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Myanmar Pivots Awkwardly Away from China

*By John Lee**

EXECUTIVE SUMMARY

- Once seen as a Chinese client state, renewed economic and political interest in Myanmar from Western governments and firms may allow the country to pursue a more 'balanced' foreign policy towards China.

- However, Myanmar's reliance on industrial and manufacturing imports from China, as well as established trade and transport infrastructure that functions as a conduit for Chinese capital inflows, mean that Myanmar's economic development will continue to be heavily dependent on trade with China.

- Existing high levels of Chinese FDI offers Beijing strategic leverage over Naypyidaw. The majority of an estimated US$20 billion of FDI into Myanmar in recent years has gone to extractive natural resources industries and power generation. In addition, the distribution of Chinese FDI into Myanmar corresponds with FDI activity through the slated interests of Chinese state-owned enterprises (SOEs).

- Chinese SOEs have been given wide leeway in disregarding environmental standards and the interests of local populations. Dependence on

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Chinese trade and investment is also perceived to be benefitting a small and well-connected group of political and military insiders.

- Myanmar's promise of economic reforms may reduce its heavy economic and strategic reliance on China but this is expected to be politically difficult as doing so may affect entrenched political and military interests.

- If such reforms succeed, then the aim of limiting Chinese economic and strategic influence may also succeed. Should the economic or political reform process stall, Western governments and firms may begin to lose interest in the country. If that occurs, then Naypyidaw will have little choice but to revert to economic reliance on Beijing, which will once again strengthen Chinese strategic and political leverage over its neighbour.

INTRODUCTION

In May 2011, the newly installed civilian government in Myanmar signed a 'Comprehensive Strategic Cooperative Agreement' with China, affirming the close relations between the two countries. Then in September that year, Naypyidaw abruptly suspended the construction of the US$3.6 billion Myitsone dam in the northern state of Kachin, a joint project between Myanmar's military-backed Asia World Company and the state-owned China Power Investment Corp. Less than one month later, and in a widely seen element of the Barack Obama's 'pivot' back to Asia, Hilary Clinton became the first American Secretary of State to visit the country since John Foster Dulles in 1955.

Since then, the United States and European Union are gradually unwinding the sanctions regime against Myanmar amidst signs of gradual but unmistakable political and economic changes in the country. Once seen as a Chinese client state due to the country's perceived economic reliance on its giant neighbour, the renewed interest of Western governments and firms in the country may well allow Myanmar to 'balance' its foreign policy away from China.

This *Perspective* looks at the extent to which the Myanmar economy is tied to China's and is dependent on Chinese largesse, and argues that general assumptions about the dominant role of Chinese economic activity are indeed accurate. While renewed Western political and economic interest in Myanmar is genuine, the paper concludes that a stalling or failing economic or political reform process will cause Western governments and firms to lose interest in the country. If that occurs, then Naypyidaw will have little choice but to revert back to economic reliance on Beijing, which will once again strengthen Chinese strategic and political leverage over its neighbour.

SINO-MYANMAR TRADE

Myanmar's trade volumes (exports plus imports) have grown almost five-fold over the last decade, from US$5.6 billion in 2003 to US$25 billion in 2012. While exports have increased from US$2.7 billion to almost US$10 billion over this period, imports have grown more rapidly from US$2.9 billion in 2003 to more than US$15.4 billion in 2012.

Table 1: Myanmar's Foreign Trade, 2003-2012 (US$ millions)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Exports	2761.4	3200.4	3771.4	4620.8	4933.1	6398.1	5954.3	6479.1	8263	9699
Imports	2900.4	3094.7	3215	3497.7	5028.1	6293.1	6354.9	9032.5	12441.6	15464.9
Balance	-139	105.7	556.3	1123.1	-95	105	-400.6	-2553.3	-4178.6	-5765.9
Total Trade	**5661.8**	**6295.1**	**6986.3**	**8118.5**	**9961.1**	**12691.2**	**12309.2**	**15511.6**	**20704.6**	**25163.9**

Source: Trade Map; ITC Geneva

The growing importance of China as a source of imports since the crackdown of the 1988 '8-8-88' riots is immediately obvious from even a superficial examination of the numbers.

Table 2: Myanmar's Major Import Partners, 1988-2012 (in percentage of total trade)

	1988		1990		1995
Japan	39.0	**China**	**20.6**	Singapore	29.9
U.K.	9.1	Singapore	17.9	**China**	**29**
Germany	6.7	Japan	16.6	Malaysia	10.8
U.S.	6.0	Germany	4.8	Japan	7.4
Singapore	5.8	Malaysia	4.7	S. Korea	4.1

	2000		2006-2010 (average)		2012
Thailand	18.3	**China**	**35.7**	**China**	**30.8**
China	**18.0**	Thailand	22.4	Singapore	27.8
Singapore	15.8	Singapore	15.7	Thailand*	7.6
S. Korea	10.5	S. Korea	5.2	Japan	5.6
Malaysia	8.4	Malaysia	4.3	S. Korea	5.0

Source: Direction of Trade Statistics, IMF; ADB.

** Note that Thai imports into Myanmar are likely to be significantly higher than this figure because much of the trade is border trade which is difficult to track. However, the point about dependency on Chinese imports still holds.*

It is clear from these figures that China stepped into the import vacuum as Western countries such as the U.S., U.K., and Germany responded with punitive sanctions on the regime for the killing of up to 3,000 protesters[1] and the seizing of power by the military junta. By the middle of the last decade, China had emerged as the leading importer and a main entry point into Myanmar's economy.

Analysis of the nature of Chinese imports into Myanmar (including border and non-border trade) is also revealing. Table 3 shows the top four categories of imports in Myanmar in 2012, which together comprise 28.5 per cent of all imports.

Table 3: Myanmar's Major Import Categories, 2012 (US$ millions)

Category	US$ million	% of total imports
Vehicles other than railway, tramway	2088	13.5
Machinery and boilers	1869	12.1
Petroleum products	1328	8.6
Electrical & electronic equipment	1210	7.8
Total value of all imports	**15448**	**100**

Source: Trade Map; ITC Geneva

As Table 4 shows, China leads in two of these categories, and is a strong second in a third.

Table 4: Major Source of Important Import Categories, 2012 (by percentage)

Vehicles (ex railway & tramway)	% of total in import category	Machinery & boilers	% of total in import category	Petroleum products	% of total in import category	Electrical & electronic equipment	% of total in import category
Japan	49	**China**	**48.8**	Thailand	35.4	**China**	**55.3**
China	**36.8**	Thailand	14.9	Singapore	26.8	Singapore	15.0
Thailand	6.5	Singapore	12.1	Columbia	14.6	Taiwan	13.1
Singapore	2.8	S. Korea	5.5	**China**	**14.5**	India	3.7
S. Korea	2.3	Japan	5.0	Malaysia	7.9	Hungary	2.2

Source: Trade Map, ITC Geneva

[1] See "Burma's 1988 protests," *BBC*, September 25, 2007 <http://news.bbc.co.uk/2/hi/asia-pacific/7012158.stm> accessed October 24, 2013.

These figures are important for a couple of reasons. One is that imports from China dominate the industrial and manufacturing categories–machinery & boilers and electrical & electronic equipment[2]–which are essential for a developing country such as Myanmar. Indeed, taking an average from 2006-2010, manufactured goods and parts from China comprised 90.5 per cent of all Chinese imports into Myanmar, compared to 5.1 per cent for fuels, 3.1 per cent for food, and 1.3 per cent for non-food agricultural commodities.[3]

A second important point is that a dominant share from China arrive through roads that connect Yunnan province with major Myanmar towns such as Mandalay. Indeed, the 460 km road journey from Ruili in Yunnan province to Mandalay has been continually upgraded to accommodate heavier vehicles and transportation, and now takes 10-12 hours to complete compared to a fortnight two decades ago. China is building highways and upgrading a national road from Longling to Ruili, the most important land trading port in Chinese trade with Myanmar. A railway from Dali to Ruili is also being constructed, further entrenching Ruili's logistical importance in expanding border trade with Myanmar.[4] One should also bear in mind that Myanmar's northern economic regions, including several special regions dominated by ethnic groups that have a ceasefire agreement with the government, is closely integrated with Yunnan province and their informal and unrecorded trade is likely understated in official figures.[5] Furthermore, Myanmar's major imports through cross-border trade include machinery and machinery parts, electric and electronic and other industrial products, meaning that Myanmar's current industrial and manufacturing capacity remains heavily dependent on trade with China's southern provinces and will remain so for some time.[6]

CHINESE FDI IN MYANMAR

In previous papers, this author has argued that there is nothing unusual or alarming about levels of Chinese foreign direct investment (FDI) into key Southeast Asian countries such as Thailand and Indonesia as Chinese investors are far from dominant in those countries.[7] However, levels of Chinese FDI are unusually high in the case

[2] Note that there is also a high consumer component in the electrical and electronic equipment component.

[3] See Benno Ferrarini, "Myanmar's Trade and Its Potential," *Asian Development Bank Working Paper* no. 325, January 2013, pg. 4 <http://www.burmalibrary.org/docs15/Myanmar's%20Trade%20and%20its%20Potential%20-%20ewp-325-red.pdf> accessed October 28, 2013.

[4] See "Ruili: An Important International Land Port Facing Indian Ocean," *Dehong.gov.cn*, September 6, 2013 <http://www.dehong.gov.cn/en/news/2013/0906/en-89424.html> accessed November 28, 2013.

[5] See Wen Chin-Chang, "The everyday politics of the underground trade in Burma by the Yunnanese Chinese since the Burmese socialist Era," *Journal of Southeast Asian Studies*, 44:2 June 2003, pp. 292-314.

[6] See Winston Set Ang, "Cross-border Trade in Myanmar," *Institute for Security and Development Policy Asia Paper*, September 2009 <http://www.isdp.eu/images/stories/isdp-main-pdf/2009_set-aung_the-role-of-informal-cross-border-trade.pdf> accessed November 28, 2013.

[7] John Lee, *China's Economic Engagement with Southeast Asia: Thailand* (Singapore: ISEAS Trends in South-

of Myanmar, offering Beijing far more actual strategic leverage over Naypyidaw than over Bangkok or Jakarta.

The numbers tell the story. In 2004, US$4.1 million of Chinese FDI entered Myanmar, rising to US$875.6 million in 2010. In terms of cumulative FDI, Chinese FDI stocks in Myanmar increased by 9,547 per cent, rising from US$20.18 million in 2004 to US$1,946.75 million in 2010. In 2011, Chinese cumulative FDI in Myanmar stood at US$2,181.5 million.[8]

As Table 5 shows, China has more cumulative investment in Myanmar than any other ASEAN country with the exception of Singapore. Note that Table 5 is composed of Chinese Ministry of Commerce figures, and these tend to greatly underestimate the amount of actual FDI entering less transparent countries such as Myanmar since a large share of investment is registered as 'aid', 'assistance' and other non-commercial transfers rather than outward FDI.

Table 5: 2011 Cumulative Chinese FDI in ASEAN

	2011 Cumulative FDI (US$ millions)	**2011 Cumulative FDI as a % of total FDI in ASEAN**
Brunei	661.3	3
Cambodia	1,757.4	8
Indonesia	1,687.9	7.7
Laos	1,276.3	5.8
Malaysia	797.6	3.6
Myanmar	***2,181.5***	***9.9***
Philippines	494.3	2.2
Singapore	10,602.7	48.1
Thailand	1,307.7	5.9
Vietnam	1,290.7	5.9
Total	**22,057.2**	**100**

Source: Ministry of Commerce, 2011 Statistical Bulletin of China's Outward FDI

When one considers that Myanmar's economy comprises barely 2.5 per cent of ASEAN GDP as a whole,[9] and that the percentage increase in actual Chinese assets in Myanmar through FDI from 2004-2010 is 9,547 per cent compared to about 5,200 per cent in Laos and about 3,900 per cent in the Philippines over the same

east Asia Series 2013); John Lee, China's Economic Engagement with Southeast Asia: Indonesia (Singapore: ISEAS Trends in Southeast Asia Series 2014).

[8] Figures from Chinese Ministry of Commerce, *2010 & 2011 Statistical Bulletin of China's Outward Foreign Direct Investment*.

[9] Figures based on International Monetary Fund's 2012 estimates using the purchasing-power-parity methodology.

period (the next two highest countries by percentage increase in Chinese assets)[10], Chinese investment interest in Myanmar becomes even disproportionately striking.

Table 6 below presents alternative data and uses information released by the Myanmar Ministry of National Planning and Development. Although there is no breakdown of year-by-year figures, meaning that the comparison with Table 5 is not for the same time period, the significantly higher figure of cumulative Chinese FDI into Myanmar since 1989 suggests that the figures released by the Chinese Ministry of Commerce are grossly understated. The Myanmar Ministry of Planning and Development figures are also consistent with independent reports put out by organisations such as PwC which indicated that Chinese FDI stocks in Myanmar was closer to US$14 billion.[11] Even a report in Chinese official news service *Xinhua* suggests that China has invested almost US$14 billion in Myanmar since 1988.[12]

Other credible reports suggest that the true amount of Chinese investment between March 2010 and April 2011 amounted to two-thirds of China's total investment in the country over the past two decades. According to these reports, Chinese companies invested US$8.17 billion between March-September 2010, including US$5 billion in hydro-power, US$2.15 billion in the oil and gas sector, and US$997 million in mining.[13] If accurate, this would amount to Chinese investments into Myanmar of at least US$8.17 billion in 2010 alone – almost 15 per cent of Myanmar's GDP for 2010! It would also mean that the level of Chinese FDI investment into Myanmar rivals Chinese FDI stocks in Singapore. If this is the case, then the earlier comment that Chinese investment interest in Myanmar is "disproportionately striking" is itself a gross understatement.[14]

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[10] Data from Chinese Ministry of Commerce's *2010 Statistical Bulletin of China's Outward Foreign Direct Investment*, and calculations done by Travis Mitchell, *Chinese Foreign Direct Investment in Myanmar: Remarkable Trends and Multilayered Motivations* (Lund: Lund University Graduate School of Political Science, Spring 2012), pg. 32.

[11] PwC, *Myanmar Business Guide*, August 2012 <http://www.pwc.com/sg/en/assets/document/myanmar_business_guide.pdf>; see also Toh Han Shih, "Hong Kong Third Biggest Investor in Myanmar," *South China Morning Post*, July 13, 2013 <http://www.scmp.com/business/economy/article/1281395/hong-kong-third-biggest-investor-myanmar>; Sophie Song, "Myanmar Foreign Direct Investment: China, Thailand, Hong Kong Biggest Cumulative Investors," *International Business Times*, July 15, 2013 <http://www.ibtimes.com/myanmar-foreign-direct-investment-china-thailand-hong-kong-biggest-cumulative-investors-1345671> all accessed October 25, 2013.

[12] "Myanmar attracts over 8bln USD foreign investment in 2011," *Xinhua*, March 16, 2012 <http://news.xinhuanet.com/english/business/2012-03/16/c_131472176.htm> accessed October 26, 2013.

[13] Aung Hla Tun, "Chinese investment in Myanmar tops $8 billion this year," *Reuters*, August 16, 2010 <http://in.reuters.com/article/2010/08/16/idINIndia-50868920100816> accessed October 25, 2013.

[14] Note also that Chinese private investment is not included in official Myanmar or Chinese figures, while mainland Chinese firms are behind a high number of Hong Kong FDI into Myanmar. Moreover, Chinese government or SOE investment in Myanmar is often counted as aid rather than FDI, even if the outlay is undoubtedly an investment in a commercial enterprise. See Thomas Lum, "China's Assistance and Government Sponsored Investment Activities in Africa, Latin America, and Southeast Asia," *CRS Report for Congress*, November 25, 2009 <http://www.fas.org/sgp/crs/row/R40940.pdf> accessed November 28, 2013.

Table 6: Cumulative FDI of Leading Countries in Myanmar, 1989 - June 2012

	Cumulative FDI Value (US$ millions)	Share of total cumulative FDI (%)
China	***14,142.7***	***34.5***
Thailand	9,568.1	23.3
Hong Kong	6,371.5	15.5
South Korea	2,954.1	7.2
U.K.	2,799.2	6.8

Source: Ministry of National Planning and Development of Myanmar

Whether we accept the higher or lower figures of Chinese FDI into Myanmar (this author is strongly inclined to lean towards accepting the internationally and independently corroborated higher estimates), there is little variation as to the sectoral destination of the overwhelming proportion of Chinese FDI into Myanmar.

Of an estimated US$20 billion of FDI into Myanmar 'approved' in recent years, 58 per cent was destined for the extractive natural resources industries and 41 per cent for power generation, mainly several large dams. The remaining one per cent was in agriculture and manufacturing, with the latter comprising only 0.3 per cent.[15] These estimates correspond roughly with the report in the Chinese state news service *Xinhua*[16] cited above. Although China does not release data on where the country's FDI into Myanmar–US$8.17 billion of investment slated in 2010–actually goes, we can be certain that the proportions correspond to Chinese FDI activity through the slated interests of their SOEs in Myanmar. Some of these will include China National Petroleum Corporation in the Myanmar-China Oil and Gas Pipeline,[17] China National Offshore Oil Corporation and Petro-China's joint ventures with the Myanmar Oil and Gas Enterprise to develop areas such as the Shwe gas field,[18] and China Power Investment Corporation in the hydro-power ventures including the suspended Myitsone Dam project.[19]

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[15] See Jared Bissinger, "Behind Burma's Rising FDI," *The Diplomat*, August 31, 2011 <http://thediplomat.com/asean-beat/2011/08/31/behind-burmas-rising-fdi/> accessed October 25, 2013.

[16] "Myanmar attracts over 8bln USD foreign investment in 2011," *Xinhua*, March 16, 2012 <http://news.xinhuanet.com/english/business/2012-03/16/c_131472176.htm> accessed October 26, 2013.

[17] See "Myanmar-China gas pipeline starts to deliver gas to China," *Xinhua*, July 27, 2013 <http://usa.chinadaily.com.cn/business/2013-07/28/content_16844673.htm> accessed October 25, 2013.

[18] See Toshihiro Kudo, "Myanmar's economic relations with China: who benefits and who pays?", in Monique Skidmore and Trevor Wilson (eds.,) *Dictatorship, Disorder and Decline in Myanmar (*Canberra: ANU ePress 2008), pg. 101.

[19] See Guo Aibing, "China Power Investment Says Myanmar Dam Halt is 'Bewildering'," *Bloomberg*, October 4, 2011 <http://www.bloomberg.com/news/2011-10-04/china-power-investment-says-myanmar-hydropower-dam-suspension-bewildering.html> accessed October 25, 2013.

NET ASSESSMENT OF CHINESE ECONOMIC ACTIVITY IN MYANMAR

The Chinese contribution to the Myanmar economy, especially when it comes to areas such as power generation and infrastructure development, is significant. After all, in its period of Western isolation, its economy still managed 6.48 per cent real GDP growth per annum from 1991-2000, and 5.22 per cent per annum real growth from 2001-2010[20] (bearing in mind that any figures for the Myanmar economy are widely disputed). The main source of revenue for the government in recent years is from the export of natural gas to Thailand[21] – with much of the gas fields and transportation infrastructure financed by Chinese entities. More broadly, as a dominant investor and major trading partner, some credit for the economic growth numbers –inaccurate as they are–must go to China.

Yet, the problem is that such high official growth rates do not seem to have had a proportionate benefit for households with little or no connection to the government. As a prominent economist and current Chief Economic Advisor to President Thein Sein admits when commenting on recent official growth figures, "it is difficult to reconcile the statistics with the real world in which the people of Myanmar live day by day."[22]

Moreover, in the eagerness to deploy Chinese capital and expertise for rapid completion of resource extraction, transportation and power-generation projects, Chinese SOEs have been given wide leeway in disregarding environmental standards and the interests of local populations affected by these projects throughout the country. For example, the Shwe gas pipeline project has been widely criticised for its disregard for the social impact and the damage to the environment, and led to protesters complaining about inadequate compensation from land confiscations[23] and the displacement of farmers and fishermen.[24] Causing the resettlement of thousands of local villages, the Myitsone Dam was also suspended amid concerns that the construction was doing irreversible damage to an area of rich biodiversity that lies barely one hundred kilometres away from a major tectonic fault line – insensitivities made worse by the fact that it is in an area where Kachin fighters are battling the Tatmadaw.[25]

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[20] Figures from World Bank World Development Indicators, IMF International Financial Statistics and HIS Global Insight, presented in Economic Research Service, "Real Historical Gross Domestic Product and Growth rates of GDP for Baseline Countries/Regions (1969-2012)", United States Department of Agriculture, November 3, 2012.

[21] See Lex Rieffel, "The Myanmar Economy: Tough Choices," *Brookings Institution Working Papers* No. 47, September 2012, pp. 5-6 <http://www.brookings.edu/research/papers/2012/09/myanmar-economy-rieffel> accessed October 26, 2013.

[22] See Thant U Myint, "Myanmar's economic prospects and its real potential," *East Asia Forum*, April 21, 2013 <http://www.eastasiaforum.org/2013/04/21/myanmars-economic-prospects-and-its-real-potential/> accessed October 25, 2013.

[23] See Sophie Song, "China and Myanmar Activists Joust Over Shwe Oil and Natural Gas Pipeline," *International Business Times*, August 6, 2013 <http://www.ibtimes.com/china-myanmar-activists-joust-over-controversial-shwe-oil-natural-gas-pipeline-1373579> accessed October 25, 2013.

[24] See Kim Wall, "Has flows from Myanmar, but Beijing finds goodwill is another matter," *South China Morning Post*, August 6, 2013 <http://www.scmp.com/news/china/article/1294563/gas-flows-myanmar-beijing-finds-goodwill-another-matter> accessed October 25, 2013.

[25] See Rachel Harvey, "Burma dam: why Myitsone is being halted," BBC, September 30, 2011 <http://www.

More broadly, the backlash against what prominent Mandalay writer Daw Ludu Amar has called the 'lawpan khit' or 'era of the Chinese boss'[26] stems from the perception that China exploited the junta's desperation for powerful friends, without offering enough in return to the country with respect to economic and social gains. A reported four million Myanmar people are still forced to seek work outside the country due to lack of domestic opportunities,[27] in a country where unemployment was estimated to be almost 40 per cent[28] according to the Lower House's finance and development committee report. Dependence on trade with Chinese firms for manufacturing and industrial parts, and Chinese investment and expertise for development is perceived to be increasingly benefitting a small and well-connected group of political and military insiders, and coming at the expense of the broader population. Even 'insiders' and the well-connected seem to realise that the current commercial arrangements cannot continue and that their wealth and privilege is better preserved through nurturing new partnerships with Western firms – hence the surprising lack of open protest from so-called 'cronies' against the country's reforms which have been necessary in winding back sanctions and reopening a door for the entry of these companies.[29]

ACHIEVING FOREIGN POLICY BALANCE THROUGH ECONOMIC REFORM

In government circles, a desire to reduce Beijing's economic and strategic leverage over the country fits in well with Myanmar's traditional strategic preference for non-alliance status or at least strategic balancing, something it had to abandon after its isolation by the West. Even though Myanmar never became a satellite state of China, the emergence of China as *Pauk Paw*–describing a fraternal relationship with a far larger power–is increasingly an uncomfortable proposition for the Thein Sein government. The president's promise of reforms are intended to offer Naypyidaw options beyond the heavy economic and strategic reliance on a neighbour that it still deeply distrusts.

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bbc.co.uk/news/world-asia-pacific-15123833>; Qin Hui, "Behind Myanmar's suspended dam," *China Dialogue*, March 28, 2012 <https://www.chinadialogue.net/article/show/single/en/4832-Behind-Myanmar-s-suspended-dam-1-> both accessed October 25, 2013.

[26] Quoted in Josh Gordon, "US-Myanmar Ties: beware the backlash," *Myanmar Times*, November 26, 2012 <http://www.mmtimes.com/index.php/opinion/3364-us-myanmar-ties-beware-the-backlash.html> accessed October 25, 2013.

[27] See Renaud Egreteau, "Continuity and change: Myanmar's foreign policy," *Myanmar Times*, September 15, 2013 <http://www.mmtimes.com/index.php/opinion/8178-continuity-and-change-myanmar-s-foreign-policy.html> accessed November 17, 2013.

[28] "Myanmar Unemployment Rate Near 40 Percent, Study Finds" *Eleven*, January 24, 2013 <http://www.eleven-myanmar.com/business/2230-myanmar-unemployment-rate-near-40-percent-study-finds> accessed November 17, 2013.

[29] See Erika Kinetz, "U.S. caught in awkward embrace of Myanmar 'crony'," *The Journal Gazette*, February 25, 2013 <http://www.journalgazette.net/article/20130225/NEWS0402/130229696/1179> accessed November 17, 2013.

The widespread backlash against China's economic and strategic dominance—and in some areas, Chinese cultural dominance[30]—is genuine and deep-rooted. But it can only be sustained if Myanmar is able to successfully implement its economic reform agenda. This will be politically difficult since doing so may dilute the interests of the entrenched political and military elite in the country. If such reforms succeed, then the aim of creating a balance against Chinese economic and strategic influence may also succeed. In fact, the deepening interest by Western firms in Myanmar is already causing Chinese SOEs to take more seriously the local concerns of Myanmar citizens.[31]

But if Naypyidaw fails in this task, then Myanmar will have few options but to return awkwardly into China's embrace. For example, some figures suggest that Chinese investment in Myanmar fell from the estimated US$12 billion from 2008-2011 to US$407 million in the 2012/13 fiscal year.[32] If reforms fail to attract substantial FDI from other countries, especially the West, then Chinese SOEs will regain their once dominant bargaining position.

CONCLUSION

One should keep in mind that even if economic and political reforms are sustained leading to blossoming Western interest in Myanmar, China has a number of enduring interests in the country and will ensure that it remains a major player.

First is Beijing's interest in the expansion of the economic corridor from Yunnan province, through Myanmar, and westward to Bangladesh, India and the West. This relates to the Bangladesh-China-India-Myanmar (BCIM) Economic Corridor which will include roads, railways and other infrastructure joining the four countries.[33] The BCIM complements the framework of policies geared towards the so-called Greater Mekong Sub-Region (GMS), which encompasses Yunnan Province, Myanmar, Cambodia, Laos, Vietnam and Thailand. The Guangxi Zhuang Autonomous Region formally joined the GMS in 2005. For China, the GMS is seen as a critical

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[30] See Stephanie Shannon and Nicholas Farrelly, "Wither China's Myanmar Stranglehold?" *ISEAS Perspective* #40, June 27, 2003 <http://www.iseas.edu.sg/documents/publication/iseas_perspective_2013_40_whither_chinas_myanmar_stranglehold_2.pdf> accessed November 18, 2013.

[31] See Shibani Mahtani, "Chinese company launches charm offensive in Myanmar," *Wall Street Journal,* October 9, 2013 <http://online.wsj.com/news/articles/SB10001424052702304520704579125083505961324>; Jane Perlez and Bree Feng, "China Tries to Improve Image in a Changing Myanmar," *International New York Times*, May 18, 2013 <http://www.nytimes.com/2013/05/19/world/asia/under-pressure-china-measures-its-impact-in-myanmar.html?_r=0> both accessed October 29, 2013.

[32] Yun Sun, "Chinese Investment in Myanmar: What Lies Ahead?" *Stimson Center Great Powers and the Changing Myanmar*, Issue Brief 1, September 2013 <http://www.stimson.org/images/uploads/Yun_Issue_Brief1.pdf> accessed October 26, 2013.

[33] See John Lee, "Ambitious China goes land roving," *Business Spectator*, October 30, 2013 <http://www.businessspectator.com.au/article/2013/10/30/economy/ambitious-china-goes-land-roving> accessed November 28, 2013.

component of the country's national economic strategy. In addition to the desire for a continental trading route that connects Southern China with the mainland of Southeast Asia and South Asia (bypassing maritime routes through the South China Sea and the Malacca Straits,) economic integration and growing prosperity in the GMS region is seen as essential for the development of China's southern provinces.

Second, in sharing land borders with fourteen other countries, China has an enduring interest in the stability of these common borders – meaning an intrinsic interest in maintaining significant influence over Naypyidaw. With a land border that stretches 2,195 km, arguably China's top priority vis-à-vis Myanmar is reducing the prospects for widespread ethnic and factional strife in Myanmar's northern states. Such concerns were brought into sharp focus in August 2009 when the Kokang conflict led to an estimated 30,000 refugees entering into Yunnan province, the largest refugee crisis on China's borders since the Sino-Vietnam War in 1979. Having been surprised by Naypyidaw's attack on the ethnic Chinese troops of the Myanmar National Democratic Alliance Army in the northern Shan State, the event was the first violation of the ceasefire agreements that had been in place since 1989.[34] To emphasise the seriousness of the event, Beijing was forced to deploy the People's Liberation Army to support the stabilisation efforts of the People's Armed Police.[35]

In summary, Myanmar presents a strategic and economic opportunity for China on the one hand, but also exists as a problematic state with which it shares a 2,195 km border on the other. This means that China will do what it takes to ensure that it retains considerable influence in Myanmar regardless of the political and economic reforms in that country. In accepting that fact, the best Naypyidaw can hope for is greater 'balance' in its relationships with its powerful neighbour.

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[34] See Thomas Fuller, "Fleeing battle, Myanmar refugees head to China," *New York Times*, August 28, 2009 < http://www.nytimes.com/2009/08/29/world/asia/29myanmar.html> accessed October 23, 2013.

[35] See Drew Thompson, "Border Burdens: China's Response to the Myanmar Refugee Crisis," *China Security* 5:3 2009.

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