

## Upgrading Myanmar-China Relations to International Standards

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With the world watching Myanmar's unfolding political transition, watershed national elections were held on November 8, 2015.<sup>2</sup> Observers reported the elections to be freer and fairer than international skeptics feared, and results were overwhelmingly in favor of democracy icon Aung San Suu Kyi's National League for Democracy (NLD).<sup>3</sup> The NLD won 255 seats in the Lower House (*Pyithu Hluttaw*) and 135 seats in the Upper House (*Amyotha Hluttaw*), giving it absolute majorities in both houses. Meanwhile, the military-backed Union Solidarity and Development Party (USDP) was reduced to only 30 seats in the Lower House and 11 seats in the Upper House. Myanmar is now in a post-election political process to determine who will fill crucial leadership posts. The new parliament should convene sometime in February 2016, when a presidential electoral college comprising representatives from the Upper House, Lower House, and the military will elect Myanmar's president and first and second vice-presidents.

A major source of uncertainty about the next government is that the clear winner of the elections, Aung San Suu Kyi, is constitutionally banned from the presidency.<sup>4</sup> However, her post-election meetings with President Thein Sein, Commander-in-Chief Gen. Min Aung Hlaing, and retired Senior-General Than Shwe, as well as the formation of separate USDP and NLD committees to manage the transfer of responsibilities to the new parliament, are reassuring for a peaceful political transition. In reality, the next government is likely to be a power-sharing arrangement between elected NLD officials and unelected military-related officials. Despite the rout of the USDP, former

generals and military loyalists continue to hold positions of influence throughout Myanmar's state bureaucracy. The military itself is guaranteed 25% of parliamentary seats, granting it the ability to block constitutional changes that might threaten its privileges. It also appoints one vice-president and the powerful ministers of Defense, Home Affairs, and Border Area Affairs, and enjoys a majority on the National Defense and Security Council, which the president must consult on matters pertaining to the use of military force.<sup>5</sup> Finally, the commander-in-chief of the military is not under civilian control and may constitutionally take over the government in times of emergency.<sup>6</sup>

Myanmar's domestic political transition is thus complex in terms of its changing institutions and the interaction of stakeholders — including the NLD, military, and ethnic minority groups — with different interests and policy preferences. This dynamic raises questions about the trajectory of Myanmar's foreign relations, particularly with China. China was the main external partner for Myanmar's former military regime and will continue to be a prominent part of Myanmar's diplomatic and economic portfolios.<sup>7</sup> However, Myanmar-China relations have been significantly strained<sup>8</sup> to the point of speculation about a fundamental shift in bilateral relations.<sup>9</sup> In this issue brief, we examine how China's relationship with Myanmar has developed since the latter's reforms, focusing on trends in bilateral diplomacy, border security, and economic relations. While we agree with other assessments that China's influence in Myanmar is more constrained now than during the 1988-2010 period,<sup>10</sup> we do not believe that China's relations with Asia's newest emerging state have declined in importance. To avoid zero-sum geopolitical perceptions of Myanmar's reform and opening, and for interactions with China to improve the lives of the Burmese people, Myanmar-China relations should be brought in line with international standards of mutual respect, transparency, and social accountability.

### **Myanmar-China Bilateral Diplomacy: Making Sense of Mixed Signals**

From the beginning of Myanmar's rule by the State Law and Order Restoration Council/State Peace and Development Council (SLORC/SPDC)<sup>11</sup> in 1988, China's role in Myanmar's diplomacy, trade, and security grew apace. This

role emerged from necessity rather than affective connection — both sides' proclamations of a special *paukphaw* (“kinship”) relationship notwithstanding. The SLORC/SPDC needed an economic and diplomatic lifeline to mitigate international sanctions and condemnation over its human rights violations. China provided that lifeline by trading with and investing in Myanmar, and by holding a veto over UN Security Council scrutiny of Myanmar's human rights. In return, China gained access to Myanmar's rich reserves of petroleum, natural gas, timber, and minerals, as well as its potential for hydroelectric power, all of which promised to help fuel Chinese economic growth and especially the development of Yunnan Province. Myanmar's location also makes it strategically important, both as a crossroads among China, India and Southeast Asia, and for its access to the Bay of Bengal, an alternative route to the Strait of Malacca for China to import Middle Eastern oil.

The combination of Myanmar's relative isolation and China's economic gravity gave Beijing considerable political influence with the SLORC/SPDC, illustrated by the participation of Chinese state-owned enterprises in building key infrastructure, a persistent trade surplus in China's favor, extensive purchases of Chinese armaments by Myanmar's military, and resource extraction operations that disproportionately favored Chinese interests. The asymmetry of Myanmar's relationship with China was recognized well before the reforms began, but so long as sanctions remained in place, Myanmar lacked alternatives.<sup>12</sup>

The reforms President Thein Sein initiated from 2011 provided Myanmar with more diplomatic options, most significantly with the United States. While U.S. officials and leaders of other countries welcomed the reforms with cautious optimism, the scale and scope — including allowing Aung San Suu Kyi and the NLD to run for parliamentary seats and relaxing press and civil liberty restrictions — soon convinced them that Myanmar's leaders were serious about pursuing transformative policies.

Consequently, many economic sanctions were suspended and a steady stream of international dignitaries traveled to Myanmar to meet with Thein Sein, Aung San Suu Kyi, and other political leaders. In 2014, Myanmar chaired the

Association of Southeast Asian Nations (ASEAN) for the first time, giving it the opportunity to host numerous high-level regional meetings — including the ASEAN Summit, ASEAN+3 meetings, the ASEAN Regional Forum, and the East Asia Summit — and interact with a wide range of diplomatic partners.

The rapid expansion of Myanmar's diplomatic profile has complicated its relations with China. For example, although some Chinese expressed cautious support for Myanmar's rapprochement with the United States,<sup>13</sup> others suspect that U.S. policy toward Myanmar intends to limit China's influence in Southeast Asia. Such suspicions are related to the Obama administration's broader strategic "pivot" or "rebalance toward Asia" that sought to reassure allies about the U.S. role in Asia, but which many Chinese see as a source of friction in the South China Sea and an attempt to counter China's rise.<sup>14</sup> According to this interpretation, the United States' concern for democracy and human rights in Myanmar masks its strategic agenda to wield ever greater influence over China's peripheral regions. Moreover, the ties between Beijing and Myanmar's military government were so extensive that any effort by the United States to promote reforms in Myanmar would inevitably be cast as undermining China's interests.<sup>15</sup>

Chinese analyses of U.S.-Myanmar relations illustrate various sources of strategic suspicion. These include warnings that "the Obama administration's 'return to Southeast Asia' and new policy toward Myanmar are obviously strategies aimed at containing Chinese influence."<sup>16</sup> Excessive American influence in Myanmar could open the floodgates to "Western anti-China forces," directly threatening China's border, energy, and geopolitical security, enabling the United States to "contain" and "encircle" China from the southwest.<sup>17</sup> Some Chinese analysts claim that Aung San Suu Kyi is a "trump card for the West" and that it is crucial for China to "correctly handle" its relationship with her.<sup>18</sup> It is also common to read in Chinese sources that relations with Myanmar are being undermined by Western influences, and that China is at risk of losing cultural influence in Myanmar, especially with the youth.<sup>19</sup> The transformation of Myanmar into an arena for U.S.-China competition has become a narrative in various Chinese media outlets.<sup>20</sup>

Beijing has also sent mixed signals regarding the NLD's November 2015 electoral victory. Following the elections, world leaders conveyed their congratulations to Aung San Suu Kyi. Conspicuously absent from the list of well-wishers was China's President Xi Jinping. At a press conference immediately after the election, China Ministry of Foreign Affairs spokesperson Hong Lei dodged questions about whether Beijing would congratulate Aung San Suu Kyi, saying only that China would "continue to extend its assistance and continue with its friendship and all-around mutually beneficial cooperation" and that "we sincerely wish that Myanmar can have political stability and that it can achieve national development."<sup>21</sup> This tepid response seemed at odds with how Aung San Suu Kyi's June 2015 visit to China appeared to signal willingness on the part of Chinese leaders to maintain friendly ties with Myanmar despite the changing political situation.<sup>22</sup> Beijing officials may have wanted to avoid potential embarrassment in case the Burmese military ignored the electoral results and seized power as it did in 1990.<sup>23</sup> Although Special Envoy and Vice-Foreign Minister Liu Zhenmin congratulated Aung San Suu Kyi during an official visit to Myanmar in December 2015, the mixed signals China has sent in response to Myanmar's turn toward democracy and internationalization raise concerns in Nay Pyi Taw and Yangon about a lack of mutual respect and diplomatic equality in bilateral relations.<sup>24</sup>

### Myanmar-China Border Security: Testing the Limits of Non-Interference

Despite expressions of anxiety from some quarters about Myanmar's international opening, Chinese officials tend to maintain measured, positive language about relations with Myanmar.<sup>25</sup> Beijing has refrained from explicitly criticizing Nay Pyi Taw's reforms, taking a cautiously supportive position or at least claiming non-interference. However, the long-simmering tensions between the Myanmar government and ethnic militias in the borderlands near Yunnan Province directly impinge upon Chinese security and have strained Myanmar-China bilateral relations. Many of Myanmar's minority ethnic groups — notably the Kachin, Kokang, Shan, and Wa — have significant populations on both sides of the border. Geography, transportation infrastructure, and cross-border kinship ties are such that ethnic communities in northern Myanmar may be culturally and economically closer to Yunnan than to the rest of Myanmar.

Cities and towns along Myanmar's border with China frequently conduct transactions in Chinese *renminbi* rather than Myanmar *kyat* and the use of the Chinese language is pervasive.

Several of the largest militias — including the United Wa State Army (UWSA) and the Kokang-led Myanmar National Democratic Alliance Army (MNDAA) have historical ties to China deriving from their prior incorporation in the Burmese Communist Party, which China supported during the 1960s and 1970s. Concurrently, business and political interests in Yunnan profit from the porous border and extract lucrative rents from trade with and investment in regions where ethnic militias dominate.<sup>26</sup> Such historical and economic ties, along with observations that some militias are equipped with military-grade Chinese weaponry, have fed persistent suspicions that China is secretly backing ethnic militias in an effort to wield leverage over Nay Pyi Taw.<sup>27</sup> Several of our interviewees in Yangon and Nay Pyi Taw alleged that elements in China exerted control over ethnic militias and were providing them with arms and assistance.<sup>28</sup> On the other hand, Beijing has incentives to contain the militias since a number of them have been implicated in large-scale narcotics production and trafficking, contributing to significant social problems in China.

06 Since late 2011, President Thein Sein secured bilateral ceasefires with sixteen of the main ethnic militia groups, including the Karen National Union, the UWSA, and the National Democratic Alliance Army (NDAA). The latter had seized control of Kokang from the MNDAA with the aid of the military in the August 2009 “Kokang Incident,” driving the MNDAA out and sending its leader, Peng Jiasheng, into hiding. Notably, the government did not achieve a ceasefire with the Kachin Independence Organization, although the two sides reached an agreement to work toward conflict de-escalation and the cessation of hostilities. Following the establishment of bilateral ceasefires, the Myanmar government moved to negotiate a Nationwide Ceasefire Agreement (NCA). Yet, this was complicated by the re-emergence of Peng Jiasheng, who launched an assault on Kokang in February 2015 in coordination with two other militias — the Arakan Army and the Ta'ang National Liberation Army. None of these three groups had agreed to ceasefires with the Myanmar government, which mounted a determined counteroffensive.<sup>29</sup>



The Kokang situation in particular has complicated Myanmar-China relations because escalations in fighting (and movements of civilians fleeing the violence) have spilled across the Chinese border. In March 2015, a Myanmar warplane mistakenly bombed a sugarcane field in Yunnan, killing five Chinese farmers and injuring several more, prompting Beijing to lodge a formal diplomatic protest with Nay Pyi Taw. General Fan Changlong, vice-chairman of China's Central Military Commission, made an unusually harsh rebuke to Myanmar's military Commander-in-Chief Gen. Min Aung Hlaing, demanding that Myanmar apologize to and compensate the families of those killed, urging it to rein in its military, and warning that any future incidents would result in China's military taking "resolute and decisive measures to protect the security of Chinese people and property."<sup>30</sup> China also deployed military forces along the border, held live-fire drills, and ordered air force units to "track, monitor, warn, and chase away" Myanmar military aircraft.<sup>31</sup> In May 2015, stray artillery shells from the fighting between Myanmar military forces and the MNDAA landed in Yunnan, injuring five and destroying a number of houses and vehicles. China again lodged diplomatic protests and in early June 2015 held live-fire exercises on the border in an apparent display of displeasure with Myanmar.<sup>32</sup>

The fighting in Kokang has also raised uncomfortable questions about Chinese relations with ethnic militias in Myanmar. The MNDAA's February 2015 offensive was preceded by a December 2014 feature-length interview with Peng Jiasheng in the *Global Times*. The interviewer wrote flatteringly about the "legendary figure Peng Jiasheng, the 'King of Kokang,'" noting his Yunnanese accent, ability to write Chinese, and nostalgia for his Sichuanese roots.<sup>33</sup> Peng discussed the MNDAA's "mobile guerilla" tactics and declared that the MNDAA had over a thousand soldiers armed with sophisticated weaponry, including shoulder-launched surface-to-air missiles, prepared to do battle with Myanmar's military to retake Kokang.<sup>34</sup> In early 2015, Major General Huang Xing, a senior Chinese military officer, was reportedly detained by Chinese military authorities over allegations that he leaked state secrets to the MNDAA in 2009, deepening suspicions that elements in China were aiding ethnic militias.<sup>35</sup> Following China's military exercises along the border in early June 2015, the MNDAA declared a unilateral ceasefire, citing pressure from Beijing over border stability.<sup>36</sup> Interviewees in Myanmar suggested that

Beijing can turn violence in the border regions on and off like a switch, noting that the timing of the ceasefire coincided with Aung San Suu Kyi's first trip to China, where she met with President Xi Jinping, Premier Li Keqiang, former Foreign Minister Yang Jiechi, and other top officials during a five-day visit.<sup>37</sup>

Despite the recent pause to violence in Kokang, the signing of the Nationwide Ceasefire Agreement has been complicated by ethnic militias' demand that the factions fighting in the region be allowed to join it. This demand appeared driven by a combination of ethnic solidarity, an unwillingness to hand the USDP a political victory before the November elections, and a desire to prevent the Myanmar military from focusing resources on crushing factions in Kokang.<sup>38</sup> However, there are again allegations of a China factor. In October 2015, Min Zaw Oo, a senior official affiliated with the government-backed Myanmar Peace Center, accused China of encouraging ethnic militias not to sign the NCA unless the MNDAA were allowed to join. He also alleged that Beijing's Special Envoy Sun Guangxiang pressured the United Wa State Army and the Kachin Independence Organization not to sign the NCA over provisions that Western and Japanese observers be included in the peace process.<sup>39</sup> Officials in Beijing denied the allegations and Min Zaw Oo subsequently claimed that his remarks had been misreported.<sup>40</sup> Nonetheless, Chinese authorities have opposed "internationalizing" the borderland conflicts.<sup>41</sup> In September 2015, the UWSA claimed it had promised the Yunnan government not to involve Western countries or Japan in conflicts near the Myanmar-China border and that it could therefore not sign the NCA.<sup>42</sup> Ultimately, only eight armed ethnic groups signed the Nationwide Ceasefire Agreement on October 15, 2015, excluding numerous other groups, among them members of the Nationwide Ceasefire Coordination Team that had helped to draft it.<sup>43</sup> The new Myanmar government will face serious challenges in advancing the peace process, especially the lack of transparency along the Myanmar-China border.

### **Myanmar-China Economic Relations: Changing Patterns of Asymmetry**

Myanmar's political reforms have begun to dramatically alter its international economic relations. Under the SLORC/SPDC government, Myanmar's



international trade was curtailed by economic sanctions, making it increasingly dependent on China for imports, exports, aid, and investment. This dependence was exacerbated by Myanmar's poor infrastructure, heavy reliance on resource extraction, and lack of a broad manufacturing base. The opening of the Myanmar-Yunnan border to trade in October 1988 led to a significant rise in cross-border commerce. By 1995, recorded bilateral merchandise trade between Myanmar and China (excluding Hong Kong and Macau) had nearly tripled from \$267 million to \$767 million. Following the Asian regional economic slump in 1997, official bilateral trade contracted before resuming its growth, exceeding \$2 billion in 2007 and \$4 billion in 2010.<sup>44</sup> Between 1988 and 2010, official trade with China averaged approximately 19% of Myanmar's total official trade, making it Myanmar's largest trading partner, followed by Thailand (18.9%) and Singapore (15.6%).<sup>45</sup> However, such figures seriously understate Myanmar-China economic activity as they do not include unreported legal trade or the thriving illegal trade in contraband goods such as arms, narcotics, timber, jade, and endangered species. Black market trade is estimated to have been as high as 105% of official trade in 1990, about 70% in the second half of the 1990s, and about 50% in 2005.<sup>46</sup>

Myanmar's official exports to China consist largely of raw materials, particularly natural gas and oil, teak and other hardwoods, and minerals, whereas a large portion of its official imports from China consist of manufactured goods, electronic equipment, machinery, vehicles, and steel.<sup>47</sup> Many of these imports — particularly complete machinery and electronic equipment — are purchased by Chinese firms operating inside Myanmar.<sup>48</sup> A significant portion of China's development aid to Myanmar takes the form of export credits to Chinese companies that win bids for projects in Myanmar, helping them mitigate exchange rate and cash flow risks. Moreover, many of these companies are large state-owned enterprises that have embraced the Chinese government's exhortation to "go global" by establishing operations abroad.<sup>49</sup> Through export credits, China is able to subsidize Chinese enterprises and boost their competitiveness in Myanmar.

The easing of international sanctions promises to alter China's relative economic influence in Myanmar over the longer term. A senior economist at the Asian

Development Bank employed a gravity model to examine Myanmar's trade potential in a January 2013 working paper. The model estimated that between 2005 and 2010, Myanmar's official exports constituted only 15% of its export potential, largely because of the lack of trade with developed economies.<sup>50</sup> This suggests that the removal of sanctions could greatly boost Myanmar's exports, provided that Myanmar develop sufficient productive capacity. Since the easing of U.S. economic sanctions in 2012, bilateral merchandise trade between the United States and Myanmar has grown but remains modest, increasing from \$66 million in 2012 to \$175.7 million in 2013 and \$185.6 million in 2014.<sup>51</sup> Merchandise trade with the European Union also grew, reaching €567 million in 2013 and €885 million in 2014.<sup>52</sup> These figures are still dwarfed by China's position in Myanmar's trade portfolio. Part of the reason is that sanctions are still in place, notably U.S. bans on conducting business with Specially Designated Nationals in Myanmar and on trade with the military. However, Washington's December 2015 announcement that U.S. businesses would be allowed to use ports, toll roads, and airports in Myanmar (even if it resulted in incidental transaction with blacklisted individuals) will likely encourage more businesses to enter Myanmar's market. Policymakers in Myanmar are aware that the country still lacks robust trade laws, making it difficult for companies from developed economies to enter Myanmar, and they expect that an improved regulatory environment will attract more foreign trade and investment.<sup>53</sup>

Many of the experts we interviewed in Myanmar emphasized that because of the sanctions, Myanmar had been forced to rely on China out of necessity rather than choice, leading to overdependence. Some interviewees expressed resentment over what they described as economic coercion by China. One interviewee cited the relatively high interest rates and short repayment terms for Chinese development loans offered to Myanmar and complained these were not in line with what other countries like Norway, South Korea, and Japan were offering.<sup>54</sup>

Myanmar's limited diplomatic and economic relations under the SLORC/SPDC gave China significant first-mover advantages. With relatively little foreign competition, Chinese firms — aided by Beijing's proactive foreign

investment policies, extensive ethnic business networks, and close relations between Chinese authorities and the military junta — had more time to accumulate the knowledge, resources, and relationships to secure a dominant position in Myanmar's economy. Such advantages are unlikely to dissipate anytime soon, but as sanctions are lifted and more foreign businesses enter the Myanmar market, Chinese firms will face growing competitive pressures, promoting innovation and efficiency. At the same time, gradual democratization means that Burmese firms and consumers will be able to conduct business with foreign partners on more favorable terms.

China's asymmetric economic advantages are manifested not only in terms of trade and aid, but also in terms of investment. The latter may be more delicate for Myanmar-China relations because whereas perceived unfairness in trade and aid has generated resentment among business and political actors, controversial Chinese investment projects have incited significant public protests. Those public demonstrations — and even the anti-China sentiments expressed by an increasingly free media and on relatively uncensored social networking sites — increased political pressure on Myanmar's government to adjust policies on Chinese investment. Chinese FDI in Myanmar is focused on extractive industries and the energy sector.<sup>55</sup> The manner in which many of these projects have been pursued has generated controversies over property rights, labor conditions, the environment, and the sustainability of local benefits.

Large-scale Chinese FDI projects have relied on expropriated land, displacing local agricultural populations, aggravating social polarization and even causing political instability.<sup>56</sup> One notable example is the Letpadaung Taung copper mining project, which forced evictions of locals without due process or adequate compensation, worsening the human rights conditions of ethnic minorities and farmers residing near the mine.<sup>57</sup> Forced relocation with less than fair market compensation was also an issue surrounding the Shwe gas pipeline, which is funded by the China National Petroleum Corporation (CNPC). It must be said that there are different accounts to these and other cases, but serious violations of property and human rights have been reported by local residents and international NGO advocates. Such violations also include labor rights,

with reports of coercive and dangerous labor conditions, disregard for regulations on working hours and minimum wages, and intimidation of workers including extortion.<sup>58</sup> Despite such reported violations, there are also complaints that Chinese FDI projects do little to generate local employment, instead bringing in large numbers of Chinese workers. Locals allege that this worsens their economic conditions while “distorting Myanmar’s cultural landscape.”<sup>59</sup> Even when Burmese workers are hired, they tend not to receive the same treatment as Chinese workers, are rarely compensated for labor violations, and are seldom offered long-term employment.<sup>60</sup>

FDI projects in energy and extractive industries can also degrade the local environment, deplete natural resources, and harm local residents’ livelihoods. The copper mine at Letpadaung and the jade mines in Hpakant in Kachin State have contaminated water and air, damaged arable land, and led to the forced evictions of nearby residents.<sup>61</sup> In the case of Hpakant, where as much as 90% of the world’s jade is mined — most of it destined for China — landslides generated by piles of mining refuse have killed many residents and destroyed nearby dwellings, including the November 22, 2015 disaster that killed over 100.<sup>62</sup> The Shwe gas project caused people to burn wood for fuel and construct pipelines across forests leading to deforestation and destruction of biodiversity.<sup>63</sup> Pipeline operations that fall short of international safety standards can contaminate water and soil, affecting the ecosystem for fishing, farming, and daily use. Before it was suspended in 2011, the construction of the Myitsone hydroelectric dam destroyed farmland, fishing stocks, and forests.<sup>64</sup> The negative impact of such environmental degradation on local communities has created a basis for popular activism against such projects.

It has thus become a common refrain in Myanmar that Chinese investments do not support sustainable development, technology transfer, or long-term employment opportunities, despite producing long-term negative effects for the natural and social environments.<sup>65</sup> As a result, many voices in Myanmar have demanded the renegotiation and even cancellation of Chinese contracts. The Myitsone hydroelectric project is an oft-cited example because its contract allegedly allows for transmitting 90% of the dam’s electricity output to China.<sup>66</sup> Moreover, Chinese FDI contracts have allegedly failed to ensure adherence to

environmental regulations, adequate cleanup of contaminants, and payment of tax to the national government.<sup>67</sup>

The Thein Sein administration looked to address these issues by suspending projects, re-negotiating contracts, and preparing Myanmar to become a member of the Extractive Industries Transparency Initiative (EITI).<sup>68</sup> However, such a strategy carried risks of retaliation by Chinese authorities or enterprises by slowing or withdrawing investment in different locations and sectors. Such reprisals are difficult for Myanmar to absorb given its serious need for capital to modernize the economy. It is also difficult for Myanmar to implement a coherent strategy on Chinese FDI because of the complexity of actors on the Myanmar side. Certain vested interests, such as cronies related to the military, are more interested in lining their pockets or protecting their own windfall profits than seeing improvements in labor and environmental policies or ensuring due process and legal recourse to local residents.<sup>69</sup> Often times, resource-rich areas in Myanmar overlap with those controlled by groups also involved in illicit trade and not interested in sharing benefits or coordinating oversight with the central authorities.<sup>70</sup> The proximity of legal and illegal activity, and the suspected illicit wealth of economically important firms like Asia World, have translated to enduring international sanctions and caution from foreign firms, hitherto leaving few investment partners in these areas other than China.

Myanmar's leadership clearly intends for reform and opening to attract more investment from diverse partners. This dynamic is already providing Myanmar with more options, allowing authorities to seek higher standards of corporate social responsibility (CSR), greater capacity building, and more sustainable development.<sup>71</sup> Nonetheless, given China's size and geographic position, it will remain a top trading partner and investor for Myanmar. A strained economic relationship with China is not in Myanmar's interests. However, as Nay Pyi Taw and local authorities diversify sources of capital for development projects, and as they improve the regulatory environment including by working with the United Nations Development Program and Asian Development Bank, the legal framework for investment in Myanmar should further converge with international standards.<sup>72</sup>

## Conclusion: International Standards of Cooperation

Myanmar and China's bilateral diplomacy, border security, and economic relations are not up to international standards because Myanmar has for decades been internationally isolated and overly dependent on China. With reform and opening, Myanmar is gaining options but, like its fellow ASEAN countries, will continue to face the challenge of dealing with a larger, more powerful neighbor. International standards are critical for stable, productive, and sustainable relations among China and its neighbors. This is a theme of increasing salience across Southeast Asia such that Myanmar-China relations will have notable implications, not only for regional security and development, but also as an indicator for China's regional intentions and adherence to international norms. The to-do list for Myanmar's new government is so extensive that external assistance will be welcome. International involvement can help mitigate the substantive difficulty and historical complexity of many governance challenges. For Myanmar-China relations in particular, international standards of mutual respect, transparency and social accountability can improve bilateral diplomacy, border security, and economic relations.

Beijing and Nay Pyi Taw need to address significant doubts between them over the endurance of traditional diplomatic concepts such as Chinese non-interference, Burmese neutrality, and even "peaceful coexistence." Bilateral diplomacy conducted within international standards of mutual respect would reduce current levels of resentment and misunderstanding. In particular, it is not helpful for Beijing to be seen as against openness or defending a sphere of influence in Myanmar, and it is not helpful for Myanmar to be seen as playing major powers off each other. In this connection, it is paramount that Myanmar's new government make clear that upgrading relations with the United States does not come at the expense of relations with China. Myanmar's transition should be in the "cooperation" column of U.S.-China relations, along with global health and the environment, rather than the "strategic rivalry" column with cyber espionage and the South China Sea. Myanmar is not a strategic appendage or pawn of any country, and its history shows that its people will defend their national identities and interests. Myanmar's reform and opening may be related to reducing its reliance on China, but that hardly means Nay



Pyi Taw will become dependent on the United States. The U.S. and Myanmar are not about to enter into a security alliance involving major arms sales or training exercises. American sanctions on arms sales remain in place, and U.S.-Myanmar military dialogues are largely focused on developing international standards of professionalism, transparency, and civil-military relations. There is potential for Myanmar-U.S.-China coordination and even active cooperation in such areas as information sharing and interdiction activities related to counter-piracy, counter-terrorism, and counter-narcotics.

For such cooperation to be realized, and to mitigate problems of trust and accountability surrounding the complex interactions across the Myanmar-China border, greater transparency is needed. Although the signing of a National Ceasefire Agreement by some ethnic armed groups is a positive development, inclusion of all relevant groups is crucial. China should consider welcoming international participation in monitoring the ceasefire process. This could reduce scapegoating and the spread of rumors, while increasing normative pressure (rather than military or economic coercion) for reaching a lasting agreement. Transparency should also be a positive factor for better coordination among stakeholders with interest in stability in the border regions: the military, elected government, and local ethnic groups on the Myanmar side, and Beijing officials, Yunnan authorities, and state-owned enterprises on the Chinese side.

In economic relations, Beijing can further encourage Chinese firms in Myanmar to adopt standards of corporate social responsibility. Not only would this improve China's image, but it would also help ensure the stability and long-term profitability of Chinese investments.<sup>73</sup> The ISO 26000 standard for social responsibility — already adopted by some companies in Myanmar and possibly serving as the basis for an ASEAN policy on CSR — will be a useful reference.<sup>74</sup> South Korea is playing an important role in the establishment of the Myanmar Development Institute, and a trilateral cooperation agreement among KOICA, USAID, and JICA could help promote high standards for capacity building, international lending, and trade facilitation. Such standards are increasingly relevant given Myanmar's efforts to liberalize its regulatory environment.<sup>75</sup>

In our interviews with policymakers and analysts in Nay Pyi Taw and Yangon, a recurrent theme was the importance of high-level visits as a bellwether of Myanmar-China relations. Although Xi Jinping has hosted Thein Sein in Beijing, and visited Myanmar in 2009 as vice-president, he has not visited Myanmar since assuming the top office. The last Chinese president to make an official visit to Myanmar was Jiang Zemin in 2001. Given that Myanmar has hosted numerous international leaders since 2011 — including U.S. President Barack Obama, British Prime Minister David Cameron, Indian Prime Minister Narendra Modi, Japanese Prime Minister Shinzo Abe, South Korean President Park Geun-hye, Australian Prime Minister Tony Abbott, and the heads of fellow ASEAN countries — Xi's absence is conspicuous and has been interpreted by many Burmese as a snub. By making an official visit to Myanmar in the early days of the new administration, Xi would help to dispel such perceptions, signal China's commitment to its strategic partnership with a reforming and opening Myanmar, and set the stage for a cooperative relationship adhering to international standards.

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2. For background on Myanmar’s political transition, see Jonathan T. Chow and Leif-Eric Easley, “No Hope Without Change: Myanmar’s Reforms and Lessons for North Korea,” *Asan Issue Brief*, no. 36, November 30, 2012; <http://en.asaninst.org/contents/issue-brief-no-36-no-hope-without-change-myanmars-reforms-and-lessons-for-north-korea>.
3. Zoltan Barany, “Democracy in Myanmar,” *Foreign Affairs*, December 1, 2015, <http://www.foreignaffairs.com/articles/asia/2015-12-01/democracy-myanmar>.
4. The previous military government wrote in a clause forbidding citizens with foreign family members from assuming the presidency to block Aung San Suu Kyi from the office. Constitution of the Republic of the Union of Myanmar (2008), §59(f).
5. Constitution of the Republic of the Union of Myanmar (2008), §232(b), §232(c), §232(j), §201.
6. Constitution of the Republic of the Union of Myanmar (2008), §40(c).
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    - 1) All Burma Students Democratic Front
    - 2) Arakan Liberation Party\*



- 3) Chin National Front\*
- 4) Democratic Karen Benevolent Army\*
- 5) Karen National Liberation Party-Peace Council\*
- 6) Karen National Union\*
- 7) Pa-Oh National Liberation Organization\*
- 8) Restoration Council of Shan State (Shan State Army-South)

Groups that did not sign the NCA included:

- 1) Arakan Army\*
- 2) Arakan National Council\*
- 3) Kachin Independence Organization\*
- 4) Karenni National Progressive Party\*
- 5) Lahu Democratic Union\*
- 6) Myanmar National Democratic Alliance Army\*
- 7) National Democratic Alliance Army-Eastern Shan State
- 8) National Socialist Council of Nagaland-Khaplang
- 9) New Mon State Party\*
- 10) Shan State Progressive Party (Shan State Army-North)\*
- 11) Ta'ang National Liberation Army (Palaung State Liberation Front)\*
- 12) United Wa State Army
- 13) Wa National Organization\*

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54. Interview with policy expert in Yangon, Myanmar, November 2015. For example, in February 2015 Myanmar's government approved a \$700 million loan from China's Export-Import Bank to support microfinance loans to farmers. The loan came with a 4.5% interest rate and a 15-year repayment period, raising worries that borrowers would be unable to pay them back given the rapidly falling value of the kyat. Parliamentarians expressed similar concerns in March 2015 over a \$40 million loan from the Export-Import Bank with similar terms earmarked for the purchase of vehicles and equipment for the Myanmar Police Force. In comparison, South Korea's Export-Import Bank offered a \$100 million loan to Myanmar to help build a power transmission line with a 0.01% interest rate and a 40-year repayment period, the first 15 years being interest-free. For details, see Su Phyo Win, "Experts Deride Large-Scale Chinese Loan," *Myanmar Times*, March 11, 2015, <http://www.mmmtimes.com/index.php/business/13463-experts-deride-large-scale-chinese-loan.html> (accessed December 21, 2015); Khin Su Wai, "Critics Say Fears on China Loan Vindicated by Event," *Myanmar Times*, August 25, 2015, <http://www.mmmtimes.com/index.php/business/16145-critics-say-fears-on-china-loan-vindicated-by-event.html> (accessed December 21, 2015); "Chinese Loans for Burma's Police," *Democratic Voice of Burma*, March 13, 2015, <http://www.dvb.no/news/chinese-loans-for-burmas-police-burma-myanmar/49167> (accessed December 21, 2015); Soe Than Lynn, "Opposition MP Questions Purchase of 900 Police Cars from China," *Frontier Myanmar*, December 9, 2015, <http://www.frontiermyanmar.net/en/opposition-mp-questions-purchase-900-police-cars-china> (accessed December 21, 2015); Aung Shin and Aye Thida Kyaw, "Korean Loan Comes for Power Lines," *Myanmar Times*, November 16, 2014, <http://www.mmmtimes.com/index.php/business/12271-korean-loan-comes-for-power-lines.html> (accessed December 21, 2015).
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