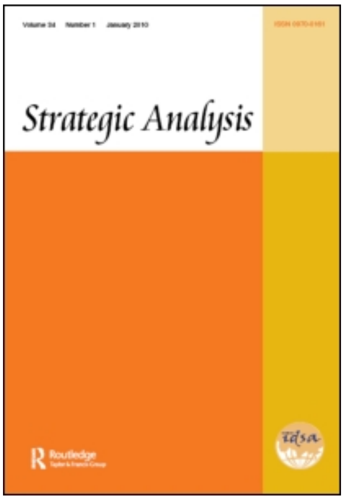

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Burma in the Balance: The Geopolitics of Gas*

Åshild Kolås

Abstract

A new great game is under way in Myanmar. The huge offshore gas findings stretching from the borders of Bangladesh down to Thailand have resulted in a flurry of diplomatic manoeuvring with China, Thailand and other ASEAN countries as well as United States, India, the European Union, Australia and Russia all playing key roles. The equations are bound to change and many countries, for fear of losing influence with Yangon, are seeking a more 'pragmatic' approach. As a result, the ruling regime, the State Peace and Development Council (SDPC), saturated with natural gas, finds itself at the centre of unexpected attention and unaccustomed wooing. Whether it be the Sino-Indian economic contests and resource competition in the Burmese gas sector or Thailand's increasing interest and growing influence in Myanmar, together this presents important leverage points for the SPDC, which has no doubt made it easier for the regime to withstand pressure for political reforms.

Introduction

The energy security concerns of Thailand, India and China greatly determine their relations with Myanmar. In principle, India and China have pledged to cooperate in the field of energy security in order to avoid costly rivalries. In practice, however, commentators expect that the two oil-importing giants will find it more or less impossible to avoid such rivalries. In relation to Myanmar, this seems difficult indeed. The immediate issue is competition between India and China over building a pipeline to transport natural gas from Shwe, a gas field off the coast of Myanmar's Arakan state. In March 2007, it became clear that China will further consolidate its ties with Myanmar by building a gas pipeline from the Burmese coast to Kunming, the capital of China's Yunnan province. India's pipeline plans, negotiated for several years, were finally rejected by the Burmese regime. A South Korean offer to construct a liquefied natural gas (LNG) facility in

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Myanmar was also turned down. The Chinese plans include an oil pipeline as well, probably running parallel to the gas pipeline and intended to carry Persian Gulf crude oil shipped by tanker to a connecting Burmese port facility. This makes sense considering the oft-cited Chinese argument that an oil pipeline through Myanmar will enhance China's energy security by serving as an alternative oil supply route bypassing the Strait of Malacca, a waterway of crucial importance for the provision of oil and other necessities to China, Taiwan, South Korea and Japan.

For fear of losing influence with the Burmese regime, both India and Thailand have chosen a 'pragmatic' approach to the country's State Peace and Development Council (SPDC), whereas China tends to support Myanmar's rulers whenever they come under external pressure to undertake reforms. An underlying Indian concern is China's naval and intelligence cooperation with Myanmar, both in the Andaman Sea, where the Indian Navy has been used to operating without interference, and in the Strait of Malacca. All three of Myanmar's neighbours are set to maintain a strong strategic interest in Myanmar, but the importance of Myanmar to the Chinese security agenda deserves particular attention. Situated to the West of the Strait of Malacca and bordering Southwest China, Myanmar can provide an overland transportation route to China bypassing the strait, which is a choke point for tanker traffic. The strategic importance of the Strait of Malacca has become even greater over the last decade, with China's growing dependence on imported oil. About 80 per cent of all oil supplies to China are shipped by tankers through the strait, where Chinese defence analysts fear an embargo could be staged in the event of an acute crisis in China's relationship with the United States. Assistance from China to Burmese port and infrastructure development, securing Chinese access to ports in the Indian Ocean, should be understood in light of such a threat perception. The current Sino-Indian rivalry over Burmese natural gas from the Shwe field may give rise to further competition to assist the Burmese regime in building deep-sea ports and maritime facilities, as well as connecting infrastructure, and of course pipelines.

At present, no progress is being made in the direction of reintroducing democracy in Myanmar, or even in preparing the ground for a government with more civilian influence. Rather, the situation within the country seems to be deteriorating, with numerous new reports of violence, forced displacement and other signs of repression. There are, as of today, no indications that the pro-democracy leader Aung San Suu Kyi will be released

from house arrest, where she has been held captive since she was rearrested in May 2003. The illegitimate and oppressive nature of the current regime has been a key concern in European and American policy making on Myanmar, and has also represented a problem for Myanmar's fellow member-states in the Association of Southeast Asian Nations (ASEAN). Several of the ASEAN countries, as well as India and China, have sought to downplay or even ignore this problem so as not to undermine their national interests in maintaining close relations with the Burmese power holders. Calls by the Burmese pro-democracy movement for a tightening of the current EU and US sanctions regimes are premised on the assumption that it would be difficult for the Burmese military regime to remain in power without foreign trade and investments. That may be so, but the likelihood that Myanmar could be economically isolated is remote.

China and Thailand are Myanmar's major trading partners. Chinese trade with Myanmar reached US $1.2 billion in 2005, of a total Myanmar trade of US $5 billion.[1] Natural gas is Myanmar's single most valuable export commodity. Gas also plays a vital role in the energy diversification plans of Myanmar's neighbours. Importing gas via pipeline is an attractive option because it saves the building of expensive LNG facilities, and provides cheaper gas. Burmese gas is already being piped to power plants in Thailand, and both India and China have been lobbying intensely for the construction of pipelines from Myanmar. Considering the vital significance of Burmese natural gas, both as a major source of revenue for the SPDC and as an important aspect of the current energy security strategies of the neighbouring countries, the present paper takes a comprehensive look at the geopolitics of Burmese gas. It describes the history of oil and gas exploitation, the political context and the main stakeholders involved, with a focus on the emerging rivalry between India and China over Burmese gas.

A History of Oil and Gas Exploitation

When socialist military rule was established under Ne Win in 1962, the Burmese oil industry was nationalised. The Ministry of Energy set up Myanma Oil and Gas Enterprise (MOGE) in 1963, and later established Myanma Petrochemical Enterprise, which operates refineries and processing plants, and Myanma Petroleum Products Enterprise, which handles the distribution of petroleum products.

Until the 1990s, timber and oil were key export products of Burma. During the 1960s and 1970s, oil production remained modest, but increased from an annual production of 3.81 million barrels in 1965, to 6.3 million barrels in 1971, and 9.55 million barrels in 1978.[2] In the early 1980s, however, oil production declined, owing to technical limitations and government reluctance to accept the participation of foreign firms. The first joint ventures in offshore gas exploration with the involvement of foreign companies started in the early 1980s, in the Gulf of Martaban.

The State Law and Order Restoration Council (SLORC), the predecessor of SPDC, took power in September 1988. One of the first laws to be promulgated by the new regime was the Foreign Investment Law of November 1988, opening up for joint ventures and production sharing in the oil and gas sector.[3] In the early 1990s, SLORC invited foreign bids for offshore exploration in 18 concession blocks, 13 in the Gulf of Martaban and 5 off the coast of Arakan state. Oil companies such as Texaco, Premier Oil, Total and Unocal were among the successful bidders. Two major offshore gas fields, Yadana and Yetagun, were discovered in the Gulf of Martaban.

The Yadana field has estimated gas reserves of more than 5.3 trillion cubic feet, or 150 billion cubic metres, with an expected field life of 30 years. The Yadana project was developed by a consortium consisting of Total (31 per cent), Unocal (28 per cent), PTT-EP of Thailand (26 per cent) and Burma's own MOGE (15 per cent). It is operated by Total and started production in 1998. Gas from Yadana is transported via a 346-km subsea pipeline and a 63-km onshore pipeline from the Yadana field to the border between Myanmar and Thailand at Ban I Thong. At the border, the Yadana pipeline connects with a pipeline built by Thailand, which carries the gas to its destination area near Bangkok, providing fuel to the Rathcaburi and Wang Noi power plants. Gas from the Yadana field covers an estimated 15–20 per cent of Thailand's demand for natural gas.[4]

The Yetagun field has estimated reserves of 48 billion cubic metres. Production from Yetagun started in 2000, and was initially developed by a joint venture of Texaco (50 per cent), the British oil company Premier Oil (30 per cent) and Nippon Oil (20 per cent). Following the withdrawal of Texaco in 1997 and Premier Oil in 2002, Yetagun is currently operated by Petronas in partnership with MOGE (20 per cent), Nippon Oil (19 per cent) and PTT-EP (19 per cent). The gas is transported by 210 km of subsea

pipeline and 67 km of onshore pipeline, linking up onshore to the Yadana pipeline.

In August 2000, the South Korean Daewoo International partnered with MOGE to explore and potentially develop offshore natural gas deposits in the Bay of Bengal off the coast of Arakan. Exploration commenced, and in 2004 Daewoo International announced the discovery of the Shwe field, off the coast of Sittwe, the capital of Arakan state. Test drilling was first conducted in blocks A-1 and A-3. A-1 is the largest, and is estimated to contain up to 3.56 trillion cubic feet of gas. Partners in the project's international consortium are Daewoo International (60 per cent), the state-owned Korean Gas Corporation (10 per cent), and India's ONGC (20 per cent) and GAIL (10 per cent). Production from Shwe is planned to start in 2009.

As of today altogether 25 offshore blocks are under exploration, of which 12 are located in the gulf of Mottama, 6 off the Tanintharyi coast and 7 off the Rakhine coast. Oil and gas companies from Australia, Britain, France, Canada, China, Indonesia, India, Malaysia, Russia, South Korea and Thailand have reached agreements with the Burmese regime on exploration of gas and oil. In 2005, Myanmar exported natural gas worth over US $1 billion, mainly to Thailand. The oil and gas sector continued to grow in 2006, owing to Chinese, Thai, South Korean and Indian investments. In April–July 2006, Burma exported 167,392.9 million cubic feet (mcf) of natural gas worth US $688.89 million to Thailand, compared with 132,746 mcf valued at US $422.26 million in the same period a year earlier.[5] In January 2007, the combined FDI in Burmese oil and gas reached US 2.94 billion,[6] representing more than 30 per cent of all of Myanmar's FDI income.[7] From the Shwe field alone, Daewoo expects a net profit of at least US $86 million annually for 20 years from 2010, while Myanmar is projected to earn a minimum of US $800 million a year, and potentially up to US $3 billion.[8]

The Political Context

Although SLORC and SPDC have eagerly invited foreign investment in oil and gas production, several of the Western companies that took up the offer have since withdrawn. Following long-standing protests against investment in Myanmar, the European Union introduced its first Common Position on sanctions in 1996, and the US President Bill Clinton enforced a prohibition on future investments in Myanmar in 1997. This was on the

advice of the Burmese democracy movement, including Burmese exile activist groups, Aung San Suu Kyi and the National League for Democracy (NLD). The EU Council Common Position has been gradually expanded. It currently prohibits investment in two Burmese state-owned enterprises (Union of Myanmar Economic Holding Ltd. and Myanmar Economic Corporation), precludes travel to the European Union by officials of the SPDC and their families, and freezes their bank accounts.[9]

Multinational companies operating in Burma have also been under heavy pressure from NGOs, especially in Europe and the United States, who have carried out numerous public campaigns, including protests outside shareholder meetings and the publication of blacklists of companies with a presence in Myanmar.[10] The Yadana pipeline and Yetagun gas development projects have been particularly controversial. Since the 1990s, NGOs have provided legal assistance to Burmese nationals affected by the construction of the Yadana pipeline, and have taken their cases to court in the United States and Europe. In 1996, Earth Rights International filed a lawsuit in US courts on behalf of 15 Burmese villagers, against California-based Unocal for human rights abuses associated with the construction of the Yadana pipeline.[11] In 1997, the US Federal District Court in Los Angeles found that 'the evidence does suggest that Unocal knew that forced labour was being utilized and that the Joint Venturers benefited from the practice'. On the basis of this finding, the court concluded that corporations and their executive officers can be held legally responsible under the Alien Tort Claims Act for violating international human rights in foreign countries, and that US courts have the authority to adjudicate such claims.[12] In Europe, lawsuits were filed against Total, first in Belgium on the basis of the Universal Jurisdiction Law, citing 'complicity in crimes against humanity', and later in France, citing 'complicity in unlawful confinement'.[13]

Both the case in France against Total and the case in the United States against Unocal were settled out of court, and none of the companies ceased operating in Burma. The mounting pressure was, however, a factor although perhaps not decisive, in the withdrawal of other oil companies. In the mid-1990s, Texaco and Premier Oil were joint partners in the Yetagun project, but in 1997 Texaco withdrew from the venture and Premier Oil increased its stake from 20 to 27 per cent. In 2002, Premier Oil also pulled out of the Yetagun project, following sharp criticism of its involvement and calls for it to withdraw from both the British government and US investors.

Premier's share in the Yetagun consortium was bought by the Malaysian oil company Petronas. The US authorised new sanctions under the Burma Freedom and Democracy Act of 2003 and the accompanying 'presidential executive order', extending a visa blacklist to all military leaders, freezing their overseas assets, and banning all imports.[14] US financial institutions were also directed to take special measures (later criticised for their ineffectiveness) against Myanmar to deny access to the US financial system through correspondent accounts.[15]

Although the withdrawal of Western oil companies operating in Myanmar has certainly had consequences for the projects in question, the impact of such withdrawals on the Burmese economy has been negligible, as Thailand and other ASEAN countries, China, India and Russia are all expanding their economic ties with Myanmar. Access to Myanmar's gas resources is highly attractive for Thailand, India and China, as well as Malaysia, South Korea and Japan. China and several ASEAN countries also see Burma as an important potential source of hydroelectric power.

Hydropower development is, in fact, set to become an important new income source for Myanmar, and another industry in which it has vital interests in common with its neighbours, particularly Thailand. In 2005, Myanmar signed an agreement with Thailand to build four new dams on the Salween River and one on the Tenasserim River. At the same time, the SPDC also signed contracts with two Chinese companies, CITIC Technology Co. Ltd. and Sino Hydro Corp. Ltd., to build a new hydroelectric facility, the 790-megawatt Yeywa hydropower plant on the Dukhtawaddy River near Mandalay.[16] A Japanese company, Nippon Koei, was involved in the initial planning, starting in 1981, of the Tasang Dam on the Salween River. At 228 metres, the Tasang Dam is slated to become the highest dam in Southeast Asia. The Chinese hydroelectric construction company Sino Hydro Corp. Ltd. is one of the interested parties in the hydropower projects developed by the Electricity Generating Authority of Thailand (EGAT), including the Tasang Dam and four other dams in Myanmar. The Asian Development Bank is promoting a US $4.6 billion regional electricity scheme, which is to be powered in part by the Tasang Dam.[17] According to current plans, 12 hydropower projects in China, Myanmar and Laos will fuel the 'Mekong Power Grid' and generate power for consumers in Thailand and Vietnam. These include the Tasang in Burma, the Jinghong and Nuozhadu projects in China, and the Nam Theun 2 in Laos.

In addition to the need for foreign revenue from hydropower and gas development, Myanmar's foreign relations are driven by the SPDC's need for military assistance. Since the early 1990s, China has been the major provider of weapons, military aircraft, naval ships and other military hardware. Russia, India and Korea have been following suit in recent years. In December 2006, South Korean prosecutors charged seven of the country's defence equipment companies (including Daewoo International and Doosan Infracore) of exporting production facilities and weapons technology to Myanmar in violation of the law on exports of strategic goods. Fourteen executives (among them Daewoo International President Lee Tae-yong) were indicted in this case, which was the first of its kind.[18]

In April 2006, a top-level Burmese 'goodwill' delegation to Moscow reportedly sought Russian investment in hydropower and communications projects.[19] In exchange for access to Burmese oil and gas resources, Russia also agreed to supply a range of arms, including Tor-M1 and Buk-M1-2 air-defence systems, as well as MiG-29 fighters.[20] Russia further offered to build factories for repairing and upgrading arms bought from the former Soviet Union. According to some analysts, this was done 'in a bid to end Chinese monopoly'.[21] However, an alternative interpretation is that these factories would accommodate Chinese as well as Russian interests, since the hardware in question is also used by the Chinese military. In support of this view, Russian assistance to Myanmar was described by one commentator as 'a contribution to regional security following President Vladimir Putin's recent visit to China'.[22] From the SPDC's perspective, one of the key advantages of cooperating with Russia, Korea and India is to reduce the country's dependence on China.

Another important factor in Myanmar's foreign policy orientation is the regime's desire for assistance to build a nuclear research reactor. According to some sources, both China and Pakistan have provided assistance to this programme. There is solid evidence of Russian support since 2002, and reports of North Korean involvement since 2003. According to Indian sources, the presence of two Pakistani nuclear scientists working in Burma was revealed when they appeared on a list of suspected 'terrorist connections' presented to Pakistani authorities by the CIA in late 2001.[23] Any earlier assistance notwithstanding, in 2001 the Burmese regime made a futile request for help to obtain a research reactor from the International Atomic Energy Agency (IAEA). The following year Russia signed an agreement with the regime to assist in building a research reactor with a 10-megawatt thermal

capacity. The agreement stipulated that Russia's Atomic Energy Ministry (Minatom) would design the reactor, help to choose the site, deliver the nuclear fuel and supply all essential equipment and materials.[24] There have been speculations about at least two different reactor sites: Kalagok Kyun, an isolated island in Mon state, and Magwe, the site of one of Myanmar's largest uranium ore deposits.[25]

ASEAN, Australia and India all have policies to 'constructively engage' the Burmese regime, and this, as well as China's close cooperation with the SPDC, is regarded by critics as undermining sanctions imposed by the United States and the European Union. However, others take a more pragmatic view, also considering factors such as the implications of the Western-imposed sanctions on Myanmar's economic and geopolitical ties, as described above. For instance, within the EU negotiations on the Common Position, France has objected to the current use of sanctions and called for more lenient sanctions or the replacement of sanctions with active engagement. In 2005, China and Russia also challenged the United States' Myanmar policies, using the threat of a veto to block a US move in the UN Security Council to implement recommendations on Myanmar. After the United States and the European Union had threatened to boycott ASEAN meetings if Myanmar assumed the chair in 2006, its rulers agreed to relinquish the country's turn to hold the rotating ASEAN chairmanship. During a recent meeting of the ASEAN Regional Forum, however, Chinese Foreign Minister Li Zhaoxing chose to skip the security point on the agenda, and travelled to Myanmar instead to express solidarity with the regime.[26] These are just a few examples of the continuous diplomatic manoeuvring over Myanmar, with China, Thailand and other ASEAN countries, the United States, India, the European Union, Australia and Russia playing key roles.

Sino-Indian Rivalry over Burmese Gas

Natural gas from Shwe has added a new dimension to Sino-Indian relations. For more than 2 years, it was presumed that gas from the A-1 Block would serve uniquely the Indian market via an overland pipeline running through Myanmar's Arakan and Chin states, across Bangladesh to Kolkata.[27] However, using India's growing demand for natural gas as a leverage point, Dhaka set forth a number of conditions for allowing any pipeline to cross Bangladeshi territory: establishing trade routes for commodities from Bangladesh to Nepal and Bhutan through Indian

territory; allowing transmission of hydroelectricity from Nepal and Bhutan to Bangladesh through Indian territory; and pursuing measures to reduce Bangladesh's trade imbalance with India.[28] The project reached a diplomatic stalemate when India rejected these conditions. In December 2005, Myanmar seized the opportunity to sign an MoU (Memorandum of Understanding) with PetroChina for the sale of gas from the A-1 Block to China through an overland pipeline through Burma to Kunming, the capital of China's Yunnan province.[29]

The introduction of China into the Shwe gas picture was to be expected for several reasons. According to Burmese scholar Dr. Kyaw Yin Hlaing, the MoU with PetroChina should be seen in light of the ever-growing trade relationship between Myanmar and China. When PetroChina indicated that it was ready to buy, the Burmese regime had no incentive to set aside the gas exclusively for India and patiently await the outcome of stalled bilateral negotiations with Bangladesh.[30] With another buyer at hand, there was also added pressure on India to find solutions such as alternative pipeline routes bypassing Bangladesh. The Burmese rulers are, of course, aware of the advantages they can reap from negotiating prices when selling gas from the same field to more than one country at a time. Following publicity on the MoU with PetroChina, Myanmar assured India that it had sufficient gas reserves to meet the needs of both China and India, although India would have to wait until May 2006 for third-party consultants to confirm reserves before export deals were finalised. Myanmar was waiting for assessments of several deposits, including the Mya1 well in the A-3 block. After receiving these promises, the Indian government hired Brussels-based consulting firm Suz Tractebel to conduct a feasibility study for overland pipeline routes to Northeast India, circumventing Bangladeshi territory.[31] In March 2007, however, the Burmese regime announced that it was not prepared to export gas by pipeline to India, or even as LNG, but preferred instead the Chinese offer to build a 900-km pipeline to the Chinese border. The total length of the planned pipeline is 2,380 km, extending from Sittwe in Myanmar to the Chinese city of Chongqing.[32]

It should be in the interest of Myanmar to diversify its foreign relations, but the military regime has done so only to a limited extent. Myanmar has, of course, strengthened its economic ties with other neighbours, including Laos, Thailand and India, and with allies such as Vietnam and Russia. However, when the regime is now favouring Chinese pipeline projects, Myanmar is being drawn even deeper into the Chinese sphere of interest.

Although this is not an ideal situation for the SPDC, with the threat of further sanctions looming, China remains Burma's most important ally. China's permanent membership and veto power in the UN Security Council is seen as the regime's ultimate insurance policy against an East Timor-style international intervention.[33] China last vetoed a UN Security Council resolution criticising the SPDC in January 2007.

Chinese and Indian Strategic Interests in Myanmar

Assistance from the People's Republic of China to Myanmar dates back to the 1950s. A significant part of China's trade with the developing countries has been financed through credits, grants and other forms of assistance. During the early 1950s, Chinese aid went mainly to North Korea and North Vietnam; however, from the mid-1950s until the late 1970s, large amounts—mainly grants and long-term, interest-free loans—were promised also to non-Communist developing countries. The principal efforts were made in Asia, and Myanmar was one of the recipients of this support, along with Indonesia, Pakistan and Sri Lanka. In 1986, China withdrew its support for the long-running insurgency of the Communist Party of Burma,[34] and began supplying the Burmese regime with arms. The influx of Chinese weapons was a great help to the Burmese military in its fight against ethnic insurgencies.

Chinese arms deliveries started in earnest in 1990, and over the next 5 years China supplied US$1.0–1.2 billion worth of weapons and other military equipment, including J-6 and J-7 fighters, A-5M ground attack aircraft, radar and radio equipment, surface-to-air missiles, tanks, armoured personnel carriers, artillery anti-aircraft guns, multiple rocket-launcher systems, trucks and naval ships, including frigates and fast attack craft (FAC).[35] Moreover, technicians from the Chinese People's Liberation Army (PLA) vastly expanded the Meiktila airbase south of Mandalay, and upgraded a smaller airbase at Lashio, in the northeast. In 1992, Myanmar agreed that China would modernise Burmese naval facilities, among others, the naval base at Great Coco Island, which is located about 280 km south of the Burmese mainland and 70 km north of India's Andaman Islands. Since then, Chinese experts have vastly improved and militarised Burmese port facilities in the Bay of Bengal at Akyab (Sittwe), Kyaukpyu and Mergui, constructed a major naval base on Hainggyi Island near the Irrawaddy river delta, and upgraded the naval base on Great Coco Island.[36] Easily

visible on satellite photographs, the base on Great Coco Island now has an airstrip with a runway length of about 1.5 km. According to some analysts, it also has signal-intelligence (SIGINT) nodes capable of monitoring Indian naval and missile launch facilities in the Andaman and Nicobar Islands, movements of the Indian navy and other navies throughout the eastern Indian Ocean, as well as the overall Western approaches to the Strait of Malacca.[37]

There have been numerous reports suggesting that Great Coco Island is 'leased out' to the Chinese, or that it is operated by Chinese personnel. Contrary to this view, the Australian strategic analyst Andrew Selth recently questioned the very existence of a SIGINT facility on the island.[38] Although the hard evidence to prove it is currently unavailable, if it exists, an actual Chinese presence on the island would be a minor issue as long as Myanmar cooperates with China on maritime intelligence. An agreement on military cooperation negotiated between Myanmar and China in 1996 does, in fact, contain provisions for intelligence exchanges.[39]

China is currently building a deep-sea port in Kyaukpyu, in Rakhine state. The port has a projected water depth of 20 metres and a capability of accommodating 4,000 TEU (20-foot equivalent units) container vessels. Kyaukpyu is located on the route connecting southwestern China's Kunming city with Myanmar's Sittwe. According to the Burmese Ministry of Construction, a feasibility study for the seaport and road construction from Kyaukpyu to Kunming (1,943 km) was made in 2005.[40] It is likely that the road route is also the proposed route for the planned oil and gas pipelines, running from Kyaukpyu port, via Mandalay and the border town of Ruili, to Kunming.[41]

One of China's main strategic interests in Myanmar is to gain access over land to the Andaman Sea. In addition, Burmese naval bases, particularly the base on Great Coco Island, can offer strategic staging points for monitoring the Western approaches of the Strait of Malacca. The American analyst Yossef Bodansky claims that 'controlling' the strait is a key strategic objective for China, to the point that it is prepared to risk armed conflict with the regional states and even the United States over this issue.[42] Bodansky maintains that the massive Chinese military buildup in Myanmar since the early 1990s reflects Burma's growing strategic significance, stressing that 'the extent of the expansion of the transportation infrastructure, all

in harsh jungle and mountainous terrain, exceeds by far the needs of even the most optimistic outlook for Sino-Burmese commercial relations'.[43]

India has sought in recent years to strengthen its ties with Myanmar, in an effort to counter increased Chinese influence in the country, as well as cross-border trafficking by militants along the Indo-Burmese border. India's involvement with Southeast Asia has been growing steadily over the last decade, and India is also interested in gaining direct access by land to the Southeast Asian region. In 2004, an agreement was signed in Yangon by the foreign ministers of India, Myanmar and Thailand to develop transport linkages between the three countries, including a 1,400-km highway connecting Northeast India with Mandalay, Yangon and Bangkok. A planned deep-sea port in Dawei, together with a new highway connecting it to Kanchanaburi in Thailand, would no doubt contribute further to developing commercial links, opening up trade between the countries and giving India access to Burmese ports. Dawei is located on the long, narrow coastal plain of southern Myanmar, facing the Andaman Islands. Indian access to a port at Dawei is not only of importance to communications but has a direct security angle for the Indian Navy and its ambitious Far Eastern Naval Command (FENC) project at Port Blair, the capital of the Andamans.[44] FENC is meant to extend the Indian navy's nuclear/strategic combat capability and challenges the Burmese base on Great Coco Island, less than 190 nautical miles away.

According to Indian defence analysts, the Chinese military support to Myanmar should be seen in connection with the Sino-Pakistani defence project and cooperation on the Gwadar Port facilities, which give China access and basing facilities on the opposite side of the Indian subcontinent, near the Strait of Hormuz. What is especially worrisome from the Indian perspective is the 'maritime encirclement of India,' with the Chinese potentially based at Gwadar to the west of India and on Great Coco Island to the east. In addition, Myanmar's ambition to construct a nuclear research reactor is of concern, especially since China, Pakistan and Russia have all been involved. Indian analysts fear that a Chinese naval presence in Myanmar may allow it to interdict regional sea-lanes of communication. On these accounts, Myanmar is emerging as the 'single largest threat to Indian strategic interests in South East Asia'.[45] In an effort to check this state of affairs, India has started its own campaign to woo the Burmese regime by providing military training and selling it arms and military hardware.[46] In 2006, Indian President Abdul Kalam visited Myanmar with a new US$40

million aid package. India has since supplied the Burmese military with tanks, artillery and helicopters, while the two countries have coordinated military operations against Indian insurgents.[47]

When it comes to Myanmar, India and China seem to regard each other with suspicion, although the two countries have considerably improved their bilateral relations over the past few years. India and China are also faced with some common 'non-traditional' security risks emanating from Myanmar. These include illegal drugs trafficking (opium and methamphetamines), human trafficking and refugees, the spread of HIV/AIDS and, more recently, avian influenza. Myanmar has become known as the world's second-largest producer of illicit opium, after Afghanistan. It is also the single largest producer of methamphetamines in Southeast Asia. The SPDC lacks both the will and the ability to take on the major narcotics trafficking groups, and is not seriously committed to suppressing the money-laundering activities that are so essential to the drugs trade.[48] Myanmar also has a lot of human trafficking; there is a steady flow of refugees into Thailand, China, Bangladesh and India; and the HIV virus is thought to be spreading. More than 1 per cent of the Burmese population is estimated to have been infected with HIV.[49] Myanmar thus has one of the most serious AIDS epidemics in the region, and is reportedly an epicenter of new strains of drug-resistant HIV/AIDS.[50] While the Chinese border town of Ruili has developed into a flourishing trading centre, it has also become a focus of Chinese efforts to prevent the spread of HIV from Burma to China.

The issues of drugs, HIV and crime are serious enough, but the debates they engender also reflect a more overarching concern among Myanmar's neighbours about the country's political stability. Despite the solid income from natural gas and generous provisions of military and infrastructure aid from China, India and other countries, there are signs of an ever-deepening crisis in Myanmar as well as instability within the SPDC itself, especially after General Than Shwe resigned as prime minister in August 2003. While Than Shwe continued as chairman of the SPDC, General Khin Nyunt, former chief of military intelligence, became the new prime minister. In October 2004, after just over a year in office, Khin Nyunt was arrested on corruption charges and replaced by Lieutenant General Soe Win, receiving a 44-year suspended sentence in 2005. The so-called 'Road Map to Democracy,' which had been promoted by Khin Nyunt, has since failed to meet expectations. When the National Convention finally resumed

long awaited constitutional talks in February 2005, a number of ethnic and political groups, including the NLD, were left out. In an unexpected turn of events, the regime also announced its decision to move the capital from Yangon to Naypyitaw, a more protected, newly constructed internal capital near Pyinmana.

Burma in the Balance

Offshore natural gas has become the major source of income for the Burmese military regime, and will become increasingly important in the years to come. The effects of economic sanctions imposed by the European Union and the United States are difficult to assess, but they are certainly not impressive. With the growing importance of natural gas, any assessment of the economic effects of sanctions should take the role of gas into account. If the regime could be deprived of substantial revenues from gas exports, economic sanctions would represent a real challenge to the regime, and this might convince the SPDC to accept political reforms. If not, the effectiveness of sanctions is highly questionable. Innovative ways to engage the regime might prove more feasible, especially if this engagement involves stakeholders in Burmese gas exploitation.

Myanmar exemplifies the difficult balance between competition and cooperation between China and India over oil and gas resources in third countries. India's and China's proximity to Myanmar, and the stakes of both countries in Burmese gas production, present a promising opportunity for pipeline gas imports, in line with the plans of both countries to enhance energy security by diversifying fuel-supply sources. China also has a security interest in an oil pipeline through Myanmar, which could provide an overland supply route bypassing the Strait of Malacca, a sea-lane that is vulnerable in the event of an attack or embargo. This has become increasingly important with the growing Chinese dependence on imported oil, most of which needs to be shipped into China via the strait. The construction of oil and gas pipelines through Myanmar and access to Burmese ports are hence seen as vital security assets for China.

Thailand's interests in the Burmese gas sector and the escalating Sino-Indian rivalry are important leverage points for the SPDC, which have no doubt made it easier for the regime to withstand pressure for political reforms. Although it is in the interest of the Burmese leaders to reduce their dependency on China, in the present circumstances the regime cannot

afford to lose Chinese support, which provides the only guarantee against UN action. From China's perspective, its relations with India, Japan and the United States have a strong bearing on its geopolitical interests in Myanmar. As long as the underlying tensions that characterise these relations (in particular the Sino-Japanese relationship) are not fundamentally altered, China will see it as essential to maintain its influence in Myanmar. Chances are then that future unrest in Myanmar, whether related to internal strife or opposition to Chinese dominance, will be met with further assertion of Chinese control. This represents a major challenge to any democracy-building effort in Myanmar.

Notes

[*] This article builds on a 2006 study 'Energy Security in Asia: China, India, Oil and Peace' by Stein Tnnesson and Åshild Kolås and an online report published by the Austral Policy Forum 'Burma and Its Neighbours: The Geopolitics of Gas' by the same authors.

[1] Testimony by Dr Michael Jonathan Green, Center for Strategic and International Studies, addressing the US Senate Foreign Relations Committee, Subcommittee on Asia Pacific Affairs, on 'The Strategic Implications of the Burma Problem,' March 29, 2006.

[2] David I. Steinberg, *Burma: The State of Myanmar*, Georgetown University Press, Washington, DC, 2001, pp. 133–134.

[3] Information on the Myanmar Foreign Investment Law is available from the government Website, http://www.energy.gov.mm/Incentive_1.htm (Accessed May 3, 2007).

[4] For details, see Total Oil's 2006 report, 'Total in Myanmar a Sustained Commitment,' at http://burma.total.com/en/publications/sustained_commitment.pdf (Accessed May 16, 2007).

[5] 'Myanmar, Singapore and British Virgin Islands in Oil Deal,' *Reuters*, March 11, 2007.

[6] Ibid.

[7] 'Foreign Investment in Burma Hits US$7.6 Billion,' *Irrawaddy Online Newsletter*, November 18, 2005, at http://www.burmanet.org/news/2005/11/18/irrawaddy-foreign-investment-in-burma-hits-us-76-billion/ (Accessed May 3, 2007).

[8] S. Mukherjee, 'Myanmar: Cheers Jeers over Giant Gas Find,' *Asia Times*, February 13, 2004, at http://www.atimes.com/atimes/South_Asia/FB14Df05.html (Accessed May 3, 2007).

[9] For the full text of the current EU Council Common Position 2006/318/CFSP (April 27, 2006), see http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l_116/l_11620060429en00770097.pdf (Accessed May 16, 2007).

[10] For NGO views on human rights abuses associated with gas projects in Myanmar, see the EarthRights International Report 'Total Denial Continues' (2003) and their online article 'Another Yadana'. On foreign investment, see 'Destructive Engagement: A Decade of Foreign Investment in Burma' (1999) at http://www.earthrights.org/files/Reports/destructive.pdf. On sanctions, see 'The European Union and Burma: The Case for Targeted Sanctions' (2004) at www.burmacampaign.org.uk/reports/targeted_sanctions.htm (Accessed May 16, 2007).

[11] The 9th Circuit Court's decision ('Doe v Unocal') is available at http://www.laborrights.org/projects/corporate/unocal/unocal091802.pdf (Accessed May 16, 2007).

[12] Earth Rights International, 'Shwe Gas Project in Burma: Recent Developments,' March 8, 2006, at http://www.earthrights.org/content/view/289/41/1/1/ (Accessed May 16, 2007).

[13] See no. 4, p. 33.

[14] 'The Burma Freedom and Democracy Act of 2003' at http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=108_cong_bills&docid=f:h2330enr.txt.pdf (Accessed May 16, 2007).

[15] Faced with a ban on remittances to Burma in US dollars, the Myanmar Foreign Trade Bank had to replace dollar accounts with accounts in euros. The Bank of China recently followed up with a decision to close the dollar accounts of Myanmarese merchants engaged in border trade and replace them with euro accounts.

[16] 'Burma Junta to Buy Hydropower Equipment from China,' *Democratic Voice of Burma,* July 17, 2005.

[17] Karen Rivers Watch, 'Damming at Gunpoint: Burma Army Atrocities Pave the Way for Salween Dams in Karen State' 2004. The scheme is an initiative under the Asian Development Bank's Greater Mekong Subregion programme, intended to encourage cooperation and economic growth in the six countries sharing the Mekong River basin. The programme is based in part on recommendations from Norwegian Norconsult, presented in a 1994 report to the ADB on 'Promoting Sub-Regional Cooperation Among Cambodia, Laos PDR, Thailand, Vietnam and Yunnan Province of the People's Republic of China,' funded by the Japan Special Fund.

[18] Kang Shin-who, 'Daewoo Head Indicted over Illegal Exports,' *Korea Times*, December 6, 2006.

[19] BBC News Online, 'Burma's Deputy Leader in Russia,' April 3, 2006, at http://news.bbc.co.uk/2/hi/asia-pacific/4872158.stm (Accessed May 3, 2007).

[20] 'Russia to Supply Wide Range of Arms to Myanmar,' Press Trust of India, April 4, 2006.

[21] 'Russia, Myanmar Agree to Step Up Ties,' Bureau Report, April 4, 2006.

[22] 'Myanmar Seeks Russian Arms for Oil,' AFP, April 4, 2006.

[23] See K. J. M. Varma, 'CIA Wants Six More Pak Nuke Scientists Probed,' December 6, 2001; 'Pakistan Scientists Granted Asylum,' *The Irrawaddy News*, 9 (9), December 2001. In January 2002, an article in the *Wall Street Journal* claimed that the two scientists were possibly aiding Burma's efforts to build a 10-megawatt nuclear 'research reactor'. The Pakistani government reportedly asked the two scientists to stay in Burma, fearing that they might leak information regarding the Pakistani nuclear programme if they were interrogated.

[24] For details on the Myanmarese nuclear programme, see Andrew Selth, 2004, 'Burma's North Korean Gambit: A Challenge to Regional Security?' Canberra Papers on Strategy and Defence No. 154, Strategic and Defence Studies Centre, Australian National University.

[25] See http://www.energy.gov.mm/Nuclear_1.htm (Accessed May 3, 2007).

[26] 'Myanmar, Year in Review 2006,' *Encyclopdia Britannica Online*, at http://www.britannica.com/eb/article-9433251/Myanmar (Accessed May 16, 2007).

[27] On Shwe gas development prior to the Memorandum of Understanding regarding the sale of Shwe gas to China, see Matthew Smith and Naing Htoo, 'Another Snake in the Jungle? Shwe Gas Development in Western Burma,' *Watershed,* 2 (1), 2005, pp. 31, 34–36, at http://www.terraper.org/watershed.php (Accessed May 3, 2007).

[28] 'Primary Jolt in Burma-India Gas Pipeline Project,' *Mizzima News,* January 19, 2005.

[29] David Fulbrook, 'Gas Deal Fuels China's Plans for Myanmar,' *The Straits Times*, February 2, 2006, at http://www.orientreport.com/article_details.asp?gid = Politics&aid = Articles_Vmoe (Accessed May 3, 2007).

[30] Kyaw Yin Hlaing, 'Myanmar in 2004: Why Military Rule Continues,' *Southeast Asian Affairs*, 2005, Institute of South East Asia Studies, Singapore, pp. 231–256.

[31] Syed Ali Mujtaba, 'Consultant to Study Indo-Burma Gas Pipeline Routes,' *Mizzima News*, February 8, 2006 at http://www.mizzima.com/mizzima/archives/news-in-2006/news-in-Feb/08-Feb-06-22.htm (Accessed May 3, 2007).

[32] 'China Plans Major Investment in Oil, Gas Pipelines to Myanmar,' *Pipeline Asia,* April 24, 2007.

[33] Ian Storey, 'Burma's Relations with China: Neither Puppet nor Pawn,' *China Brief*, 7 (3), February 7, 2007.

[34] The Communist Party of Burma (CPB) was based in northeast Burma along the border with China. In 1989, the CPB leadership was overthrown by its own troops, many of whom regrouped as the United Wa State Army.

[35] Yossef Bodansky, 'Beijing's Surge for the Strait of Malacca' at http://www. freeman.org/m_online/bodansky/beijing.htm (Accessed May 3, 2007).

[36] Ibid.

[37] Deepak V. Ganapathy, 'Hissing Dragon–Squirming Tiger: China's Successful Strategic Encirclement of India,' South Asia Analysis Group Paper no. 682, 2003; Yossef Bodansky, no. 35.

[38] Andrew Selth, 'Chinese Military Bases in Burma: The Explosion of a Myth,' Regional Outlook Paper No. 10, 2007, Griffith Asia Institute, Nathan Queensland, Australia.

[39] Andrew Selth, *Burma's Armed Forces: Power Without Glory*, Norwalk, EastBridge, 2002, p. 119.

[40] Ramtanu Maitra, 'The Energy Ties That Bind India, China,' *South Asia*, April 12, 2005, at http://www.atimes.com/atimes/South_Asia/GD12Df03.html (Accessed May 3, 2007).

[41] According to some sources, the Chinese plans also include a railway line.

[42] Yossef Bodansky, no. 35. Bodansky is former director of the US Congress's Task Force on Terrorism and Unconventional Warfare.

[43] Ibid.

[44] Ramtanu Maitra, no. 40.

[45] Deepak V. Ganapathy, no. 37.

[46] Testimony by Thin Thin Aung, Women's League of Burma, to the US–Burma Relations Hearing before the Committee on Foreign Relations of the United States Senate, March 29, 2006.

[47] Ian Storey, no. 33.

[48] Retrieved from http://en.wikipedia.org/wiki/Foreign_relations_of_Myanmar.

[49] No. 26. According to UNAIDS, the Myanmarese Health Department measured HIV prevalence among military recruits at 1.6 per cent in 2004, while HIV prevalence among pregnant women was estimated at 1.8 per cent in 2004.

[50] no. 46

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