persian Gulf by about 1,200km. 李晨阳 [Li Chenyang], 《缅甸问题》的新挑战》 ["New Challenges for the 'Myanmar Issue'"], *Shijie Zhishi*, 1 January 2010, pp. 38-39; Crisis Group Report, *China's Myanmar Dilemma*, op. cit.

⁸⁵ "Current Realities and Future Possibilities in Burma/Myanmar: Options for U.S. Policy", Asia Society Task Force Report, March 2010, p. 27. China is expected to import 400 million cubic feet of gas per day from Myanmar's offshore fields by 2013. Shinhye Kang, "China may start receiving Myanmar gas through pipeline in 2013", Bloomberg, 10 March 2009; "Myanmar FDI drops, trade surplus grows in 2009/2010", Reuters, 16 July 2010.

⁸⁶ 于洪海 [Yu Honghai], 《开发东南亚水电, 助力西电东送》 ["Develop Southeast Asian hydropower, support transferring power from Western China to Eastern China"], 《中国能源报》 [China Energy], 12 May 2010. Another reason for Chinese companies to expand into South East Asia is that domestic hydropower resources have already been largely divided among the five national power companies. 徐炜旋、梁钟荣 [Xu Weixuan, Liang Zhongrong], 《中资电企"扎堆"东南亚开发水电 助力西电东送》, ["Chinese power companies

geopolitical significance has resulted in enhanced military-to-military exchanges, including the first visit to Myanmar by PLA naval warships from 29 August to 2 September 2010.⁹²

Shipping routes through Myanmar will reduce China's reliance on the Straits of Malacca, alleviating the "Malacca dilemma",⁹³ which refers to Beijing's fears that access to the passage could be threatened by the U.S., particularly in the event of conflict in the Taiwan Strait.⁹⁴ But Chinese views on the Malacca dilemma are changing: energy transport via pipelines is not necessarily considered more secure than through the straits because U.S. military supremacy in the region renders both vulnerable.⁹⁵ The China-Myanmar pipeline could "improve on an already complete picture" (锦上添花), but would not "help in times of trouble" (雪中送炭).⁹⁶ The pipelines can still diversify China's oil import routes⁹⁷ and mitigate dependence on the Straits of Malacca in the case of closure due to piracy, for example.

C. THE U.S. AND REGIONAL COMPETITORS

Beijing believes the Obama administration's shift from a sanctions-centred policy to one which balances existing sanctions with "pragmatic engagement"⁹⁸ is driven

中国对缅甸外交政策之探究》[“Breaking Out from Two Oceans – A Study of China's Foreign Policy towards Myanmar”], *Social Sciences Journal*, Feng Jia University, May 2004, p. 303. The term “two-ocean strategy” is frequently used by South East Asian and Taiwanese scholars, although it is not widely accepted by Chinese scholars. For details on China's two-ocean strategy, see Robert Kaplan, “China's Arrival: A Strategic framework for a Global Relationship”, Center for New America Security, September 2009, Chapter 2 (“China's Two-Ocean Strategy”).

⁹² 《中国海军舰艇首次访问缅甸》[“Chinese naval warships' first visit to Myanmar”], CCTV, 30 August 2010.

⁹³ For more info on the Malacca dilemma, see Crisis Group Report, *China's Myanmar Dilemma*, op. cit., p. 19.

⁹⁴ You Ji, “Dealing with the Malacca Strait Dilemma: China's Efforts to Enhance Energy Transportation Security”, EAI Background Brief No. 329, 12 April 2007. Scholars in Beijing have also suggested that the pipeline will reduce China's ability to influence the military government, noting that it places strategic energy resources at the mercy of an erratic regime. Crisis Group interview, Beijing, August 2010.

⁹⁵ Crisis Group interviews, Kunming, June 2010.

⁹⁶ Crisis Group interview, Kunming, June 2010.

⁹⁷ 健君 [Jian Jun], 《云南大通道》[“Yunnan the Grand Corridor”], op. cit.

⁹⁸ In February 2009, U.S. Secretary of State Hillary Clinton announced a comprehensive review of U.S. policy towards Myanmar. The conclusion of the policy review, released in September 2009, stated that in addition to ongoing U.S. sanctions and support for the democratic opposition, it would also

primarily by the desire to contain Chinese influence in Myanmar and the region.⁹⁹ Some Chinese analysts have said that U.S. Myanmar policy is part of a larger effort to encircle China through security alliances and a military presence in the South Pacific and Indian Oceans.¹⁰⁰ China believes that the U.S. wishes to “return to South East Asia”, after a post-September 11 foreign policy focus on terrorism.¹⁰¹

Washington's engagement policy has various implications for Beijing's interests in Myanmar. The possibility of warmer ties between the U.S. and Myanmar is viewed as a potential threat to Chinese security, in particular its south-western border and access to the Indian Ocean.¹⁰² A U.S.-friendly Myanmar may also create uncertainties with regard to oil and gas pipeline operation and supply.¹⁰³ Fraught relations between the U.S. and Myanmar have contributed to continued sanctions under which Chinese companies have thrived. Chinese busi-

expand humanitarian assistance and engage in direct, high-level dialogue with the military government. “Background Note: Burma”, U.S. Department of State, Bureau of East Asian and Pacific Affairs, 28 July 2010.

⁹⁹ Crisis Group interview, Kunming, June 2010.

¹⁰⁰ Qu Jianwen, 《专家称美国对缅政策调整是为遏制中国崛起》[“Expert says U.S. policy shift on Myanmar is to contain China's rise”], 《青年参考》[*Qingnian Cankao*], 27 October 2009. A 27 May 2010 Xinhua article written by Air Force Colonel Dai Xu, an influential Chinese military strategist, criticises the U.S. for its “crescent-shaped strategic encirclement” of China that “begins in Japan, stretches through nations in the South China Sea to India, and ends in Afghanistan”. 戴旭 [Dai Xu], 《美国对中国的暗算》[“U.S. efforts to sabotage China”], 《环球视野》[*Global View*], 24 May 2010.

¹⁰¹ 周士新 [Zhou Shixin], 《为何应该警惕美国重返东南亚》[“Why we should be alert to the U.S. returning to Southeast Asia”], 新民网 [Xin Min Net], 23 July 2009. 《美国紧拉缅甸制衡中国, 高官与缅甸频繁接触》[“The U.S. pulls Myanmar closer to contain and balance China, American senior officials frequently engage Myanmar”], *Singtao Daily*, 16 November 2009. The first direct senior-level meetings between the U.S. and Myanmar under the engagement policy occurred in September 2009 in New York. In November 2009 and May 2010, East Asian and Pacific Affairs Assistant Secretary of State Kurt Campbell visited Myanmar and met with government officials, democratic opposition leaders, including Aung San Suu Kyi, and other ethnic leaders. “Background Note: Burma”, U.S. Department of State, op. cit.

¹⁰² Crisis Group interviews, Beijing, Kunming, June 2010. As Zhang Xizhen, a Myanmar scholar at Peking University writes: “If Washington was to normalise its relations with Naypyidaw, it will certainly threaten China's security”. 《美国调整对缅政策, 专家称或冲击中缅关系》[“U.S. adjusts policy towards Myanmar. Experts say it may challenge Sino-Myanmar relations”], 《广州日报》[*Guangzhou Daily*], 24 May 2010.

¹⁰³ Crisis Group interview, Yangon, June 2010.

nesspeople and officials worry about what might happen should the current situation change.¹⁰⁴

China understands the military government's desire to engage in dialogue with the U.S. as part of an effort to rid itself of sanctions, receive more development assistance, attract more foreign investment and build its international legitimacy.¹⁰⁵ Naypyidaw's relationship with Washington is also a means for Myanmar to strengthen its bargaining position vis-à-vis China and other countries. Some suggest: "The junta ... is talking to the Americans as a way to balance Beijing".¹⁰⁶

While Beijing is aware that the U.S. engagement policy has not achieved its stated objectives so far,¹⁰⁷ it worries about changes after the elections which could give momentum to the relationship.¹⁰⁸ Given Western criticism of the elections, Chinese analysts predict that both the Obama administration and the military regime are likely to wait "for the dust to settle" after the controversial polls before making further moves. They suggest that such actions could include the release of Aung San Suu Kyi, which would set the stage for rapprochement.¹⁰⁹

China is also concerned about growing competition in Myanmar from other countries in the region such as India. Beijing feels that India is ready to take advantage of any chill in China-Myanmar relations to position its corporations for further investment. Senior General Than Shwe's state visit to New Delhi from 25-29 July 2010, which highlighted deepening bilateral ties, irritated Beijing. Not only did the trip closely precede the China visit, but it raised concerns about closer ties with U.S.-friendly India.¹¹⁰ Afterwards, Indian state-owned energy com-

panies announced a \$1.3 billion investment in gas-field development and pipeline projects.¹¹¹ Earlier this year, India's state-owned National Hydropower Company Limited announced it would increase investment by \$5.6 billion.¹¹² Competition between India and China allows Myanmar to diversify the sale of its energy resources as well as expand its sources of trade and assistance. With regard to Kachin State in particular, a Burmese analyst noted that the SPDC seeks to use India as a counterweight to China's rapidly expanding influence. "The regime wants to offset Chinese influence by whatever means. This is the main reason why the Burmese army is dealing with India".¹¹³

IV. CONSOLIDATING POLITICAL AND ECONOMIC TIES

China's effort to consolidate ties with Myanmar is reflected in the increasing level and frequency of senior official visits. Three of the nine members of the Politburo Standing Committee¹¹⁴ visited Myanmar between March 2009 and June 2010. In the previous eight years, no members had visited the country (the last was former

¹⁰⁴ Crisis Group interviews, Kunming and Yangon, June 2010. See also "U.S. adjusts policy towards Myanmar. Experts say it may challenge Sino-Myanmar relations", *Guangzhou Daily*, op. cit.

¹⁰⁵ 秋千 [Qiu Qian], 《美国和缅甸：一对冤家能走多远》 ["United States, Myanmar: How close will these enemies get?"], 《世界知识》 [*Shijie Zhishi*], 1 December 2009, pp. 34-35.

¹⁰⁶ Crisis Group interview, Burmese civil society activist, Yangon, June 2010.

¹⁰⁷ One U.S. official described the pace of progress as expected to be "glacial". Crisis Group interview, Washington DC, June 2010. This was not surprising. The Obama administration announced the new policy stressing that it would be a long-term process with an aim to better position the U.S. for post-election scenarios.

¹⁰⁸ Crisis Group interviews, Kunming and Yangon, June 2010, Beijing, September 2010.

¹⁰⁹ Crisis Group interviews, Kunming and Yangon, June 2010.

¹¹⁰ Crisis Group interviews, Beijing, September 2010. During Than Shwe's visit to New Delhi, his first in six years, India and Myanmar signed five pacts: mutual legal assistance in criminal matters; small development projects; science and

technology; information cooperation; and an MOU on Indian assistance in restoring the Ananda temple in central Myanmar. India's EXIM bank pledged a \$60 million line of credit for railway projects and equipment, and the Indian government promised \$10 million for the purchase of modern agricultural equipment. "India pledges millions in credit to Myanmar regime", Agence France-Presse, 28 July 2010. Since the early 1990s, India's Myanmar policy has shifted away from support for the democracy movement towards engagement with the military government. Factors driving this shift included India's desire to obtain the Myanmar government's support in addressing insurgency problems in India's north east, to counter China's growing regional influence and to improve economic and energy ties. Crisis Group interview, Beijing, September 2010. "India pledges millions in credit to Myanmar regime", op. cit. Crisis Group Report, *China's Myanmar Dilemma*, op. cit., p. 28. 李晨阳、瞿健文 [Li Chenyang, Qu Jianwen], 《试论 1988 年以来印度与缅甸关系的发展》 ["Discussing the Development of India-Myanmar Relations since 1988"], 《南亚研究》 [*South Asian Studies Quarterly*], vol. 2 (2005).

¹¹¹ "India and Burma get down to business", *Time*, 28 July 2010.

¹¹² "India eyes \$5.6 bn Burma hydropower deal", *Democratic Voice of Burma*, 22 April 2010.

¹¹³ Crisis Group interview, Burmese analyst, Yangon, June 2010.

¹¹⁴ The Politburo Standing Committee is the most powerful decision-making body in the Chinese government; its nine members include the top leadership of the Chinese Communist Party.

president Jiang Zemin in 2001).¹¹⁵ During the recent visits, leaders signed 35 economic agreements covering a range of sectors including oil and gas, hydropower, technology and project financing. Premier Wen also finalised details of the milestone oil and gas pipelines during his visit and announced the official start of construction.¹¹⁶ This spike in top-level visits and economic deals sends a signal to Naypyidaw about its importance in Beijing's calculations and the potential economic largesse it can offer. Senior General Than Shwe visited China from 7-11 September, briefing senior Chinese officials including President Hu and Premier Wen about election preparations and expressing a desire to learn from Chinese economic reform.¹¹⁷

With the military establishment almost certain to retain power after the elections, economic integration has become a key part of China's mapping of bilateral relations beyond this year. China believes that the future Myanmar government will face domestic pressure for economic growth in order to bolster its legitimacy and popularity.¹¹⁸ This is expected to create demand for technology, investment and infrastructure – and hence business opportunities. With Western sanctions on Myanmar still in place and relying on the “Going Out”¹¹⁹ policy to spend its massive foreign exchange reserves, Beijing views it-

self as poised to “jump in and fill the void”.¹²⁰ A Chinese businessperson working in Myanmar remarked that the country was like China at the early stage of reform and opening. “It has no infrastructure, no industries, and no modern economic fundamentals. It has nothing and needs everything. That's where we come in”.¹²¹

While weak governance and widespread corruption in Myanmar present challenges for Chinese companies, they have not discouraged investment. Chinese officials and businesspeople see this chaotic economic reality as an opportunity rather than as a deterrent. Many in the Chinese business community feel that while the lack of market regulation can pose problems, it also can be a boon that allows them to exploit labour and natural resources.¹²² Bribery is seen as a necessary cost of business.¹²³

Chinese investment and trade in Myanmar is growing dramatically. The amount of Chinese investment between April and August 2010 was two thirds of China's total investment in the country over the past two decades. Chinese companies have invested \$8.17 billion since March 2010 alone, including \$5 billion in hydropower, \$2.15 billion in the oil and gas sector and \$997 million in mining.¹²⁴ Accompanying this increase in Chinese investment is fast growth in bilateral trade: in the first four months of 2010, it jumped 76.8 per cent.¹²⁵ Total trade in 2009 climbed by 10.7 per cent, a figure expected to continue to rise sharply in 2010.¹²⁶ While trade is increasing, so is Myanmar's trade deficit with China. In the first four months of 2010, China exports were four times the amount of those from Myanmar,

¹¹⁵ Politburo Standing Committee member Li Changchun visited Myanmar in March 2009; Vice-President Xi Jinping in December 2009; and Premier Wen Jiabao in June 2010.

¹¹⁶ Agreement to build the oil and gas pipeline was first reached in 2006. During Li Changchun's visit in March 2009, China and Myanmar signed the “Agreement on Building the China-Myanmar Oil and Gas Pipeline”. When Vice-Senior General Maung Aye visited Beijing in June 2009, the two countries signed the “MOU on the Development, Operation, and Management of the China-Myanmar Oil Pipeline Project”. On 20 December 2009, the “Agreement on Rights and Obligations in the China-Myanmar Oil Pipeline Project” was signed during Xi Jinping's visit. Shareholder agreements between CNPC and Myanmar Oil & Gas and the “Agreements on Rights and Obligations in the Southeast Asia Gas Pipeline Project” were signed during Premier Wen Jiabao's June 2010 visit.

¹¹⁷ During the visit, Chinese leaders pledged technical and cash assistance to promote Myanmar's economic development and industrialisation, and discussed construction of Shweli-Kyaukpyu road and railroad and Kyaukpyu port. “Chinese president holds talks with Myanmar's top leader on deepening ties”, Xinhua, 8 September 2010; “Myanmar to learn from China's experiences in reform and opening-up”, Xinhua, 12 September 2010.

¹¹⁸ Crisis Group interview, Yangon, June 2010.

¹¹⁹ In 1999, the Central Committee of the Chinese Communist Party announced the “going out” (走出去, *zou chuqu*) strategy, offering investment incentives for companies, including reform and liberalisation of regulatory systems, financial regimes and administrative rules. Crisis Group Report, *China's Thirst for Oil*, op. cit., pp. 4, 9-12.

¹²⁰ Crisis Group interview, Yangon, June 2010.

¹²¹ Crisis Group interview, Yangon, June 2010.

¹²² Crisis Group interviews, Kunming, June 2010.

¹²³ Crisis Group interviews, Kunming, June 2010.

¹²⁴ Aung Hla Tun, “Chinese investment in Myanmar tops \$8 billion this year”, Reuters, 16 August 2010. As part of Premier Wen's June 2010 visit, China North Industries Group Corporation (Norinco) signed a cooperation pact with the government for large-scale development of the Monywa copper mine in the Sagaing Division in central Myanmar. Chui-Wei Yap, “Chinese weapons maker signs Myanmar deal”, *Wall Street Journal*, 23 June 2010.

¹²⁵ 《2010年1-4月我对亚洲国家地区贸易统计》[“China's trade with Asian countries from January to April 2010”], Ministry of Commerce, 26 May 2010. Total trade climbed by 10.7 per cent to \$2.907 billion in 2009. 《2009年1-12月我对亚洲国家地区贸易统计》[“China's trade with Asian countries in 2009”], Ministry of Commerce, 4 February 2010.

¹²⁶ China's trade with Asian countries in 2009, Ministry of Commerce, op. cit.

indicating a rising demand for and dependence on Chinese products.¹²⁷

Official data does not depict the full extent of China's economic engagement in Myanmar. Chinese build-operate-transfer (BOT) projects¹²⁸ are classified as government loans/aid and therefore omitted from official investment figures.¹²⁹ Major BOT projects such as the \$440 million Shweli I hydropower station constitute a significant influx of Chinese capital.¹³⁰ The level of Chinese investment is also underreported because many private companies and individual investors invest under local partners' names to gain preferential treatment reserved for

nationals.¹³¹ And while Chinese investment in the areas controlled by the ethnic groups is also rising, nor is it often included as foreign investment in official reporting because government control in these areas is weak or non-existent.¹³² Reporting omissions are also common for small-scale investments, such as Chinese government loans for crop substitution and commercial investments in rubber plantations and the mining sector.¹³³

V. CHALLENGES FOR CHINESE POLICY

A. GAP BETWEEN BEIJING AND YUNNAN

Disagreement between Beijing and Kunming due to divergent interests and priorities in Myanmar is not new, but the 2009 Kokang incident increased its intensity.¹³⁴ When Kunming did not immediately warn Beijing about the attacks in Kokang, Beijing lost trust in Yunnan's ability to report timely, accurate information about local developments to the centre.¹³⁵ Beijing started to rely more heavily on its own intelligence for information and assessments.¹³⁶ By dispatching its own officials, Beijing has also stepped up its efforts to engage directly with the border ethnic groups. Before the Myanmar military attacked the Kokang, ceasefire groups mostly interacted with officials from the Yunnan provincial government's foreign affairs department.¹³⁷ According to a Kachin official, this has now changed. "Now we deal mostly with officials from Beijing". He nevertheless noted that most border ethnic groups still maintain excellent relations with the Yunnan government.¹³⁸ And while Kunming con-

¹²⁷ From 2008 to 2009, the increase in China-Myanmar trade was purely the result of growth in Chinese exports. In fact, Chinese imports during this period dropped by 0.2 per cent, from \$648 million to \$646 million. The growing trade imbalance is reflected in the rising export-import ratio: in 2009, Chinese exports to Myanmar were 3.5 times larger than its imports. The ratio was only 3.2 back in 2008, and increased to four in the first four months of 2010. 《中国即将取代泰国成为缅甸最大贸易伙伴》 [“China to replace Thailand to become Myanmar's largest trading partner”], 《环球时报》 [Global Times], 17 March 2010. “China's trade with Asian countries in 2009”, Ministry of Commerce, op. cit.

¹²⁸ BOT projects are financed by equity investments from Chinese companies with local partners. The Chinese companies build the project and operate it for a set period of time, typically fifteen to twenty years, before transferring it to the host government. Mark Augenblick and B. Scott Custer, “The Build, Operate and Transfer (BOT) Approach to Infrastructure Projects in Developing Countries”, World Bank Working Paper, August 1990.

¹²⁹ At least two major BOT projects were omitted from the Myanmar Ministry of National Planning and Development's investment figures in 2009: Huaneng Group's MOU with Myanmar's Ministry of Electrical Power (I) on the Shweli II hydropower project and Datang Group's agreement with the same agency on the Taiping River I Hydropower project.

《华能澜沧江与缅甸签署瑞丽江二级电站 MOU》 [“Huaneng Lancangjiang signs Shweli II hydropower MOU with Myanmar”], Economic and Commercial Counsellor's Office of the Embassy of the People's Republic of China in Myanmar, 13 November 2009. 《大唐与缅甸第一电力部签署太平江一期水电项目合资协议》 [“Datang signs joint venture agreement on Taiping River I hydropower project with Myanmar's First Electricity Ministry”], Datang Group, 30 December 2009.

¹³⁰ Myanmar is also trying to convince China to agree to a Shweli-Kyaukpkyu road construction plan using the BOT model. 《中国水电对外投资最大 BOT 项目幕后》 [“Behind the largest BOT project in China's hydropower foreign investment”], 《环球企业家》 [Global Entrepreneurs], 11 June 2009. 刘兴增 [Liu Xingzeng], 《李盛霖会见缅甸客人》 [“Li Shenglin met with Myanmar guests”], 《中国交通报》 [China Transportation], 7 July 2010.

¹³¹ This phenomenon is particularly common in the areas north of Mandalay. Crisis Group interviews, Yangon and Kunming, June 2010.

¹³² Crisis Group interview, Kunming, June 2010.

¹³³ Crisis Group interview, Kunming, June 2010.

¹³⁴ Crisis Group interview, Kunming, June 2010.

¹³⁵ Crisis Group interview, Beijing, October 2009. Officials from several ceasefire groups also observed that Kunming rarely paints Beijing an accurate picture about border politics and stability since Yunnan benefits from the instability and worries about the economic consequences of Beijing asserting more direct control over border management. Crisis Group interviews, Kachin State, June 2010.

¹³⁶ Crisis Group interview, Beijing, March 2010.

¹³⁷ Crisis Group interviews, Kachin State and Ruili, June 2010.

¹³⁸ Crisis Group interview, KIO official, Bangkok, May 2010. Several members of border ethnic groups also noted that their contacts in the local and provincial Chinese governments who share their ethnic background often help them interpret and navigate Chinese policies. Crisis Group interviews, Kachin State and Ruili, June 2010.

tinues to present information and analysis to Beijing, Beijing increasingly verifies the information itself.¹³⁹

Border management is another area of disagreement between Beijing and Kunming. While Beijing worries about border security, provincial leaders desperate for economic development seek to maintain and expand opportunities for trade.¹⁴⁰ Given Beijing's belief that security interests may trump shorter-term commercial interests,¹⁴¹ it ordered the border closed during the Kokang conflict.¹⁴² When it was reopened it adopted a more cautious approach,¹⁴³ suspending plans to establish new border posts¹⁴⁴ and deploying an additional 5,000 PLA troops.¹⁴⁵ Justifying the decision to close the border, a visiting senior Beijing official commented that the cross border trade with Myanmar constituted a negligible part of overall foreign trade.¹⁴⁶ A local official responded that while it might be slight for the nation as a whole, "it is our livelihood for Yunnan".¹⁴⁷ Border trade with Myanmar makes up more than three quarters of Yunnan's total border trade and 12.2 per cent of its annual foreign trade.¹⁴⁸ "Business is booming along the border and a lot of people have a lot to lose by closing it".¹⁴⁹ Myanmar is Yunnan's largest export market, second-largest import market and access point to South East Asian markets.¹⁵⁰

Tensions have also emerged when Beijing is called to account for illegal business activities by Chinese companies and officials. Such operations are often conducted without Beijing's knowledge and without Naypyidaw's approval as required by law.¹⁵¹ Despite a ban on illegal logging and agreements to strengthen bilateral collaboration to address it, illegal imports to China continue.¹⁵² A Yunnan government official publicly acknowledged that illegal logging has led to several "serious incidents" this year.¹⁵³ While illegal mining has also been banned,¹⁵⁴ local companies continue extraction in areas controlled by ceasefire groups in violation of both countries' laws.¹⁵⁵ Ethnic groups profit through taxation, bribery and management fees. Complaints by the Myanmar government cause diplomatic headaches for Beijing. Despite the two countries' strong rhetoric about cracking down on illegal logging and mining, both practices continue and cause dissension between Kunming and Beijing.¹⁵⁶

Yunnan's single-minded pursuit of its economic interests also brings it into conflict with Beijing's diplomatic protocol. The capital believes that provinces should report to the centre and obey its directives on border management, trade, and other issues regardless of local interests.¹⁵⁷ Yunnan's relationships with ceasefire groups and its business behaviour have prompted Naypyidaw to complain to the Chinese embassy, angering the Ministry of Foreign Affairs.¹⁵⁸ Yunnan ignores diplomatic pro-

¹³⁹ Crisis Group interview, Beijing, March 2010.

¹⁴⁰ For a discussion of the divergent interests between Beijing and Yunnan, see Crisis Group Report, *China's Myanmar Dilemma*, op. cit., pp. 25-26.

¹⁴¹ Crisis Group interview, Kunming, June 2010.

¹⁴² 《缅甸战局趋缓 边民去留难决》 ["Conflict fades away while border residents find it difficult to decide where to go"], 《中国评论新闻》 [*China Review News*], 31 August 2009.

¹⁴³ Crisis Group interviews, Kunming, June 2010.

¹⁴⁴ There are five border trade points between China and Myanmar (since 1998): Muse, Lwejei, Laizar, Chinshwehaw and Kambaiti.

¹⁴⁵ Wai Moe, "PLA deploys more troops at Burma border", *The Irrawaddy*, 30 April 2010.

¹⁴⁶ Crisis Group interview, Kunming, June 2010.

¹⁴⁷ Crisis Group interviews, Kunming, June 2010.

¹⁴⁸ 董漪、李平、杨静 [Dong Yi, Li Ping and Yang Jing], 《桥头堡建设中云南省边境贸易发展对策研究》 ["Studies on development strategy for Yunnan border trade in the building of front fortress"], 《西双版纳》 [*BaoShan Daily*], 8 June 2010.

¹⁴⁹ The interviewee commented that some corrupt Yunnan provincial officials and businesspeople would ensure that part of the border would remain open in tough times. Crisis Group interviews, KIO official, Kachin State; Burmese analyst, Ruili, June 2010.

¹⁵⁰ 《中国与东盟国家实施"早期收获计划"以来我省与东盟国家贸易发展情况研究》 ["Yunnan's trade with ASEAN countries since the implementation of 'Early Harvest' Program"], Bureau of Commerce, Yunnan provincial government website, 8 April 2010.

¹⁵¹ Crisis Group interview, Yangon, March 2009.

¹⁵² Smuggling methods have become more sophisticated. For example, motorcycles are employed in addition to trucks in order to transport short pieces of teak, a less conspicuous transport method that decreases the risk of detection. Some groups deem illegal logging "legal" by defining its legality as whether the authorities controlling a given territory permit it. Crisis Group email correspondence with expert at Burmese environmental NGO, September 2010.

¹⁵³ 《东盟贸易处 2010 年上半年工作总结及下半年工作打算》 ["Work summary of the first half of 2010 and work plan for the second half of the year"], Office of Trade with ASEAN, Bureau of Commerce, Yunnan Provincial Government, 12 July 2010. Crisis Group interviews, Tengchong, Yunnan, March 2010; Banna, June 2010.

¹⁵⁴ 《德宏州人民政府关于进一步规范对缅木材、矿产品贸易的规定》 ["Regulations on timber and mineral resources trade with Myanmar by the People's Government of De Hong"], 21 October 2009.

¹⁵⁵ In return for generous monetary returns, Chinese border patrol forces reportedly adopt a highly "accommodating" attitude towards Yunnan vehicles smuggling illegal minerals and timber into Yunnan, by informing them of patrol schedules or ignoring their canvas-covered truckloads of ore/timber. Crisis Group interview, Tengchong, March 2010.

¹⁵⁶ Crisis Group interview, Yangon, 12 March 2009.

¹⁵⁷ Crisis Group interview, Yangon, June 2010.

¹⁵⁸ Crisis Group interview, Yangon, June 2010.

toloc by calling for Naypyidaw to open land ports to jade trade and for more investment to develop the border area.¹⁵⁹ It has also expressed the desire to establish direct communication with Myanmar's central government.¹⁶⁰

B. CHINA'S IMAGE IN MYANMAR

Several factors contribute to China's deteriorating image in Myanmar. First, the distribution of benefits from large projects is regarded as unequal and unfair.¹⁶¹ The colossal Myitsone Dam in Kachin State is expected to send most of the power generated to China after its scheduled completion in 2017.¹⁶² This is widely resented by local residents, who continue to suffer serious electricity shortages.¹⁶³ "We don't want dams. SPDC and China Power Investment (CPI) signed an agreement without giving notice to Kachin people to construct seven dams in Kachin State. All the power will support China. It is not for locals, it's not for our country".¹⁶⁴ According to a Kachin leader, "The Chinese government and Chinese companies are a big vacuum; they suck all the resources out of Kachin State, making it a desert, which is fully resented by the Kachin people".¹⁶⁵ The Kachin resent that they are often unable to compete against Chinese companies which dominate gem mining in small-to-medium scale operations.¹⁶⁶ There is also considerable

anger towards Chinese companies that import labour rather than hire locally.¹⁶⁷

Local communities also suffer from damage to their traditional ways of life and to the environment by Chinese projects.¹⁶⁸ The Myitsone dam project will displace up to 15,000 farmers and fishermen, who will lose their original livelihoods.¹⁶⁹ The dam will alter the environment, ecology and biodiversity of the region, including the river itself,¹⁷⁰ yet no independent, international impact assessment has been conducted.¹⁷¹ Local residents have not received relocation compensation from CPI,¹⁷² which argues that the money has been paid to Naypyidaw.¹⁷³ Many found that replacement housing was "uninhabitable".¹⁷⁴ A Chinese company operating in Kachin State has been accused of polluting rivers with cyanide, and another has used harmful dredging techniques, altering the course of the Irawaddy River.¹⁷⁵ Local people further complain about disregard for sacred sites and

¹⁵⁹ "Work summary of the first half of 2010 and work plan for the second half of the year", Office of Trade with ASEAN, Bureau of Commerce, Yunnan Provincial Government, op. cit.

¹⁶⁰ Ibid. This practice is not particular to Myanmar. Yunnan has been building relationships with central governments in the Great Mekong Sub-Region, and even doing economic planning for the Ministry of Industry and Planning in Laos. Crisis Group interview, Beijing, August 2010.

¹⁶¹ Crisis Group interviews, Chiang Mai, Yangon, Kachin State, June 2010. One interviewee commented that benefits of Chinese investment are distributed among actors in the following way: 1) SPDC cuts a lucrative deal with the Chinese; 2) Chinese get resources; 3) ceasefire border groups tax resources moving through their territory across the border; 4) some locals get jobs. Crisis Group interview, Chiang Mai, June 2010.

¹⁶² 《中电投 1200 亿去缅甸建水电站 发电量有望超三峡》 ["CPI is set to invest 120 billion RMB to build a hydropower project in Myanmar, with output expected to surpass Three Gorges Dam"], 《昆明日报》 [*Kunming Daily*], 9 October 2008.

¹⁶³ In Yangon, most households have four to six hours of daily power supply. The situation is worse in the countryside. Crisis Group interviews, Kviang Tong, Tachilec and Yangon, June 2010.

¹⁶⁴ *Listening to Voices from Inside: Ethnic People Speak*, Centre for Peace and Conflict Studies, op. cit., p. 239.

¹⁶⁵ Crisis Group interview, Kachin community leader, Kachin State, June 2010.

¹⁶⁶ Crisis Group correspondence with Myanmar expert, 13 September 2010.

¹⁶⁷ Among some ethnic groups, community leaders associate Chinese workers with a decline in moral standards. The "double edged sword of development" may bring some jobs but can also bring drugs and prostitution into local communities. Crisis group interview, Western analyst, Yangon, 8 June 2010. Others note that gambling and sex industries attracted by Chinese investment, in particular in the Kachin and Shan States, bring migrant workers from other parts of Myanmar, which at times causes social conflict. *Listening to Voices from Inside: Ethnic People Speak*, Centre for Peace and Conflict Studies, op. cit., p. 94.

¹⁶⁸ At an international forum in September 2009 on Chinese companies' social responsibility hosted by the Chinese Ministry of Commerce, spokesperson Yao Jian noted that Chinese companies are accustomed to taking an elite-oriented approach overseas in their foreign aid projects, noting that this can lead to complications in China's relationships with developing countries. 《姚坚：从参与世界经济看企业社会责任》 ["Yao Jian: Looking at corporate social responsibility from the View of world economics"], Sina News, 28 September 2009.

¹⁶⁹ "Open letter requesting China to halt destruction of villages opposed to China's Myitsone dam in Burma", Kachin Development Network Group, 27 May 2010.

¹⁷⁰ Crisis Group interview, Yangon, June 2010.

¹⁷¹ Crisis Group interview, Burmese civil society activists, Beijing, May 2010. A Chinese businessperson commented that no Chinese company dares to invite an international assessment, because it will be resented and isolated by other companies. Crisis Group interview, Chinese business representatives, Tengchong, June 2010.

¹⁷² Crisis Group interview, Tengchong, June 2010.

¹⁷³ *Listening to Voices from Inside: Ethnic People Speak*, Centre for Peace and Conflict Studies, op. cit., p. 239.

¹⁷⁴ For example, locals traditionally live in houses with big yards for raising livestock. But the houses designed and constructed by CPI have only tiny yards. Crisis Group interviews, Tengchong and Kachin border, June 2010.

¹⁷⁵ Crisis Group interviews, Tengchong and Kachin border, June 2010.

cultural artefacts.¹⁷⁶ A Burmese analyst noted that while ethnic Chinese have lived in Kachin State for decades, if not centuries, the antipathy towards them was relatively new.¹⁷⁷ Immigrant Chinese are often scapegoats for the unaccountable behaviour of Chinese companies and Naypyidaw.¹⁷⁸

The planned pipeline through Rakhine and Kachin States is another source of resentment. Its projected path is largely unknown to the general public, “creating anger and anxiety” for communities who fear displacement and relocation.¹⁷⁹ The local population feels “futility and hopelessness” about convincing its government and China to share the benefits of the oil and gas with them.¹⁸⁰ Residents also fear Chinese-built pipelines will lead to increased militarisation of border areas.¹⁸¹ In October 2009, the Shwe Gas Movement sent an open letter to President Hu Jintao signed by more than 100 Burmese and international organisations exhorting him to immediately halt the pipeline project.¹⁸² While much anger is directed at Naypyidaw, some believe Beijing could become a target of attacks because of resentment about its support for the SPDC.¹⁸³ While China possesses less influence over members of the Rakhine than the Wa or Kachin,¹⁸⁴ several sources said that concerns about pipeline security may force Beijing to be more proactive in preventing conflict. A prominent Kachin leader commented: “China has to be part of the solution to Myanmar’s ethnic problem if it wants to guarantee the safety of the pipeline”.¹⁸⁵

As negative impressions of Chinese companies grow within Myanmar, China increasingly recognises the threat local opposition poses to its business and security interests.¹⁸⁶ Chinese mining and hydropower projects are fre-

quently targets of protest and condemnation by local and international organisations.¹⁸⁷ In April 2010, a series of bombs exploded at the Myitsone dam construction site.¹⁸⁸ The military government suspected the KIO, but Kachin leaders deny the organisation was behind the bombing.¹⁸⁹ On the ground near the blast site, several sources have said that local resentment of the project was so widespread that anyone could have been responsible.¹⁹⁰ Civil society groups warn the bombing signals that border ethnic groups’ grievances may cause further violent backlash against Chinese investment.¹⁹¹

VI. CONCLUSION

As Myanmar prepares for its first elections in twenty years – polls expected to be neither free nor fair – China is ready to welcome any result that does not involve major instability. Beijing’s top concern in Myanmar is preventing conflict on its 2,192km shared border, which could affect China’s domestic stability and regional economic development. While China sees problems with the long-term standoff between Naypyidaw and many of the country’s ethnic groups, its preferred approach to solve the situation is gradual policy adjustment by a strong central government on the basis of internal stability, not liberal democracy or federalism and certainly not regime change.

Beijing was caught off-guard by the August 2009 Kokang conflict because it underestimated Naypyidaw’s willingness to use force against the ethnic groups and was not sufficiently warned by Kunming. The incident led Beijing to view the ethnic groups along the border as a liability rather than a source of strategic leverage.

¹⁷⁶ Crisis Group interviews, Tengchong and Kachin border, June 2010.

¹⁷⁷ Crisis Group interview, Yangon, June 2010.

¹⁷⁸ Crisis Group interview, Yangon, June 2010.

¹⁷⁹ Crisis Group interviews, Kachin activists, Kachin State, June 2010. Rakhine activists also express similar sentiments. Crisis Group interviews, Yangon, June 2010.

¹⁸⁰ Crisis Group interview, Burmese civil society activist, Yangon, June 2010.

¹⁸¹ They note that such expensive infrastructure would necessarily involve a greater security presence to safeguard it. Crisis Group interview, Western analyst, Yangon, June 2010.

¹⁸² Zuo Xuan, “Protesters call for suspension of China-Myanmar pipeline venture”, *Global Times*, 30 October 2009.

¹⁸³ Crisis Group interviews, Rakhine activist, Yangon; and KIO officials, Kachin State, June 2010.

¹⁸⁴ Crisis Group interview, Yangon, June 2010.

¹⁸⁵ Crisis Group interviews, Rakhine activist, Yangon; and Kachin activists, Kachin State, June 2010.

¹⁸⁶ Even Chinese analysts acknowledge that local opposition to Chinese investment is common, and Chinese businesspeople should understand they are “representatives” of China

while in Myanmar and should, therefore, “behave themselves”. Crisis Group interviews, Kachin State border, Eastern Shan State, Yangon, June 2010.

¹⁸⁷ Crisis Group interviews, Kachin State border, Eastern Shan State, Yangon, June 2010.

¹⁸⁸ “Bomb blasts hit remote Myanmar dam project”, *Agence France-Presse*, 17 April 2010.

¹⁸⁹ Crisis Group interviews, KIO officials, Bangkok, May 2010 and Kachin State, June 2010. Also see Kyaw Thein Kha, “Bomb blasts rock dam site”, *The Irrawaddy*, 17 April 2010; and Kyaw Thein Kha, “KIO leaders meet with Burmese commander”, *The Irrawaddy*, 25 May 2010.

¹⁹⁰ Crisis Group interviews, Kachin activists, Kachin State, June 2010.

¹⁹¹ Ben Blanchard, “China risks backlash with Myanmar investment”, *Reuters*, 9 July 2010. Some Kachin people feel that China is interfering in their dispute with the military government and see the dam project at the confluence as part of a strategy to push Kachin out of the area. Crisis Group email correspondence with Myanmar expert, Beijing, August 2010.

It has subsequently invested considerable diplomatic resources to facilitate negotiations between the military government and the ethnic groups. The Kokang conflict also deepened differences between Beijing and local Yunnan governments. The capital now seeks to manage relations with the border ethnic groups more directly, by dispatching its own officials. Continued illegal cross-border trade by Yunnan companies and government officials also heightens tensions with Beijing.

China's growing demand for energy supplies is making Myanmar increasingly important as a conduit for transshipment of oil and a source of natural gas. Chinese companies are also expanding rapidly into Myanmar's hydropower sector. These investments, along with the U.S. administration's engagement policy – which Beijing sees as a potential challenge to its influence in the country – contribute to China's perception that Naypyidaw may be gaining leverage in the relationship. While increasing its economic presence in the country, Beijing is also stepping up diplomatic engagement through high-level visits.

But Beijing's pursuit of its interests in Myanmar is encountering significant hurdles. The location of large-scale Chinese energy investments – including in Kachin, Shan and Rakhine States – links their security to the stability of ethnic group areas. Yet many projects are increasing resentment of China in Myanmar, due to unequal distribution of benefits, environmental damage and harmful impacts on local communities and traditional ways of life. If China does not act to limit the negative impact of its companies in Myanmar, it risks increasing tensions in ethnic group areas and possible violent backlash, all of which would undermine its economic and security interests. China's efforts at enhancing its relationship with Naypyidaw could also affect relations with the ethnic groups to the extent that it may no longer be able to act as a broker of talks and instead becomes a target of protest itself.

Beijing/Jakarta/Brussels, 21 September 2010

APPENDIX A

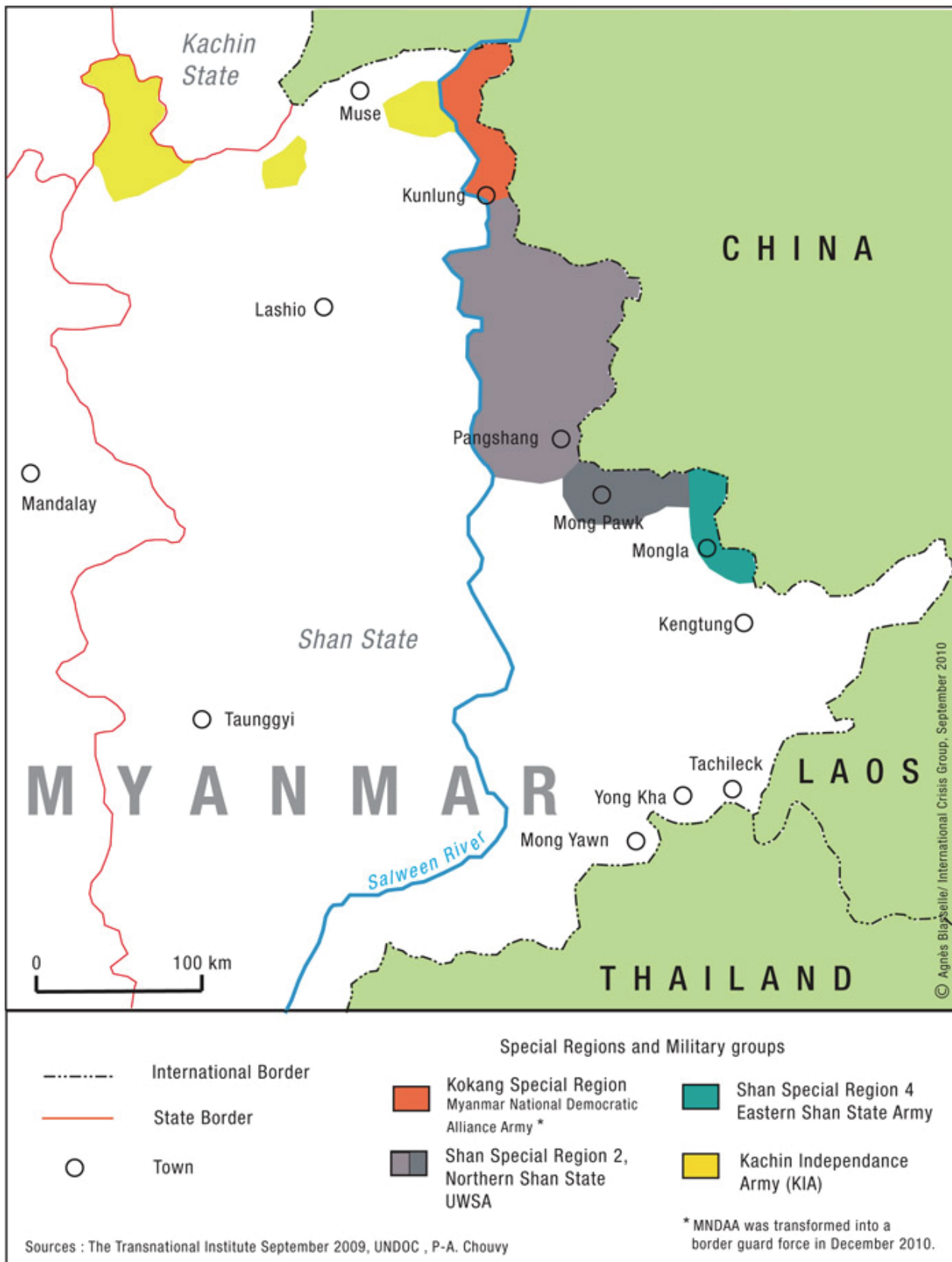
MAP OF MYANMAR



Source : UN Cartographic Section

APPENDIX B

MAP OF KOKANG REGION



APPENDIX C

CEASEFIRE GROUPS (AFFILIATED WITH GROUPS ALONG THE CHINA-MYANMAR BORDER)

Ceasefire group name	Leader(s)	Formation date	Size	Aim (position on autonomy)	Location	Date ceasefire agreement signed/Border Guard Force status (date)
United Wa State Party/Army (UWSPA)	<u>Chairmen:</u> Bao You Chang/ Kyauk Nyi Lai <u>Vice-Chairman:</u> Xiao Min Liang	April 1989	20,000-25,000 controlling significant territory in Wa region, east of Salween River	To achieve the formation of an autonomous Wa State as an indivisible part of the Union of Myanmar, seeking only more power in self-administration as a minority autonomous region	<i>Wa region</i> , Special Region 2 – Northern Shan State	1989/Rejected (19 May 2009)
National Democratic Alliance Army Eastern Shan State (NDAA-ESS)	<u>Leaders:</u> Sai Lin/Lin Ming Xian <u>Vice-Presidents:</u> Hsan Per/Hsang Lu	1989		Former Communist Party of Burma (CPB) and still close to ex-CPB groups' members	<i>Mongla</i> , Special Region 4 – Eastern Shan State	1989/Rejected
Myanmar National Democratic Alliance Army (MNDAA) (Kokang)¹⁹²	<u>Leader:</u> Peng Jia Xiang <u>Vice-Chairman:</u> Bai Xuoqian	12 March 1989	1,500-2,000 soldiers	Member of ethnic groups alliance previously known as the Communist Party of Burma (CPB); the Peace and Democracy Front aims for pacific dialogue and denounces military threat and pressure on minority ethnic groups	<i>Laogai</i> , Special Region 1 – Northern Shan State	1989/Rejected (5 June 2009)
Kokang Region Provisional Leading Committee	<u>Leader:</u> Bai Xuoqian (Former MNDAA Vice-Chairman)	August 2009				.../Border Guard Force (4 December 2009)
National Democratic Army-Kachin (NDA-K)	<u>Leader/Chairman:</u> Zahkung Ting Ying <u>Vice-Chairman:</u> Waw Lau Hong Hkawng	1989	200-300 soldiers	To fight for the social and economic development and the safety of Kachin people	<i>Pan Wah</i> , Special Regional 1 – North-east Kachin State	1989/Transformed and accepted BGF (8 November 2009)
Kachin Defence Army (KDA – former KIO 4th Brigade)	<u>Leader:</u> Mahtu Naw	Broke away from KIO in 1991 to sign a separate ceasefire agreement	1,500 troops in North-east Shan State		Special Region 5 – Northern Shan State	1991/Transformed into BGF (19 January 2009)
Kachin Independence Army/Organisation (KIA/O)	<u>Chairman:</u> Lanyaw Zawng Hra <u>Secretary-General:</u> Zau Seng <u>Vice-Chairman:</u> Dr. Lamung Tu Ja(i)	February 1961	5,000–10,000	To build a federal state on democratic principles (boycotting elections)	Special Region 2 – Kachin State	1994/Rejected (22 February 2010)

¹⁹² Following its defeat by the Myanmar government's army in August 2009, the MNDAA has been replaced by the **Kokang Region Provisional Leading Committee** under central government control.

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