

The Political Economy of China-Myanmar Relations: Strategic and Economic Dimensions

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Abstract

The main thesis of this paper is to argue that Myanmar is neither a strategic pawn nor an economic pivot of China in the short and immediate term. Since 1988, Sino-Myanmar entente is uneven, asymmetrical, but nevertheless reciprocal and mutually beneficial. The strategic entente and economic relations are a marriage of convenience. However, Myanmar's strategic location on a trijunction between South Asia, Southeast Asia and China is nevertheless economically and strategically significant. Economically, Myanmar is important for China as a trading outlet to the Indian Ocean for its landlocked inland provinces of Yunnan and Sichuan. Strategically, Myanmar is potentially important for China to achieve its strategic presence in the Indian Ocean and its long-term two-ocean objective. Furthermore, a China-Myanmar nexus is strategically useful for China to contain India's influence in Southeast Asia. Finally, Myanmar is part and parcel of China's grand strategic design to achieve its goal of becoming a great power in the 21st century. Despite the more extensive growing Chinese influence over Myanmar, it is unlikely that Rangoon will become a strategic satellite base for China. Myanmar's strong sense of nationalism, its past ability to successfully deal with foreign powers to preserve its independence and cultural identity, will likely make Myanmar withstand most odds.

Is Myanmar a Strategic Pawn of China?

The argument that Myanmar is a strategic pawn or an economic pivot is predicated on Myanmar's geo-strategic position, since it shares common borders with its two giant neighbours, China and India. The logic of this reasoning is that

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Myanmar is sandwiched between India on the Northwest and China on the Northeast and therefore, as weak power and potential unstable Union plagued by internal ethnic and political conflict, Myanmar will inevitably succumb to external pressure, lose its independence and sovereignty. Indeed, one observer has argued that even if Myanmar is successfully wedged between the Sino-Indian strategic rivalries, Rangoon still cannot escape the reality that it has become part of China's sphere of influence, as a result of its entente with China from 1989 onwards.¹

Besides geographical proximity, history is another factor conditioning Myanmar's perception of external relations. Historical evidence has shown that Myanmar did become a victim of expansionism of the great powers. In the 13th century, Myanmar was invaded by the Mongols and later on in the 19th century by the British and finally in the 20th century by the Japanese. Will history be repeated again in the 21st century for Myanmar to succumb to external pressure to get its independence reduced to a vassal state of a rising super power? Can an economically weak, politically divided and socially fragmented small power survive the ambitions of a rising neighbouring superpower?

The main thesis of this paper is that Myanmar is neither a strategic pawn nor an economic pivot of China. Sino-Myanmar ties are uneven, asymmetrical but nevertheless reciprocal and mutually beneficial. The entente is a marriage of convenience.

China-Myanmar relations since diplomatic recognition in 1950 until today can be briefly divided into the following phases: first, ambivalent peaceful coexistence: 1949-1961; second, temporary setback: 1962-1970; third, improving relationship: 1971-1988; fourth, closer entente since 1989-2002. The last phase saw the most significant change in Myanmar's China policies, that is from 'strategic neutrality' to 'strategic alignment' with China after the military coup, when the present military junta took power in 1988. The focus of this paper is to analyse Sino-Myanmar entente in the post-coup era since 1988.

In order to predict the future ties between Myanmar and China, it is pertinent to first analyze China's foreign policy objectives, in particular its strategic goal towards Myanmar; second, to analyze Myanmar's perception and

1. J. Mohan Malik, 'Myanmar's Role in Regional Security: Pawn or Pivot?' *Contemporary Southeast Asia*, Volume 19, Number 1, June 1997, pp.52-73; see also S.D. Muni, *China's Strategic Engagement with the New ASEAN, An Exploratory Study of China's post-Cold War Political, Strategic and Economic Relations with Myanmar, Laos, Cambodia and Vietnam*, Institute of Defence and Strategic Studies IDSS Monograph No. 2, (Singapore: Institute of Defence and Strategic Studies, 2002).

responses to China's Myanmar policies, and then India's and ASEAN's responses to the challenges from a rising China's inroads and influences over Myanmar since the 1990s.

China's Myanmar Policies: Objectives

China's objectives in Myanmar can be succinctly summarized as follows:

First, since 1979, China's Myanmar policy has been in line with its general policy of ensuring a stable external environment with the neighbouring states so that Beijing can continue to implement its domestic modernization and development policy.

Second, China's Myanmar policy can be seen in the context of the continuation of maintaining the spirit of Bandung's policy of peaceful coexistence with its neighbours since 1955.

Third, in the geo-economic dimension, Myanmar is important for China in the context of being a 'landridge'² for China to revive its 'southwest silk road' from Yunnan province to Myanmar and westward to Bangladesh, India and the West. The link up with Myanmar could help to develop the poor economies in the southwestern part of inland China to trade with the growing economies of Southeast Asia and India.³ Furthermore, with the realization of the ASEAN Free Trade Area (AFTA) with a population of 500 million, China could promote trade southward using Myanmar as a 'landridge', linking China's inland provinces with the rest of Southeast Asia.

Fourth, with Myanmar, Laos and Thailand, China can form a sub-regional grouping for economic cooperation. Thus China can export an abundance of cheaper goods to these countries. Myanmar is important to China to implement its western development strategy.⁴ Kunming, in particular, will benefit economically by linking up with Myanmar for trade and investments. Together with the formation of a sub-regional grouping including the five mainland Southeast Asian economies (Thailand, Laos, Cambodia, Vietnam and Myanmar), which have a potential market of 200 million people, they can be the goods and products outlets for Kunming and other southwestern provinces. The link up

2. For a study on the 'strategic landridge' see, Yuan-Li Wu, *The Strategic Landridge*, (California: Stanford University Press, 1975).

3. J. Mohan Malik, 'Myanmar's Role in Regional Security: Pawn or Pivot?' *op. cit.*, p.57.

4. Tian Xiaowen, 'China's Drive to Develop Its Western Region (I): Why Turn To This Region Now?' EAI Background Brief No.71, (Singapore: East Asian Institute, National University of Singapore), 28 September 2000.

between China's southwestern provinces and the mainland Southeast Asian states can mitigate the gap of economic disparities between China's affluent coastal and its poverty stricken southwestern inland provinces.

Myanmar in China's Strategic Thinking

Does China have long-term grand strategic designs on Myanmar and the Indian Ocean?

Myanmar is geographically located at the southwest of China and is strategically important as a 'landridge' for the People's Liberation Army Navy (PLAN) in the long term to reach the Indian Ocean via the Myanmar-controlled Coco Islands, which are about 30 km north of the Indian-controlled Andaman Islands. By the year 2050, China is expected to achieve world-class blue water navy status.⁵ Myanmar would be strategically important for China to achieve direct access to the Pacific and the Indian Oceans. The PLAN would be able to shorten the distance by 3000km reducing the voyage by five to six days by not passing through the Strait of Malacca to reach the Bay of Bengal. In 1994, Japanese sources reported that China had completed construction of radar and electronic surveillance facilities on the Coco Islands, which were on lease to China.⁶ There was also a report that China and Myanmar were interested in joint development of a deep-water port at Kyaukpyu on Ramree Islands in the Bay of Bengal.⁷ Furthermore, the alleged military installation at the Zadetkyi Island on Myanmar's southern tip of its territory close to Indonesia's Sabang Island, (off northern Aceh in Sumatra) raised suspicions about China's future maritime ambitions in the Indian Ocean.⁸ Thus China's strategic alignment with and inroads into Myanmar could have long-term serious security implications not only for Indonesia, Thailand and ASEAN as a whole, but also for the long-term strategic interests of India, Japan and the US.

Since the 1988 post-military coup period, Rangoon has cemented closer military cooperation with China. In 1989, the first military delegation arrived in Beijing to negotiate the purchase of arms from China. A deal was struck worth

5. Shee Poon Kim, 'The South China Sea in China's Strategic Thinking', *Contemporary Southeast Asia*, Vol. 19, No. 4, March 1998, Singapore, p.369-387.

6. *Asia Yearbook* 1994, p.98-100; Peter W. Rodman, 'China Woos Burma', *International Herald Tribune*, 30 May 1997.

7. *International Herald Tribune*, 7 April 1995.

8. Donald M. Seekins, 'Burma-China Relations: Playing with Fire', *Asian Survey*, Vol. 37, No. 6, June 1997, p.535.

about US\$ 1.4 billion.⁹ Besides the supply of arms, (jet fighters, tanks, naval ships, etc.) China also agreed to train Myanmar's air force, military and army personnel.¹⁰ The motivation for these arms purchases was to upgrade Myanmar's military capability and to use them to suppress the minority separatist insurgencies. In 1994, Myanmar bought about US\$400 million worth of arms.¹¹ If such arms purchases continue, Myanmar may emerge as the only garrison state in Southeast Asia. In October 1996, Army Chief, General Maung Aye's visit to Beijing resulted in further military and intelligence cooperation between the two countries. China again agreed to train 300 Myanmar air force and naval officers and to provide additional places for them in Chinese Staff colleges.¹² China also offered favourable terms for Myanmar's arms purchases offering free loans and granting credit to the junta, as well as economic aid and investments for the construction of Myanmar's basic infrastructure, such as dams, bridges, roads and ports as well as for industrial projects. Of particular strategic significance is the construction of strategic roads along the Irrawaddy River trade route linking Yunnan province to the Bay of Bengal.

China's intention to seek closer strategic alignment and economic cooperation with Myanmar could be seen from the visit to Rangoon of a high-power delegation (about 100 members) led by Li Peng from 26 to 28 December 1994. Both Li Peng and his counterpart, General Than Shwe agreed to reaffirm and further strengthen the closer relationship between the two countries. The communiqué issued at the end of the visit stated 'the two leaders noted with appreciation the all round strengthening of relations between the two countries in recent years, and reaffirmed their desire to further promote co-operation in the economic, agricultural, environmental, cultural, tourism, forestry, education and scientific fields, and in combating illicit drugs'.¹³ It is doubtful Myanmar can contribute significantly to the creation of a new East Asian political and economic order. But the price Myanmar will have to pay for deviating from its strategic neutrality

9. <http://www.cnn.com/ANOW/asiaweek/99/0528/nat4html>; *International Herald Tribune*, 3 June 1997; *Asia 1996 Yearbook*, p.97; D.M. Seekins, 'Burma-China Relations: Playing with Fire', *op. cit.*, p.534. See also Denny Roy, *China's Foreign Relations*, (Lanham, Maryland: Rowman & Littlefield Publishers, Inc, 1998), p.174.

10. The arms purchases include among others, helicopters, attack aircrafts, trucks, artillery, anti-ship cruise missiles, petrol boats, tanks, rockets, mortars, assault rifles, etc. D.M. Seekins, 'Burma-China Relations: Playing with Fire', *ibid.*, p.534.

11. Mary P. Callahan, 'New Dragon or Still Dragging?' *Asian Survey*, Vol. 35, No. 2, February 1995, p.206.

12. Peter W. Rodman, 'China Woos Burma', *International Herald Tribune*, 30 May 1997, *op. cit.*

13. *South China Morning Post*, 30 December 1994.

principle might be to potentially become a useful pawn for China's long-term strategic interests. Of course, Li Peng refuted as 'sheer fabrication' western intelligence reports of the installation of a sophisticated radar facility in the Coco Island.¹⁴ Li Peng also made it unequivocally clear that China has no intention to seek a sphere of influence in the Indian Ocean. Rangoon's authorities endorsed Li's comments.¹⁵

Although Myanmar and China have closer military ties, China has also encouraged Rangoon to have military links with other countries, such as having, for example, defence supply relations with Pakistan.¹⁶ China claims that most of the arms sold to Myanmar were for defensive purposes.

China is a positive rather than negative factor in ensuring to maintain stable Sino-Myanmar relations. Though China remains a staunch ally since 1988, Beijing is concerned about Myanmar's long-term political and social stability because of Rangoon's failing economy and lack of political legitimacy. China supports the idea of UN mediation to bring about political dialogues between the ruling military junta and the National League for Democracy's Secretary-General Aung San Suu Kyi.

China also endorsed the ASEAN idea of 'constructive intervention' or 'comprehensive engagement' with Myanmar, in particular Dr. Mahathir's initiative to persuade Rangoon to undertake political reforms.

Myanmar's Perception and Responses

Why was strategic entente between Myanmar and China possible in 1989? The main reason was the West's diplomatic isolation of Myanmar. The military coup and the killings of the students in 1988 in Rangoon, as well as the killings of Chinese students during the Tiananmen crisis in June 1989, received strong criticism and triggered off western economic sanctions. Beijing saw a golden opportunity to fill the strategic vacuum in Myanmar and decided to make some inroads into Rangoon. The economic sanctions by the West had added to Myanmar's economic difficulties. Due to isolation and necessity, Rangoon decided to move closer to China so as to seek both military and economic assistance from

14. *China News*, 20 April 1995.

15. *Renmin ribao*, 28 December 1994; *Ta Kung Bao*, 6 May 1998.

16. S.D. Muni, 'China's Strategic Engagement with the New ASEAN, An Exploratory Study of China's Post-Cold War Political, Strategic and Economic Relations with Myanmar, Laos, Cambodia and Vietnam', *op. cit.*, p.80.

Beijing. It is in this context that one can argue that Myanmar was not a player in the strategic game vis-à-vis China. Myanmar's military never completely trusted any external major power, including China, its northern giant neighbour, because the Myanmar leaders have deep seated feelings of sinophobia as well as xenophobia. The Myanmar politicians were socialized in an environment of political culture of distrust.¹⁷

Myanmar has no intention, nor is willing to be a strategic pawn of China. In fact, Myanmar's military leaders are aware of the potential dangers to be too close to China to feel comfortable. By the late 1990s, Myanmar decided to adopt a 'counter hedging' strategy by diversifying its diplomacy welcoming India¹⁸ and consolidating its ties with ASEAN as well as encouraging Japan and other industrialized states like Singapore and the EU to invest in Rangoon.

To minimize Myanmar's military dependency on China, Rangoon, in August 2001 decided to purchase 12 MIG-29 fighters from Russia at a bargain price of between US\$130m to US\$150m for the entire batch. Myanmar has also dispatched 300 military personnel to Moscow for training to fly the MIG's and to acquire rocket technology.¹⁹ The strategic significance of this purchase is that Russia offers another potential alternative to Rangoon to balance China and India.

The closer strategic and economic ties between Myanmar and China have presented a dilemma for Rangoon. How can it keep its independence, strategic neutrality and at the same time maintain a good relationship with its neighbouring states, especially China?

In order to minimize Myanmar's economic dependence on China, Rangoon needs to diversify its economic contacts with the industrialized countries, especially the US, the EU, Japan, the ASEAN states and India so as to attract more foreign direct investments (FDI) and acquire new technology and skills for its labour force to overcome the structural weaknesses and backwardness of its economy. To achieve greater efficiency of its economy, the military regime has no choice but to undertake political reform and accept democracy. Political reforms can strengthen its free market economy. Improvements of human rights are necessary, as they are tied to aid and investment. So far, evidence has shown that

17. See Lucian Pye, *Politics, Personality and Nation-Building: Burma's Search for Identity*, (New Haven, Yale University Press, 1962).

18. For the concept of 'Counter-Hedging Strategy', see Chung Chien-peng, China's Engagement with Southeast Asia After the Leadership Transition, A "Counter-Hedging" Strategy?, EAI Working Paper No. 87, (Singapore: EAI, NUS), 9 May 2002.

19. Stratford Global Intelligence Update, 22 August, 2001, see www.burmaproject.org/082201.

the current military junta is reluctant to transfer its political power to civilian rule. But in the long run, sharing political power with civilian politicians is inevitable.

India's Strategic Perspective

Myanmar and India share a border of about 1331km (827 miles). Furthermore, Myanmar has a long coastline of 2276km (1414 miles) that shares certain parts of the Bay of Bengal, in particular the surrounding areas of the Coco Islands and the Andaman Sea, which is very important in India's strategic considerations.

In India's strategic thinking, Myanmar's location is central to strengthening New Delhi's geopolitical position in Southeast Asia. Myanmar is a key stepping stone in India's new 'look East' policy which seeks to develop and expand political, economic and security ties with ASEAN.

India's growing interest in Myanmar could be seen from the shift of its low-key policy in the 1980s and beginning of the 1990s, which emphasized human rights and democracy to one of emphasis on a strategic realist policy towards Rangoon. The main reason for India's shift was the growing concern and uneasiness of Myanmar's abandonment of its traditional 'strategic neutrality' policy and strategical tilt towards China. Since the beginning of the 1990s, India has been extremely sensitive to the growing influence and presence of China in the Bay of Bengal, particularly so when China helped to upgrade Myanmar's radar facilities in the Cocos Islands and the construction of a naval base in Sittwe.

With the expansion of India's IT industry (in particular in the software areas) and knowledge economy,²⁰ India is interested to build a Trans-Asian Highway from Patna to Kalemmyo in Myanmar, a northern town bordering India, as well as gas pipelines from Calcutta to Myanmar.

With the development of the AFTA in January 2002 with a population of 500 million, Southeast Asia is therefore an important region for India's 'look East' policy. In 1994, as part of its 'look East policy', and growing concern over China's strategic presence, India seems to have moved away from supporting the pro-democracy movements to endorsing the military leadership.

India stepped up high-powered visits to Rangoon aimed primarily to move Myanmar away from forging close ties with China. Besides playing on security

20. John Wong & Wong Chee Kong, 'China's Software Industry (II): The Race with India', EAI Background Brief No. 118, (Singapore: EAI, NUS), 26 March 2002.

and strategic issues, India also used religion as a card in cementing closer Indian/Myanmar cultural and religious ties. Buddhism and Hinduism are depicted by the Indian leadership as 'branches of the same tree'.²¹ In August 2000 for example, the military junta allowed a Hindu extremist movement, Rashtriya Swayamsevak Sangh to open a branch in Rangoon.²²

In order to achieve India's strategic objective and to minimize China's growing presence and influence in Rangoon, New Delhi has decided to shift its liberal policy concerning human rights and democracy to a 'realist' policy, mainly emphasizing strategic/security interests. Thus India's main objective is to remove Myanmar from China's orbit or sphere of influence.

Despite the recent overall improvement in political ties and the strengthening of bilateral trade between China and India, New Delhi, from the strategic point of view, still perceives China as a potential 'threat' in the North as well as the East.²³

However, China has more leverage than India in seeking influence in Myanmar. First, there are more Chinese than Indian immigrants in the northern towns of Myanmar, engaging in different kinds of trade and business. Thirty percent of the population in Mandalay for example, are new migrants from China.²⁴ China also produces more cheap goods to sell than India. A communist state has the advantage in pursuing its strategic and political objective in Myanmar, whereas a democratic state like India can be disadvantaged because of domestic political opposition and interest groups. Finally, India's lagging economy, the backwardness of the areas bordering Myanmar and the separatist insurgencies in the Northeast regions make it difficult for India to compete with China in seeking influence and a presence in Myanmar.²⁵

21. See Bruce Matthews, 'Myanmar 2000, Beyond the Reach of International Relief?' *Southeast Asian Affairs 2001*, (Singapore: Institute of Southeast Asian Studies, 2001), p.235.

22. Bruce Matthews, 'Myanmar 2000, Beyond the Reach of International Relief?' *ibid.*, p.235.

23. J. Mohan Malik, 'Myanmar's Role in Regional Security: Pawn or Pivot?' *op. cit.*, p.56.

24. Anthony Davis, 'China's Shadow', *Asiaweek*, 28 May 1999, p.30; see also Mya Maung, 'On the Road to Mandalay, a case study of the Sinonization of Upper Burma', *Asian Survey*, Vol.XXXIV, No.5, May 1994, pp.447-459.

25. Ross H. Munro, 'China's Changing Relations with Southeast, South and Central Asia', in Hafeez Malik, ed., *The Roles of the United States, Russia and China in the New World Order*, (New York: St. Martin's Press, 1997), p.282.

ASEAN's Responses

China's growing influence over Myanmar has resulted in anxiety for the ASEAN states. The wariness over China's inroads into Myanmar has resulted - with the support of other ASEAN members - in Thailand's initiative to lobby for Myanmar to become a full-fledged member of ASEAN, which then finally led to accepting Myanmar as a member of ASEAN in 1997. To counter China's strategic inroads into Southeast Asia was one of the important considerations to accept Myanmar and Laos in 1997 and Cambodia in 1999. Thus ASEAN, especially Thailand changed its non-interference attitude to a pro-active 'constructive engagement' strategy to 'constructive intervention' policies towards Myanmar. ASEAN was worried and saw the danger of Myanmar's slow strategic, military and economic tilt towards China. Thus there appeared to be a need to adopt a common strategy to deal with a resurgent China. From Myanmar's perspective, joining ASEAN, the Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation (BIMSTEC), is a bridge network strategy to promote regional cooperation between South Asia, Southeast Asia and China and counterbalance its over-reliance on China.

Is Myanmar an Economic Pivot of China?

Myanmar has long historical trade links with China dating as far back as the 11th century during the Pagan dynasty. Contemporary Myanmar-China trade at the people-to-people level mainly concentrates at the upper Myanmar Shan and Kachin states and the border of Yunnan province.²⁶ Although official trade was banned by Ne Win from 1962-1988, the ban did not prevent Chinese and Myanmar traders from conducting trade at the border areas of Wantin in Yunnan province and Kyukok an outpost on the Myanmar side.

The year 1988 marked a significant change in Myanmar's trade policy towards China. The first sign of Rangoon's interest in promoting greater economic ties could be seen from the State Law and Order Council's {(SLORC), changed to State Development and Peace Council (SDPC) in 1997} announcement of legalizing border trade on 5 August 1988. This marked a new chapter in Myanmar's open trade policy which resulted not only in opening up border trade but even more importantly, illegal trade and drug trafficking.

26. Mya Maung, *The Burma Road to Capitalism, Economic Growth versus Democracy*, (Connecticut: Praeger Publishers, 1998), p.183.

China's Yunnan province which has a population of about 43 million, was historically a southwest Silk Road trade route, linking Myanmar with Southwest Asia. It has now emerged as a potential target of China's long-term strategic ambition, transforming the whole region as part of a golden 'Quadrangle' regional trade zone involving Yunnan, Myanmar, Thailand and Laos.²⁷ This zone could become China's landridge to the Indian Ocean for its maritime trade. Yunnan, in particular, could emerge as 'an integrated part of the symbiotic relationship established by the SLORC to seek economic and military aid from its giant neighbour'.²⁸ The growing importance of Yunnan in China-Myanmar economic ties could be seen in November 1989, a year after the military coup, when the SLORC signed a multiple trade and economic agreement with the Yunnan authorities, including geological surveys, coal and tin mining and a television station.²⁹ A month later, in December 1989, the two countries signed an economic and technical cooperation agreement in which China agreed to offer an interest free loan of Rmb 50 million (US\$15million) for the Rangoon-Thanhyin rail and road bridge construction project.³⁰ According to a Taiwanese source, from 1961 to 1994, Beijing has given a total of Rmb 500 million in aid to Rangoon and China had completed 18 out of 20 projects for Myanmar.³¹ The increasingly closer economic ties between the two countries could be seen from the sharp jump in the trade volume between them. In 1988, for example, the total trade between China and Myanmar reached US\$9.51 million. In 1989, it jumped to US\$76.03 million, which was eight times that of the previous year.³² In 1995, the total value of trade grew to US\$767.40 million.³³ In 1998, China-Myanmar trade declined to US\$576.49 million,³⁴ but in the year 2000, the total trade increased to US\$621.26 million.³⁵

27. Mya Maung, *The Burma Road to Capitalism, Economic Growth versus Democracy*, *op. cit.*, p.186.

28. Mya Maung, *The Burma Road to Capitalism, Economic Growth versus Democracy*, *ibid.*, p.190.

29. Liang Chi-shad, 'Burma's Relations with the People's Republic of China: From Delicate Friendship to Genuine Co-operation', in Peter Carey, ed., *Burma, The Challenge of Change in a Divided Society*, (London: MacMillan Press, 1997), p.81.

30. Liang Chi-shad, 'Burma's Relations with the People's Republic of China: From Delicate Friendship to Genuine Co-operation', *ibid.*, p.81.

31. Qiao Yiming, 'China and Burma: Political and Economic Relations', *Mainland China Studies*, Taipei Vol. 39, No. 1, January 1996, p.87.

32. Table 1, p.19; see also Liang Chi-shad, 'Burma's Relations with the People's Republic of China: From Delicate Friendship to Genuine Co-operation', *ibid.*, p.83.

33. Table 1, p.19.

34. Table 1, p.19.; see also *China Statistical Year Book 2000*, (Beijing: China Statistics Press, 2000), p.593.

35. Table 1, p.19; see also <http://www.china.org.cn/english/2001/December23577.htm>

Border and Illegal Trade

The volume of border trade between both countries increased and in 1988, it reached Rmb 789.52 million and then jumped to Rmb 965 million in 1989, a 26% increase over 1988. In 1990, the total border trade went up to Rmb 1006.978 million another increase of 11% over 1989.³⁶ If one takes into consideration illegal contraband, such as opium, heroin and the jade trade along the border, then the total amount of trade would be much larger and its implications for Myanmar's military regime's survival, economic and security interests far more important than it appears. Myanmar is the world largest opium producer. In 1995 alone, it produced about 2340 tons of which 98% were for export.³⁷

What are the implications of this illegal trade? Mya Maung mentioned that some of the top military junta were involved in the illegal drug trade.³⁸ Part of the earnings from this illegal trade went to service the purchase of arms from China.³⁹ The profits make it possible for the military to expand its forces. Because of the huge amount of money involved, the region of the Golden Triangle has become an area of 'politics of drugs' and political intrigues as well as power struggle among the Myanmar military elite, ethnic Chinese ex-warlords, like Khun Sa, i.e. Chang Chifu, etc., ethnic separatist insurgencies, and the local authorities of China and Thailand in a complicated chain of partnerships.⁴⁰ This symbiotic partnership enabled the Rangoon military authorities 'to uproot the ethnic minority insurgents' control of their respective natural resources and border trade with a number of bilateral cease-fire agreements struck between the ethnic rebels and the SLORC beginning in 1993'.⁴¹ Finally, the symbiotic cooperation for the drug trade among the relevant authorities was one of the main reasons for the success of the SLORC in averting international economic sanctions by the West.⁴² Hence, the SLORC, with the help of its partners, 'has been part of the problem not the solution' of the underground lucrative drug trafficking in Myanmar.⁴³

36. Liang Chi-shad, 'Burma's Relations with the People's Republic of China: From Delicate Friendship to Genuine Co-operation', *op. cit.*, p.83.

37. Mya Maung, *The Burma Road to Capitalism, Economic Growth versus Democracy*, *op. cit.*, p.196.

38. Mya Maung, *The Burma Road to Capitalism, Economic Growth versus Democracy*, *ibid.*, pp.201-204.

39. Mya Maung, *The Burma Road to Capitalism, Economic Growth versus Democracy*, *ibid.*, p.205.

40. Mya Maung, *The Burma Road to Capitalism, Economic Growth versus Democracy*, *ibid.*, p.194.

41. Mya Maung, *The Burma Road to Capitalism, Economic Growth versus Democracy*, *ibid.*, pp.192-193.

42. Mya Maung, *The Burma Road to Capitalism, Economic Growth versus Democracy*, *ibid.*, p.192.

43. Mya Maung, *The Burma Road to Capitalism, Economic Growth versus Democracy*, *ibid.*, p.197.

Is the Trade Deficit Undermining Sino-Myanmar Entente?

One of the features of Myanmar-China trade is that Rangoon had consistently suffered from trade deficits vis-à-vis China in the 1990s. From 1990 to 1995, Myanmar incurred a trade deficit from about US\$105 million in 1990 to more than US\$468.30 million in 1995.⁴⁴ In 2001, the trade deficit amounted to US\$363.16 million.⁴⁵

Though Myanmar consistently suffers trade deficits with China, it will not lead to trade dependence on China, because it only constitutes about 10.5% (1999-2000) of total external trade. Myanmar's largest trading partner is ASEAN. It amounts to 44% of its total trade volume (1999-2000). Singapore, with a share of 24.3%, is the largest individual trading partner, whereas Thailand's trade amounts to 10.5%.⁴⁶ The above data suggest that there is no danger that China is overwhelmingly dominating Myanmar's trade.

While the West continues to criticize Myanmar's human rights records, it does not prevent the Multi National Corporations (MNCs) from pledging investments for Rangoon. In the year 2000, the FDI flow into Myanmar was US\$203million, with Singapore (28%), UK (24%), USA (18%), France (10%), Japan (8%), (Indonesia (4%), Hong Kong (2%), Malaysia (2%), others (4%).⁴⁷ Most of the FDI was channelled into the areas of oil and gas exploitation, manufacturing and tourism related industries (hotels, etc). China is not the leading foreign investor in Myanmar, although for the first ten months in 2001, Chinese companies signed 87 deals for projects totalling US\$186m.⁴⁸

Theoretically, with a GNP per capita of about US\$200.– in 1999, Myanmar is one of the poorest states in Southeast Asia.⁴⁹ Since China is relatively better off than Myanmar, it should purchase more from the latter rather than enjoy a trade surplus with Rangoon. How does one explain this trade deficit with China? First, it has to do with the structures of the economy of both states. Myanmar is basically an agrarian economy whose exports to China are mainly confined to a few primary commodities, such as teak and rice. In 1986 to 1987, teak exports constituted about 45% whereas rice amounted to about 27% of its total exports.⁵⁰

44. Table 1, p.19.

45. www.myanmarpi.com 2 January 2002.

46. *ASEAN Investment Report 2001 Foreign Direct Investment and Regional Integration*, (Jakarta: ASEAN Secretariat, 2001), p.52.

47. *ASEAN Investment Report 2001, Foreign Direct Investment and Regional Integration, ibid.*, p.53.

48. www.atimes.com/China/CL15Adol.html.

49. *Asiaweek*, 18 February 2000.

50. Mya Tan and Joseph L.H. Tan ed., *Myanmar Dilemmas and Options*, (Singapore: ISEAS, 1990), p.170.

In the 1980s, the manufacturing sector accounted for less than 5% of the total export value, consisting mainly of light industries, such as textiles, leather, cement, animal feed products, etc.⁵¹ These data show that Myanmar's economy is very much agro-based and underdeveloped. Unless Rangoon diversifies its economy away from a primarily agrarian economy to a more sophisticated one with manufacturing and service sectors, the trade deficit with China is likely to persist.

So far, Myanmar produces very few manufacturing items that can be exported to China. The problem of this primary commodity economy is that prices are subject to fluctuation in the international markets and can be manipulated by the big buyers. China or other buyers from Rangoon's neighbouring states such as Vietnam and Thailand can easily purchase what is produced by Myanmar from elsewhere. Since China is much more industrialized and has a larger economy than Myanmar, China therefore has many items to sell to Myanmar, especially household items, such as electrical appliances, cosmetics, textiles, shoes, watches, medical products and instruments, etc.⁵² Because of the size of China's economy, it can produce vast quantities of cheaper goods at very competitive prices. Thus the Myanmar traders and merchants are going to the outposts of such Chinese towns as Wantin and Ruili in Yunnan province to buy Chinese goods and then bring them back to Myanmar to sell the items at a higher price.

Second, Myanmar's economy has more than just structural weaknesses. From 1962 to 1988, under General Ne Win's leadership, the Burmese road to socialism program highlighted the importance of equity and ideology rather than productivity and efficiency.⁵³ The nationalization of both local and foreign enterprises and the adoption of an inward-looking model of economic development strategy resulted in Myanmar's equality of poverty. Part of the reasons why the economy has not been doing well is because the military has not been able to mobilize sufficient domestic capital and investments.⁵⁴ Third, Myanmar's economic weakness is also due to the administrative measures and bureaucratic ethos of the military regime. As Mya Maung argued, the trade deficit was due to 'the inefficiency of the Burmese military command economy and the import inelasticity of Burma with respect to Chinese manufactured goods together with the import elasticity of China with respect to Burmese agricultural and forest

51. Mya Tan and Joseph L.H. Tan ed., *Myanmar Dilemmas and Options*, *op. cit.*, p.169.

52. Mya Tan and Joseph L.H. Tan ed., *Myanmar Dilemmas and Options*, *ibid.*, p.208.

53. Mya Tan and Joseph L.H. Tan ed., *Myanmar Dilemmas and Options*, *ibid.*, p.9.

54. Mya Tan and Joseph L.H. Tan ed., *Myanmar Dilemmas and Options*, *ibid.*, p.171.

products.⁵⁵ Since Myanmar suffers trade deficits vis-à-vis China, constituting about one third of its total trade deficit, this new development if unchecked, can lead to ethnic and political tensions between China and Myanmar.

After one decade of closer entente, China has emerged as one of the most important players in Myanmar's domestic economy and foreign relations. There are signs that Myanmar's northeast may become an economic sphere of influence of China. The development of new roads, rails, bridges and the massive influx of Chinese into Myanmar's northern towns point to signs that the northeast may become an economic sphere of influence of China. Since 1988, Chinese immigration to Myanmar, in particular from Yunnan, has been growing rapidly ranging from one to two million. About 250,000 to 300,000 Yunnanese Chinese migrated to Mandalay and half of the population in Lashio is Chinese.⁵⁶ There is a tendency toward sinicization of Mandalay not only in the economic but also in the cultural and social dimensions.

China has now replaced Thailand as the most important economic partner of Myanmar. From 1962 to 1988 under Ne Win's leadership, Thailand dominated the trade (both legal and illegal) with Myanmar. In 1990, however, China was catching up and its share of total imports from Rangoon was 15% as compared to Thailand's, which was 16%. In 1991, China's share jumped to 22% of Myanmar's total imports, and Thailand's share went down to 17%. From 1992 to 1995, Thailand's and China's shares decreased from about 13% to 10% and 18% to 12% respectively.⁵⁷ The decline in Myanmar-Thai economic ties was partly due to border conflicts that resulted in the cancelling of a number of logging and fishing concessions granted to Thai companies at the end of 1993.⁵⁸ China's inroads into Myanmar were also partly due to the success in its economic modernization since 1978. By the end of the 1990s, the dependency model or patron-client model had already taken shape in the economic and military closer ties between the two countries. After a decade of introducing a strategy of limited free market economy, the foundation of Myanmar's economy remains weak and shaky and it is unlikely that Myanmar can get out from its closer economic and military entente with China.

The pertinent question is whether Myanmar will become an economic and

55. Mya Maung, *The Burma Road to Capitalism, Economic Growth versus Democracy*, *op. cit.*, p.212.

56. www.georgetown.edu/sfs/program/Asia/burmaConference.htm. See also Mya Maung, 'On the Road to Mandalay, a case study of the Sinonization of Upper Burma', *op. cit.*, pp.447-459.

57. Mya Maung, *The Burma Road to Capitalism, Economic Growth versus Democracy*, *ibid.*, p.216.

58. Mya Maung, *The Burma Road to Capitalism, Economic Growth versus Democracy*, *ibid.*, p.217.

military colony of China in the 21st century? So far there is no evidence to suggest that China has the intention of colonializing Myanmar's economy and the military. First, judging from past examples, due to long-term political and strategic considerations, trade deficits with China and the neighbouring states can be adjusted for long-term strategic and political investments.⁵⁹ To offset the trade deficit with Myanmar, China can purchase more goods besides giving more aid and credits to Rangoon. In other words, China's future economic ties with Myanmar can be assessed from China's perspective in the larger context of China's political and strategic interest not only towards Rangoon but also towards Southeast Asia and the Asia-Pacific region in general.

Prospects of Myanmar-China Relations

What will be the future prospects of Myanmar-China relations in the 21st century? There are three scenarios, the alarmist, the pessimistic and the guardedly optimistic. The alarmists argue that Myanmar is playing with fire by seeking closer military cum strategic and economic ties with China. The alarmists' thinking is based on three reasons. First, it will lead to internal tensions between Chinese and Myanmar which could possibly result in future anti-Chinese riots (such as in Rangoon in 1967) due to growing Chinese economic domination in Myanmar. Second, China's armed support may lead to militarization of the military junta who may be reluctant to contemplate political reforms which are necessary for economic development. Third, China's inroads may lead to conflicts with its neighbours because of Myanmar's abandonment of its traditional policy of neutrality.⁶⁰

The pessimists believe that Myanmar will become a colony of China as a result of growing political influence, economic domination and 'sinicization' of Myanmar.⁶¹ The guarded optimists believe that China will be a benign power and will seek genuine friendship and cooperation.⁶² Regarding China's strategic intentions towards the Indian Ocean, using Myanmar as a 'landridge' for its maritime ambitions, no conclusive evidence has been presented by the proponents

59. Shee Poon Kim, 'The Politics of China's Trade Relations with Thailand', *Asian Survey*, March 1981.

60. D.M. Seekins, 'Burma-China Relations: Playing with Fire', *op. cit.*, p.539.

61. Mya Maung, *The Burma Road to Capitalism, Economic Growth versus Democracy*, *op. cit.*, p.277.

62. Liang Chi-shad, 'Burma's Relations with the People's Republic of China: From Delicate Friendship to Genuine Co-operation', *op. cit.*, pp.71-93.

of the alarmist scenario.

Which scenario is likely to evolve depends on the following questions: first, how long can the military hold on to power? Second, can the military survive in the 21st century? Third, how does Myanmar's membership in ASEAN affect its strategic relationship with China? Fourth, what will be the attitude of the US, the EU, Japan and India towards Myanmar? Fifth, how far will Myanmar tilt towards China? The answer to this last question will also depend on the extent of the success and failure of Myanmar's economic development and its free market policy.

Conclusion

The above case study shows that the evolution of Myanmar's China policies from positive strategic neutrality to strategic isolationism and finally temporary strategic alignment with China was the result of a combination of various factors ranging from its geostrategic position and its proximity to China, internal political and economic needs, as well as external pressures. In short, Myanmar's China policies since 1948 have been a combination of its internal needs and responses to external threats. Despite Myanmar becoming independent since 1948, the political system remains problematic and unstable, plagued by ethnic insurgencies and the difficulty of achieving a viable united Union. Myanmar is also faced with challenges from the rising political and economic aspirations of its people. The military junta still has to face the problem of how to find a political framework which can accommodate the aspirations of the civilian politicians and the people.

From China's perspective, China's Myanmar policies have also undergone changes. During Mao's period from 1949-1976, combinations of Maoist ideology and strategic-cum security factors were the main determinants shaping China's policies. However, since 1978, with the rise of Deng Xiaoping and thereafter, in the post-Cold War era, China's policies towards Myanmar were mainly motivated by economic and long-term strategic-cum security considerations.

From 1962 to 1988, China's Myanmar policy was more of a reactionary stand towards Myanmar's China policies, and the changing regional environment in Southeast Asia. The extent of China's friendliness or hostility towards Myanmar depended on the extent of Rangoon's friendliness or hostility. When Myanmar adopted an anti-Chinese policy as Ne Win did in the 1960s, China reacted harshly. When Myanmar adopted a friendlier policy towards China in the 1970s,

Beijing reacted favourably and positively. Furthermore, China's friendliness or hostility towards Myanmar in particular and other Southeast Asian states in general, depended on China's favourable or unfavourable perception of the strategic and security situation on the southern flank of its border. China reacted positively when Myanmar did not join the Southeast Asian Treaty Organisation (SEATO) and refrained from endorsing the Manila Pact in the 1950s. China was also pleased when Myanmar did not join the Soviet camp in the 1970s. So long as Myanmar was not a pawn of any super power rivalry against China, Beijing was content to maintain a cordial relationship with Myanmar irrespective of the ideology of the respective governments.

Conversely, when Myanmar decided to receive aid from the West, China reacted negatively. When Myanmar did not actively support China's 'bleed Vietnam white policy' in the 1980s, China reacted negatively. When Ne Win adopted a hard-line policy towards the ethnic Chinese in 1967, China condemned the Ne Win government as 'fascist'. All these examples serve to prove that China's Myanmar policy was mainly shaped by Rangoon's China policy. In no way did Maoist ideology and the overseas Chinese factor and nationalism play important roles in China's Myanmar policy throughout the whole period from 1949 to 1988. External security and long-term strategic considerations were the overriding factors in China's Myanmar's policies. In the post-Cold War era, regional geo-economics cum long-term strategic interests have become the central focus of China's Myanmar policy. From the year 2000 onwards, China's Myanmar policy can be assessed in the context of China's growing interests in promoting an East Asian Free Trade Area (EAFTA) and economic integration with ASEAN within the framework of ASEAN Plus China and eventually ASEAN Plus China, Japan and Korea.

In short, although at the moment or in the foreseeable future, Myanmar is not a strategic pawn nor an economic pivot of China, Myanmar's strategic location on a trijunction between South Asia, Southeast Asia and China is nevertheless economically and strategically significant. Economically, Myanmar is important for China as a trading outlet to the Indian Ocean for its landlocked inland provinces of Yunnan and Sichuan. Strategically, Myanmar is potentially important for China to achieve its strategic presence in the Indian Ocean and its long-term two-ocean objective. Furthermore, a China-Myanmar nexus is strategically useful for China to contain India's influence in Southeast Asia. Finally, Myanmar is part and parcel of China's grand strategic design to achieve its goal of becoming a great power in the 21st century. Despite growing Chinese

influence over Myanmar, it is unlikely that Rangoon will become a strategic satellite base for China. Myanmar's strong sense of nationalism, its past ability to successfully deal with foreign powers, and its determination to preserve its independence and cultural identity, will likely make Myanmar withstand most odds.

Table 1. Myanmar's Trade with China: 1950-2001
(US\$million)

Year	Total Volume	Exports	Imports	Balance
1950	3.37	1.40	1.97	- 0.57
1960	31.50	6.60	24.90	- 18.30
1970	0.50	0.00	0.50	- 0.50
1980	34.19	4.89	29.30	- 24.41
1988	9.51	1.81	7.70	- 5.89
1989	76.03	24.60	51.43	- 26.83
1990	171.00	33.00	138.00	- 105.00
1991	411.00	96.00	315.00	- 219.00
1992	404.00	119.00	285.00	- 166.00
1993	507.00	150.00	357.00	- 207.00
1994	536.00	130.00	406.00	- 276.00
1995	767.40	149.55	617.85	- 468.30
1996	658.63	137.41	521.12	- 383.71
1997	643.50	73.41	570.09	- 496.68
1998	576.49	62.05	514.44	- 452.39
1999	508.21	101.68	406.53	- 304.85
2000	621.26	124.82	496.44	- 371.62
2001	631.54	134.19	497.35	- 363.16

Sources:

Statistics for 1950-1994, see: *Statistics on the Burmese Economy: The 19th and 20th Centuries*, Teruko Saito and Lee Kin Kiong (Singapore: Institute of Southeast Asian Studies, 1999), p.188.

Statistics for 1995-1999, see: *China Statistical Yearbook 2000*, No. 19, National Bureau of Statistics, China Statistic Press, p.593.

Statistics for 2000, see: *China Statistical Yearbook 2001*, No.20, National Bureau of Statistics, China Statistics Press, p.591.

Statistics for 2001, see: 'China-ASEAN', International Seminar on China-ASEAN Trade, Investment Cooperation, Kunming China, June 6th-7th 2002, p.9.

Table 2. Yunnan's External Trade 1999

(US\$10,000)

Countries	Total Import/Export	% of total trade
Myanmar	29952	18.05
HongKong	29246	17.62
Japan	13467	8.11
US	12836	7.73
Vietnam	7221	4.35
Australia	6613	3.98
Indonesia	6516	3.93
Germany	6113	3.68
Italy	5183	3.12
South Korea	4190	2.52

Source: *Yunnan Yearbook 2000*, Editorial Department, Yunnan Nianjian 2000 of Yunnan Yearbook, p.267.

Table 3. Yunnan's Exports (Ten Largest Trading Partners 1999)

(US\$10,000)

Countries	Total Export	% of total trade
Myanmar	24599	23.78
HongKong	17351	16.77
Japan	11154	10.78
Indonesia	6424	6.21
Vietnam	6252	6.04
US	4858	4.70
South Korea	3173	3.07
Netherlands	2950	2.85
Taiwan	2423	2.34
Singapore	2084	2.01

Source: *Yunnan Yearbook 2000*, Editorial Department, Yunnan Nianjian 2000 of Yunnan Yearbook, p.267.

Table 4. Yunnan's Imports (Ten Largest Trading Partners 1999)

(US\$10,000)

Countries	Total Export	% of total trade
HongKong	11895	19.02
US	7978	12.76
Australia	5365	8.58
Myanmar	5353	8.56
Germany	4097	6.55
Russia	3138	5.02
Italy	3114	4.98
Canada	3002	4.80
Japan	2313	3.70
Chile	2069	3.30

Source: *Yunnan Yearbook 2000*, Editorial Department, Yunnan Nianjian 2000 of Yunnan Yearbook, p.267.

Table 5. China's Foreign Trade with the ASEAN States

2000 (US\$million)			
	Total	Exports	Imports
Singapore	10,820.67	5,761.04	5,059.63
Malaysia	8,044.87	2,564.87	5,480.00
Indonesia	7,463.77	3,061.82	4,401.95
Thailand	6,624.04	2,243.25	4,380.79
Philippines	3,141.73	1,464.41	1,677.32
Vietnam	2,466.41	1,537.26	929.15
Myanmar	621.26	496.44	124.82
Cambodia	223.55	164.06	59.49
Brunei	74.37	13.02	61.35
Laos	40.84	34.42	6.42
Total	39,521.51	17,340.59	22,180.92

Source: *China Statistical Yearbook 2001*, No. 20, National Bureau of Statistics, China Statistics Press, p.591.