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# **Understanding the Strategic Competition of Foreign Powers in Myanmar and Its Impact on Myanmar's Future**

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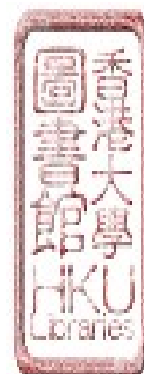
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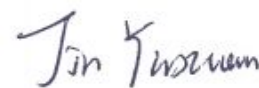
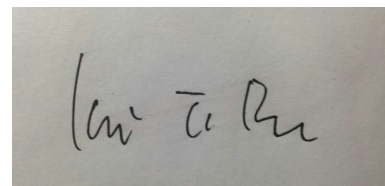
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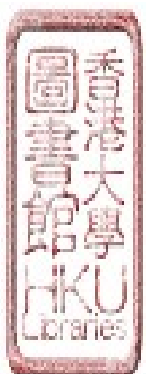


I declare that this Capstone Project Report, entitled “Understanding the Strategic Competition of Foreign Powers in Myanmar and Its Impact on Myanmar’s Future”, represents our own work, except where due acknowledgement is made, and that it has not been previously included in a thesis, dissertation or report submitted to this University or any other institution for a degree, diploma or other qualification.



(Signed)

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## Acknowledgements

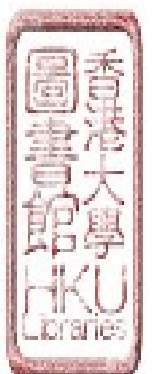
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## Abstract

After Myanmar first showed signs of political reforms in 2011, foreign strategic interests have been flowing into the country in the forms of trade and economic relations, infrastructure investment, and security cooperation, thanks to its rich natural resources, geostrategic location, and favorable government reforms for the entrants. Today, Myanmar is in a key position to leverage these foreign interests, specifically from Japan, the U.S., India and ASEAN, to achieve a more balanced foreign relations, away from its prior dependence on China.

Whether Myanmar succeeds in the difficult and admirable task of moving to democracy and openness will depend primarily on the commitment and hard work of its own leaders and its people. Outsiders must work with the people of Myanmar, government, officials, private organizations and other leaders to understand what will and will not work the most appropriate timeframe for achieving the goals that the key actors share. This paper will examine the various activities in Myanmar by the foreign powers and the competition among them, to understand each player's motivations and offerings, and to ultimately make policy recommendations to the Myanmar government on how it could maximize the new interests to build a stronger country and to improve the livelihood of its people.



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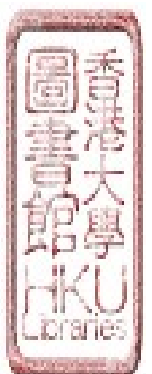
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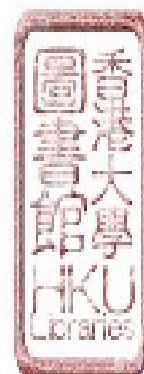
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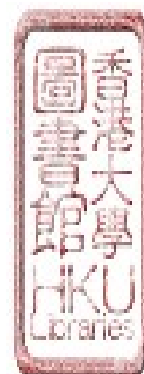
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## Abbreviations

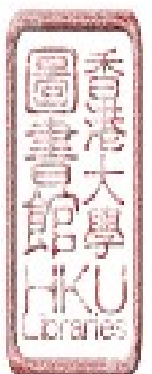
AEC	ASEAN Economic Community
APHR	ASEAN Parliamentarians for Human Rights
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
E.U.	The European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GW	Gigawatt
IDSA	Institute for Defence Studies and Analyses
JIAC	The Japan International Cooperation Agency
KMT	Kuomintang
MW	Megawatt
NLD	National League for Democracy Party
ODA	Official Development Assistance
OECD	The Organization for Economic Co-operation and Development
SLORC	State Law and Order Restoration Council
TPP	Trans Pacific Partnership
UN	United Nations
U.S.	The United States of America
USDP	Union Solidarity and Development Party



## Executive Summary

The rapid developments in Myanmar today deserve a comprehensive examination and recognition. After Myanmar undertook symbolic political reforms in 2011 toward a more democratic government, many foreign states have moved quickly to establish multi-faceted bilateral relations with Myanmar. This paper seeks to understand this strategic competition, *the competition for influence by the foreign states in Myanmar to the extent their policy and actions are strategically aimed to fulfill its own national economic, political, security, and social agenda*, and to make policy recommendations for Myanmar government to fully benefit the population from this new development.

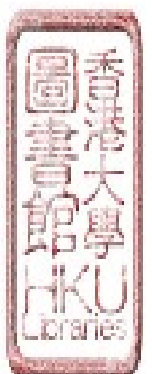
Given the great magnitude and complexity of the topic, the paper focused on the key players, the U.S., China, Japan, India and ASEAN for detailed examination. After a comprehensive review of scholarly journals and think-tank articles, primary government sources, interviews, and mainstream media, a systematic analysis was conducted encompassing: (i) the relevance of Myanmar to each state including historical relations; (ii) each state's strategic interests in Myanmar today and the foreign policy strategy employed; and (iii) implications for Myanmar's future and the resulting policy recommendations.





This research revealed that Myanmar is the ultimate pivot state in Asia where key powers collide, thanks to Myanmar's geostrategic location bordering China and India, its rich natural resources, and its potential to be molded both politically and economically by other states. Competing orders should allow Myanmar to immediately enjoy economic development assistance from multiple parties without having to significant political reforms upfront i.e. a full conversion to liberal democracy. In other words, the major powers' intertwining interests in Myanmar open up hedging space for Myanmar, and thus Myanmar is well positioned to harness various benefits from China, India, Japan, and ASEAN, while retaining security insurance via the U.S.

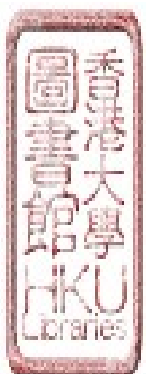
Furthermore, this study points to Myanmar's primary domestic concern as the integration of its ethnic minorities. This translates into an inherent need for a democratic system, which promotes equal distribution of power and opportunities. Given that economic development is a precondition for sustaining a democracy, Myanmar must rise above the occasion and implement the necessary economic policies to foster sustainable growth, anchored on balanced foreign relations and robust international trade and investment.



## Introduction

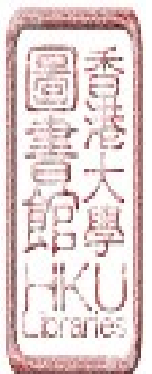
In the last few years, Myanmar has emerged as a country of opportunities for businesses and a country to visit by many travelers. Since the 2011 election resulted in the lifting of some economic sanctions by the world's large economies like the U.S., the E.U., and Japan, Myanmar has been experiencing significant development in infrastructure as well as international trade and investment. Myanmar is no longer just signified by Aung San Suu Kyi, a Nobel Prize winner and Myanmar's symbol of democracy; the country offers itself as an attractive opportunity for other states to engage with from economic, security, and political perspectives.

Different countries engaging with Myanmar have different agendas to fulfill. For example, the U.S., amongst several motives, aims to export its democratic ideology and is interested in transforming Myanmar into a more democratic nation. China on the other hand, is more interested in providing the capital to the country to secure a good portion of the vast amount of natural resources Myanmar has to offer. India, a



close neighbor, is a cultural influence to Myanmar and would like security cooperation as well as access to ASEAN for expansion and to Myanmar's energy supply to address its own domestic constraints.

With interests of other states in Myanmar increasing, the influence by them will also increase in the coming years. What these states bring to or take away from Myanmar will be instrumental in shaping the future of Myanmar. Therefore, it is critical for the Myanmar government to understand the different motives of the key states interested in the country, the costs and benefits of engaging with each one, and the resulting strategic competition among the various states with regards to obtaining more influence in Myanmar. This paper will address the preceding issues, especially focusing on the strategic competition among the U.S., China, Japan, India, and ASEAN (as separate member states and as a group) after obtaining a general understanding of Myanmar, its past and today. For the purpose of this paper, strategic competition will be defined as *the competition for influence by the foreign states in Myanmar to the extent their policy and actions are strategically aimed to fulfill its own national economic, political, security, and social agenda*. Ultimately, this paper will lay out some key implications of engaging with other states and propose recommendations for the Myanmar government in light of the forthcoming external interest.



## Preamble: Understanding Myanmar

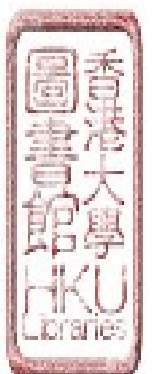


Figure 1. Map of Myanmar<sup>1</sup> (Source: BBC)

Republic of the Union of Myanmar, 676,563 square kilometers in size<sup>2</sup>, borders China (its longest border), Thailand, India, Bangladesh and Laos. It is classified as a lower

<sup>1</sup> Myanmar Profile, BBC, accessed July 27, 2015, <http://www.bbc.com/news/world-asia-pacific-12990563>

<sup>2</sup> Country Report – Myanmar, The Economist Intelligence Unit, April 2015, p.14



middle income country by the World Bank, with GDP per capita of US\$1,198 (current US\$)<sup>3</sup>. It is the poorest country in Southeast Asia. Of its 53.72 million population, 69% is classified as Burmese, with rest made up by different minorities. Myanmar's economy is ranked #75 in the world<sup>4</sup>, with a GDP of US\$54.6 billion (2013)<sup>5</sup>, which make up 2.3% of total GDP of ASEAN countries, about 1/7 the GDP of Thailand. It has experienced an impressive GDP growth rate (constant prices) of 7.5% in 2013, with the key drivers in natural resource exports and investments, such as hydropower and natural gas. The Economist Intelligence Unit projects the real GDP growth to average 7.4% annually for 2015-2020<sup>6</sup>.

2012 GDP composition by sector shows that services (41.8%) was the largest contributor, followed by agriculture (38.8%). Currently, extractive industries (including oil and gas, mining) provide the highest returns to Myanmar's economy but analysts predict that with increased foreign investment and access to capital, Myanmar's other industries such as textile manufacturing, construction, tourism, and agriculture/fisheries stand to grow as well<sup>7</sup>. The Myanmar government has been fully conscious of the economic potential, laying out a reform program which focuses on economic expansion and foreign investment, backed by the new Foreign Investment Law providing incentives for foreign investors. One notable example is the rapid

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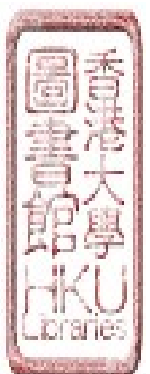
<sup>3</sup> GDP Per Capita (Current US\$), The World Bank, accessed July 27, 2015, <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>

<sup>4</sup> GDP, Official Exchange Rate 2015 Country Ranks, CIA World Factbook 2015, accessed May 6, 2015, [http://www.photius.com/rankings/2015/economy/gdp\\_official\\_exchange\\_rate\\_2015\\_0.html](http://www.photius.com/rankings/2015/economy/gdp_official_exchange_rate_2015_0.html)

<sup>5</sup> "Selected Key Indicators," ASEAN, Accessed May 2, 2015, <http://www.asean.org/news/item/selected-key-indicators>

<sup>6</sup> Country Report – Myanmar, The Economist Intelligence Unit, April 2015, p.7.

<sup>7</sup> Myanmar Business Guide, PriceWaterhouseCoopers, February 2014, p.8.



developments in the telecommunications sector, where the government gave licenses to Qatar's Ooredoo and Norway's Telenor in 2013<sup>8</sup>. However, there is still huge room for improvement, as Myanmar ranked only #177 out of 189 economies in the World Bank's Doing Business rankings for 2015<sup>9</sup>. Notably it ranked last, #189, in the indicator for starting a business. The government's other reform efforts include floating the currency, tax reforms, review of the financial sector, and promoting access to finance<sup>10</sup>.

To many outsiders, Myanmar's political situation is symbolized by Aung San Suu Kyi, the Nobel Peace Prize winner who "personifies the Burmese crisis: its need, so long delayed, for human rights, democracy, and economic development"<sup>11</sup>. She leads the National League for Democracy party, the opposition party, which is expected to "emerge with a legislative majority if the election is free and fair."<sup>12</sup> President Thein Sein and his Union Solidarity and Development Party is a "continuation of the military regime"<sup>13</sup> but since 2011, has been making progress via economic and social reforms, as well as in trying to secure a ceasefire between the government and the minority insurgent groups, Karen, denoted as "the longest insurrection in the modern

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<sup>8</sup> Myanmar Business Guide, PriceWaterhouseCoopers, February 2014, p.9.

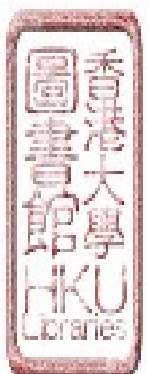
<sup>9</sup> "Ease of Doing Business in Myanmar," World Bank Group, accessed May 6, 2015, <http://www.doingbusiness.org/data/exploreeconomies/myanmar>.

<sup>10</sup> "Myanmar Overview," The World Bank, accessed May 6, 2015, <http://www.worldbank.org/en/country/myanmar/overview>.

<sup>11</sup> David I. Steinberg, *Burma/Myanmar, What Everyone Needs To Know*, Second Edition, Oxford University Press, (2013), p. 2.

<sup>12</sup> Country Report – Myanmar, The Economist Intelligence Unit, April 2015, p.4.

<sup>13</sup> Nathan Vanderklippe, "Electoral Stakes High for Suu Kyi – and for Myanmar," The Globe and Mail, April 10, 2015, accessed May 6, 2015, <http://www.theglobeandmail.com/news/world/electoral-stakes-high-for-suu-kyi-and-for-myanmar/article23873272/>.



world” since 1949<sup>14</sup>. Myanmar’s past political scene can be summarized by the military coup, the socialist period (1962-1988) and the military rule which has been in power since the 1988 People’s Revolution. The army in effect has veto power over any amendments to the charter, as one-fourth of the parliament is reserved for the military and any changes require a minimum 75% support by the legislators<sup>15</sup>. The key political event to watch is the upcoming general elections in November 2015. There are risks that USDP may try to prevent NLD from forming an administration. In any case, the political development in Myanmar since the 2011 has been positive than negative, with one significant trend being the government operating in a more pluralistic manner, away from authoritarianism and international isolation in the past.

There is an ongoing struggle between Myanmar’s Muslim Rohingya minority and the Buddhist majority. The Rohingya are not recognized as Burmese citizens and the Buddhist majority have protested against granting voting rights to them. Currently, 140,000 of 1.1 million Rohingya are displaced after the clash with the Buddhists in 2012<sup>16</sup>. The Buddhist-nationalist group has an increasingly institutionalized approach and would want to influence the future government. In April 2014, the UN Secretary General urged Myanmar to address the Rohingya issue before the elections<sup>17</sup>.

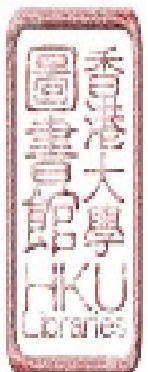
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<sup>14</sup> David I. Steinberg, *Burma/Myanmar, What Everyone Needs To Know*, Second Edition, Oxford University Press, (2013), p. 195.

<sup>15</sup> Country Report – Myanmar, The Economist Intelligence Unit, April 2015, p.3.

<sup>16</sup> Louis Charbonneau, “UN Chief Urges Myanmar to Address Muslims’ Status Ahead of Vote,” Reuters, April 25, 2015.

<sup>17</sup> Louis Charbonneau, “UN Chief Urges Myanmar to Address Muslims’ Status Ahead of Vote,” Reuters, April 25, 2015.



Myanmar's role in the international community has been limited, largely due to the long military rule and the domestic challenges within the country. Myanmar has been a member of the ASEAN since 1997, immediately joining after Vietnam, to not isolate itself from the region and to improve its situation faced by the sanctions from the U.S. In 2014, Myanmar hosted the regional forum, which helped to showcase the relevance of Myanmar and the political legitimacy of its government to the world.

## Opportunities in Myanmar

### 1. Vast Natural Resources and Opportunities in Infrastructure

Experts recognize Myanmar's rich natural resources, which include agricultural and forested land, water (including fishery) and various minerals and hydrocarbons. For example, Myanmar has an estimated 100 GW of hydropower potential, which compares to the U.S.' total installed hydro capacity of 101 GW (ranked #2 after China)<sup>18</sup>. However, Myanmar is only utilizing 2,600 MW at the moment<sup>19</sup>. Natural gas production is Myanmar's key export and will help to fuel future economic growth; the sector is projected to grow by 8.5% for fiscal year 2014/2015<sup>20</sup>. Even in falling oil prices, Myanmar received direct investment from major oil and gas companies, including Shell, Woodside, Reliance Industries, and Eni<sup>21</sup>. Only 30% of the population of Myanmar has access to stable power supply, which implicates a

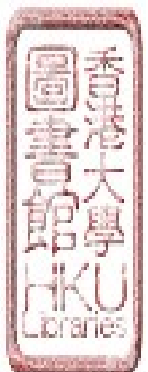
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<sup>18</sup> "World Installed Hydropower Capacity," International Hydropower Association, accessed May 6, 2015, <http://www.hydropower.org/world-installed-hydropower-capacity>.

<sup>19</sup> OECD Multi-dimensional Review of Myanmar, Volume 1, OECD Publishing, p.25, accessed July 21, 2015, [http://www.keepeek.com/Digital-Asset-Management/oecd/development/multi-dimensional-review-of-myanmar\\_9789264202085-en#page1](http://www.keepeek.com/Digital-Asset-Management/oecd/development/multi-dimensional-review-of-myanmar_9789264202085-en#page1).

<sup>20</sup> "Myanmar Overview," The World Bank, accessed May 6, 2015, <http://www.worldbank.org/en/country/myanmar/overview>.

<sup>21</sup> Country Report – Myanmar, The Economist Intelligence Unit, April 2015, p.7.





large potential market for power infrastructure construction<sup>22</sup>. Undoubtedly, maximizing returns on the country's natural resources and ensuring sustainable extraction should be a core policy topic for Myanmar.

One potential threat to Myanmar may be over-extraction or even exploitation by other states that are aggressively pursuing natural resource or energy supply acquisition. For example, China has already built a hydropower plant in Myanmar for its own population when Myanmar's power supply remains very low<sup>23</sup>. China also has a 2,520km gas pipeline connecting south Myanmar and China's Yunnan province in operations. Perhaps cognizant of the issue, Myanmar's Thein Sein suspended China's US\$20.8 billion Myitsone dam project after public opposition in 2012<sup>24</sup>. It was noted by OECD that "energy contracts with foreign investors have typically been negotiated on a 30-year basis and below market prices<sup>25</sup>," which means Myanmar could face a situation where it may have limited energy supply for its own use in the long-run. Therefore, OECD suggests that resource governance mechanisms should be constructed<sup>26</sup>.

## 2. Geostrategic Value

Myanmar's geographical location is not only key to Myanmar's own development but is of interest to many countries. First of all, Myanmar is closely located to other

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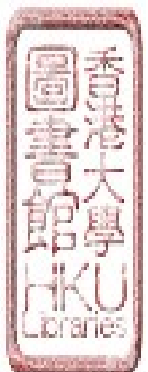
<sup>22</sup> OECD Multidimensional Review, Myanmar, p.25.

<sup>23</sup> OECD Multidimensional Review, Myanmar, p.28.

<sup>24</sup> P. Stobdan, "Things that Modi Should Do in Myanmar," Institute for Defence Studies and Analyses, November 10, 2014, accessed May 6, 2015, [http://www.idsa.in/idsacomments/ThingsthatModishoulddoinMyanmar\\_pstobdan\\_101114.html](http://www.idsa.in/idsacomments/ThingsthatModishoulddoinMyanmar_pstobdan_101114.html)

<sup>25</sup> OECD Multidimensional Review, Myanmar, p.28.

<sup>26</sup> OECD Multidimensional Review, Myanmar, p.26.



growing economies, notably sharing borders with China and India, and with other ASEAN states. The proximity to these countries implies potential expansion or overflow economic effects from nearby countries. For example, tourism in Myanmar can increase as more middle class form in these countries. OECD also projects that modernization of China's south western provinces, China's Yunnan province to become key economic hub can have positive spillover effect in the border regions in Myanmar. Myanmar is also a "land bridge" between South Asia and Southeast Asia, which gives it a logistical advantage for countries that are interested in developing trade or energy supply routes along this path<sup>27</sup>. For instance, Myanmar forms a part of China's Silk Road initiative under the US\$46 billion "One Belt, One Road" plan (*yidai, yilu*), a multinational infrastructure and economic development plan. Myanmar also connects to "the most strategic natural waterway in the world" – the Malacca Straits, which provides an oil and trade transport route to and fro the Middle East as well as supply route for the U.S. bases<sup>28</sup>.

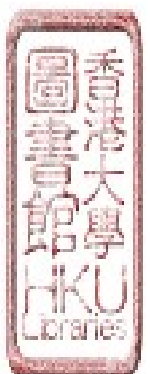
### 3. Government-backed Reform Programs

As a country re-opening its doors to the outside world, the Myanmar government has multiple agendas to fulfill to catch up. Myanmar has identified the following 4 areas as priority under its "Framework for Economic and Social Reforms": (i) industrial development alongside agricultural reforms; (ii) balanced development across the regions and states; (iii) improvements in education, health and living standards; and

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<sup>27</sup> OECD Multidimensional Review, Myanmar, p. 27.

<sup>28</sup> David I. Steinberg, *Burma/Myanmar, What Everyone Needs To Know*. Second Edition. Oxford University Press. (2013), p. 4.



(iv) improved statistical systems and data. Most importantly, it appears that the near-term objective for Myanmar to prepare for deeper economic integration with other states, especially ASEAN<sup>29</sup>. The “thawing of U.S.-Myanmar relations” since the political reform is a positive for Myanmar<sup>30</sup>, as it has allowed significant economic sanctions to be lifted and enabled global financial institutions like the World Bank to start lending to the country. Regulatory reforms have allowed for more foreign capital to enter, the central bank to have more autonomy, and for Myanmar’s first stock market to be implemented in late 2015<sup>31</sup>. ATMs were finally introduced last year. According to the Myanmar government’s Directorate of Investment and Company Administration, Myanmar received more than US\$8 billion of foreign direct investment (FDI) in the fiscal year 2014-2015 (end March 31), above the government’s target of US\$5 billion and almost double the amount received in fiscal year 2013-2014<sup>32</sup>. If Myanmar is able to handle the upcoming general elections in November 2015 without much unrest and continue on its democratic transition, the government reforms should persist over time which should attract more foreign players into the economy.

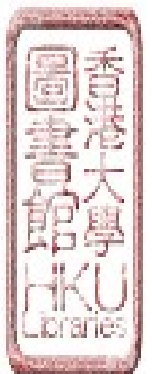
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<sup>29</sup> OECD Multidimensional Review, Myanmar, p. 22.

<sup>30</sup> OECD Multidimensional Review, Myanmar, p. 30.

<sup>31</sup> Country Report – Myanmar, The Economist Intelligence Unit, April 2015, p.7.

<sup>32</sup> Country Report – Myanmar, The Economist Intelligence Unit, April 2015, p.26.



## Myanmar's Relations with Other Countries

### India

#### India's Strategic Interests in Myanmar

Myanmar and India have shared important regional history which would presuppose a strong bilateral relationship. For instance, during the colonial era of 1885-1948, India's nationalist movement and the rise of Mahatma Gandhi's India Congress Party had encouraged the Burmese nationalism, which resulted in the nation's separation from the British colonialism in 1937 through the Government of Burma Act, eventually leading to the declaration of independence in 1948<sup>33</sup>. Myanmar also came to embrace Buddhism as its national religion, which originates from India. It has been described that Buddhism is "the most central of all the primordial values that define a Burman."<sup>34</sup> Given the porous borders in the region, many of Northeast Indian Naga rebels as well as ethnic minorities from poorer regions of India also took refuge in Myanmar over time<sup>35</sup>.

Despite the fact that the two countries share a 1,700km land border and a maritime border in the Sea of Bengal, the Indian government had not prioritized its bilateral relations with Myanmar since the Treaty of Friendship was signed in 1951<sup>36</sup>. India's

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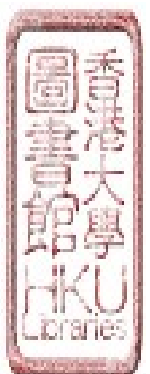
<sup>33</sup> David I. Steinberg, Myanmar, pg. 31.

<sup>34</sup> David I. Steinberg, Myanmar, pg. 24.

<sup>35</sup> David I. Stenberg, Myanmar, pg. 6.

<sup>36</sup> P. Stobdan, "Things that Modi Should Do in Myanmar," Institute for Defence Studies and Analyses, November 10, 2014, accessed May 6, 2015,

[http://www.idsa.in/idsacomments/ThingsthatModishoulddoinMyanmar\\_pstobdan\\_101114.html](http://www.idsa.in/idsacomments/ThingsthatModishoulddoinMyanmar_pstobdan_101114.html).



foreign policy toward Myanmar also shifted over time, from sponsoring Myanmar's democratic opposition in the late 1980s to becoming one of eight countries selling arms to the ruling military power in 1990s<sup>37</sup>. The strategic relationship finally started to bloom since the 2011 reforms in Myanmar, joining the movement of other key foreign states into Myanmar, starting with the visit by India's Manmohan Singh in May 2012, first high-level visit from India in 25 years. So far, in addition to the proposed US\$500 million credit package<sup>38</sup>, 12 initial agreements have been signed covering several areas including border area development, transport, and connectivity<sup>39</sup>. India's current "Look East" policy entails warmer strategic relations with ASEAN countries through increased trade, connectivity, and cultural ties<sup>40</sup>. Under this policy, Myanmar, without doubt, is an important link to India as it is the only ASEAN member country India shares its border with.

India's interest in Myanmar may have accelerated due to increasing activity by China in Myanmar and the nearby regions. India is concerned about China's rise as a regional power and its influence in Myanmar<sup>41</sup>, as it would be a direct challenge to India's existing security and economic interests in the region. The tension between India and China is not new; India's past support of the Myanmar junta in early 1990s

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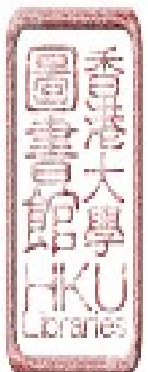
<sup>37</sup> Daniel Wagner, Georgio Cafiero, "Can China and India Coexist in Myanmar?" East-West Center Asia Pacific Bulletin, February 20, 2014, accessed July 16, 2015, <http://www.isn.ethz.ch/Digital-Library/Publications/Detail/?id=177141&lng=en>.

<sup>38</sup> David I. Steinberg, *Burma/Myanmar, What Everyone Needs To Know*, Second Edition, Oxford University Press, (2013), p. 210.

<sup>39</sup> OECD Multidimensional Review, Myanmar, p. 30.

<sup>40</sup> Manish Chand, "India's Enhanced Look East Policy Takes Wing," Ministry of External Affairs, Government of India, August 7, 2014, accessed May 8, 2015, <http://mea.gov.in/in-focus-article.htm?23855/Indias+Enhanced+Look+East+policy+takes+wing>.

<sup>41</sup> David I. Steinberg, *Burma/Myanmar, What Everyone Needs To Know*, Second Edition, Oxford University Press, (2013), p. 160.



was partly to “mitigate Chinese influence”<sup>42</sup>, although the stakes appear greater and more complex today. This year, India’s Defense Ministry openly expressed its concern with “China’s increasing military profile in India’s immediate and extended neighborhood<sup>43</sup>”, which includes Myanmar. In the last two years, Indian banks have been entering Myanmar, such as the United Bank of India, Bank of India and State Bank of India, in a deliberate effort made by the Indian government to push these state-owned banks into Myanmar in a parallel move as such made by China<sup>44</sup>. In contrast to the uneasiness felt by India, one expert from China views that the Myanmar-India relations are “not a real threat to China” and that “it is unlikely that Myanmar will promote bilateral or multilateral relations with India at the expense of China<sup>45</sup>”.

With China fears aside, India’s interests in Myanmar include access to natural resources as well as infrastructure development to serve its own 1.25 billion people, especially those in India’s northeastern states. For example, seven Indian companies are in the shortlist of 59 bids being considered by the Myanmar government for 18

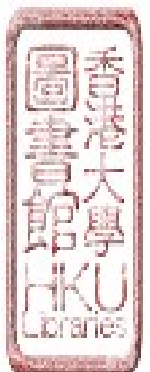
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<sup>42</sup> David I. Steinberg, *Burma/Myanmar, What Everyone Needs To Know*, Second Edition, Oxford University Press, (2013), p. 161.

<sup>43</sup> N C Bipindra and Natali Pearson, “India Says China Using Myanmar and Pakistan to Expand Foothold,” Bloomberg, March 19, 2015, accessed May 8, 2015, <http://www.bloomberg.com/news/articles/2015-03-19/india-says-china-using-myanmar-and-pakistan-to-expand-foothold>.

<sup>44</sup> Anup Roy and Remya Nair, “Indian Banks Make Inroads into Myanmar,” Live Mint, June 30, 2014, accessed March 20, 2015, <http://www.livemint.com/Industry/ttkm8D3Bts5r99m8qXyj4K/Indian-banks-make-inroads-into-Myanmar.html>.

<sup>45</sup> Yonghong Dai, “China and Myanmar: When Neighbours Become Good Friends,” East Asia Forum, March 6, 2015, accessed July 5, 2015, <http://www.eastasiaforum.org/2015/03/06/china-and-myanmar-when-neighbours-become-good-friends/>.



onshore natural gas blocks<sup>46</sup>. India is also aiming to modernize Myanmar's port of Sittwe and to develop the transit transport up the Kaladan River to Manipur, India under the Kaladan Multi-Modal Transit Transport Project<sup>47</sup>, which should provide better connectivity to Southeast Asia. Additionally, it is in Indian government's interest to deepen ties with Myanmar in order to integrate India's isolated northeast states which border Myanmar.

It is very likely that India will try to emulate the Chinese way of increasing cooperation in regional development, via projects that connect over the land borders and create regional economic ties. There are signs that there will be more opportunities for Indian influence in light of the public opposition of growing influence of China in Myanmar. For example, while a few of China's infrastructure projects have been suspended due to public opposition (i.e. Myitsone dam, Kunming-Kyaukpyu railway project), Indian projects (i.e. Kaladan Project) have been kept despite similar opposing views<sup>48</sup>. As suggested by the government-backed Indian think-tank IDSA, India may identify its "policy leverage" to be Buddhism given that it is one of the most powerful institution in Myanmar. IDSA analyzed that India must improve relations with Myanmar given its geographic importance, closer ties with a more influential China, and regional security concerns<sup>49</sup>. India may seek to continue

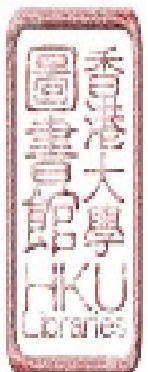
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<sup>46</sup> Ministry of External Affairs, "India-Myanmar Ties: Buddha, Business, and Bollywood," Government of India, August 20, 2014, accessed May 20, 2015, <http://mea.gov.in/in-focus-article.htm?23881/IndiaMyanmar+ties+Buddha+Business+and+Bollywood>.

<sup>47</sup> Ministry of Development of North Eastern Region, "Kaladan Multi-Modal Transit Transport Project," Government of India, accessed July 21, 2015, <http://www.mdoner.gov.in/content/introduction-1>.

<sup>48</sup> Jacob Goldberg, "Myanmar's Great Power Balancing Act," *The Diplomat*, August 29, 2014, accessed May 7, 2015, <http://thediplomat.com/2014/08/myanmars-great-power-balancing-act/>.

<sup>49</sup> P. Stobdan, "Things that Modi Should Do in Myanmar," Institute for Defence Studies and Analyses, November 10, 2014, accessed May 6, 2015, [http://www.idsa.in/idsacomments/ThingsthatModishoulddoInMyanmar\\_pstobdan\\_101114.html](http://www.idsa.in/idsacomments/ThingsthatModishoulddoInMyanmar_pstobdan_101114.html).



its influence over humanitarian assistance, as showcased by its US\$1 million relief for the earthquake in Myanmar's Shan State in March 2011, as well as US\$1.2 million assistance to the people affected by riots in Rakhine, Myanmar<sup>50</sup>.

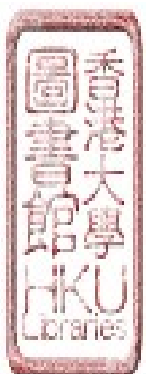
### **Myanmar-India Relations: Implications for Myanmar**

To Myanmar, India is also a key partner, as Myanmar will want to benefit from the growth of its two geographically close emerging powers, China and India, now top 3 biggest economies in the world by total GDP. India's US\$350 million financing package from Exim Bank is highly developmental and Myanmar would want such financing to be continued. The Myanmar government could use its geostrategic value and security interest to India as a key leverage to manage the bilateral relations to Myanmar's benefit. Better relations with India will allow Myanmar labor force to be utilized and for Myanmar companies to receive investments from growing Indian corporates. Also, from a diversification point of view, strengthening bilateral relations with India would be one way Myanmar can reduce its dependence on, and close association with, China. Experts at East-West Center also noted that strategic relationships with other foreign states, such as India, the U.S. and Japan, "offer Naypyidaw greater leverage against Beijing by emphasizing that Myanmar has other options<sup>51</sup>."

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<sup>50</sup> Ministry of External Affairs, "India-Myanmar Relations," Government of India, May 2014, accessed June 20, 2015, [http://mea.gov.in/portal/foreignrelation/myanmar\\_may-2014.pdf](http://mea.gov.in/portal/foreignrelation/myanmar_may-2014.pdf).

<sup>51</sup> Daniel Wagner, Georgio Cafiero, "Can China and India Coexist in Myanmar?" East-West Center Asia Pacific Bulletin, February 20, 2014, accessed July 16, 2015, <http://www.isn.ethz.ch/Digital-Library/Publications/Detail/?id=177141&lng=en>.

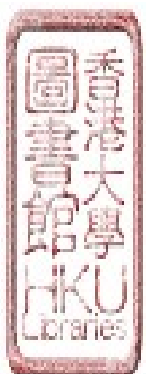




## China

### Background

Calling each other ‘Paukphaw’ (ie ‘Siblings’ in Burmese), both Myanmar and China have established strong ties for decades, especially during the time when Myanmar was isolated from the West. Sino-Myanmar relation is often seen and characterised as economic-centric relations, whereby China would explore resources and build infrastructure in Myanmar and Myanmar would benefit from increased trade and development projects. Relations have been warm until recently when Myanmar’s new government, led by Thein Sein, started carrying out reforms in 2010. China’s special



status is said to be challenged as Myanmar intends to diversify its relations with the rest of the world now.

Sino-Myanmar relations date back to China's Tang Dynasty in AD 849, when Myanmar was under the kingdom of Bagan. The kingdom was later invaded by Mogol-ruled China around 1287. The bilateral relations were rebuilt in 1950s after both countries became independent after suffering invasion by Japan. Notably, China was the first country Myanmar established diplomatic relations with after its independence and vice versa.<sup>52</sup>

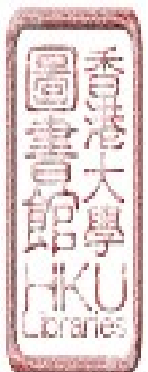
The two states, Myanmar and China, along with India, established the Five Principles of Peaceful Coexistence in 1950<sup>53</sup>, which formed the non-aligned movement and basis of Myanmar's international relations. The Five principles are: “(1) mutual respect for each other's territorial integrity and sovereignty, (2) non-aggression, (3) non-interference in each other's internal affairs, (4) equality and mutual benefits, and (5) peaceful co-existence and peaceful settlement of disputes.”<sup>54</sup> Despite temporary setbacks, such as the anti-Chinese riots in Myanmar during 1960s, the relations remained stable and further strengthened Myanmar became isolated from the West. The ties became even stronger after 1989 when China also became isolated due to the

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<sup>52</sup> Lixin Geng, “Sino-Myanmar Relations: Analysis and Prospects,” *the Culture Mandala* (2006): p.1-4.

<sup>53</sup> Juergen Haacke, “Myanmar: Now a Site for Sino-US Geopolitical Competition,” *London Business School of Economics IDEAS Reports* (2012): p.58.

<sup>54</sup> Ministry of Foreign Affairs, “Foreign Policy: The Five Principles of Peaceful Co-existence,” Government of Myanmar, accessed Jun 6, 2015, <http://www.mofa.gov.mm/foreignpolicy/fiveprinciples.html>.



Tiananmen incident.<sup>55</sup> Then, in the post-coup era since 1988, the most significant change was seen in Myanmar's policy towards China.<sup>56</sup> Some describe it as change from being "strategic neutrality" to "strategic alignment".<sup>57</sup> Since 2010, Myanmar has been moving towards diversified international relations and avoiding overdependence on China.

## **The Importance of China to Myanmar**

### *Economic Dependence*

While being isolated from the West since 1988, impounded by economic sanctions, Myanmar sought to maintain a close tie with China. The importance of China to Myanmar was anchored on the Chinese contributions in the form of trade, development assistance, and loans, including interest-free facilities.

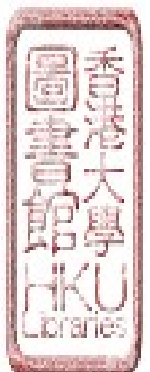
After Myanmar and China signed an economic and technical cooperation agreement in 1989, China's assistance ranged across key industries, including agriculture, manufacturing, and power generation. For example, China helped the Myanmar government to build "sugar mills, 20 hydroelectric plants, and 13 new factories, worth hundreds of million dollars. China deployed additional US\$346 million to upgrade 6 factories for the Ministry of Industry and provided 6 ocean-going vessels and

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<sup>55</sup> Geng, "Analysis and Prospects," p.5.

<sup>56</sup> Geng, "Analysis and Prospects," p.2.

<sup>57</sup> Kim Shee Poon, "The political economy of China-Myanmar relations: Strategic and Economic dimensions," The International Studies Association of Ritsumeikan University: Ritsumeikan Annual Review of International Studies (2002): p.34.



assistance to construct a dry dockyard.”<sup>58</sup> In 2003, during the visit by Senior General Than Shwe in China, China provided a grant of RMB 50 million and a loan of US\$200 million as preferential buyer’s credit, to finance a combine harvester plant in Ingone and three hydroelectric plants<sup>59</sup>. More recently, Chinese companies have entered Myanmar to build hydropower plants, reinforced by the Chinese government loan of US\$200 million to construct the Yeywa hydropower plant in particular.<sup>60</sup>

According to the Asia Research Institute, “exports to China increased by more than two times between 1989 and 2005, imports from China increased by five times. Foreign direct investment has increased from US\$194 million to more than US\$1 billion. Loan from China was up to about US\$140 million by 2005. It was used for numbers of infrastructure projects such as building bridges, the Yangon-Thanlyin Rail-cum-Road Bridge and installing Satellite Communication Earth and Satellite TV Ground Stations.<sup>61</sup>”

### *Political Relations*

Apart from economic assistance, China also provides Myanmar significant political support, especially pertaining to Myanmar’s military regime. According to the UN data, “China delivered US\$5.9 million worth of military equipment to Myanmar under a trade category entitled “tanks and other armored fighting vehicles”, and

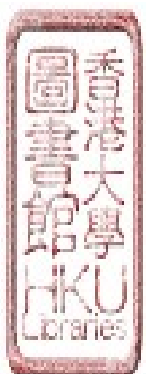
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<sup>58</sup> Billy Tea, “China and Myanmar strategic interests, strategies and the road ahead,” Institute of Peace and Conflict Studies (2010): p.8.

<sup>59</sup> Tea, “the road ahead,” p.8

<sup>60</sup> Tea, “the road ahead,” p.6.

<sup>61</sup> Billy Tea, “China and Myanmar strategic interests, strategies and the road ahead,” Institute of Peace and Conflict Studies (2010): p..



US\$3.4 million of “military weapons in 1998.” Plus, the Chinese army provided technical training on the use of weapons.”<sup>62</sup> Furthermore, China has shown support to Myanmar’s junta regime in the international public, when it did veto a resolution drafted by UN to condemn Myanmar’s human rights violations.<sup>63</sup>

Supporting Myanmar’s junta regime was in China’s interests, as the regime tried to exchange country’s natural resources and investment opportunities for the regime legitimacy. From China’s perspective, the political support was in line with its foreign policy of non-interference of other countries’ domestic affairs. For Myanmar, “the future of Sino-Myanmar relations would be characterized by a stability of the Junta’s legitimacy.”<sup>64</sup> This had been Myanmar’s foreign policy until 2010 when new government decided to open up its country. So today’s issue on Sino-Myanmar’s relations will be on whether the long established sibling relationship will be challenged when Myanmar will no longer solely depend on China. Therefore, China’s importance to Myanmar may decrease, if not overnight, but gradually. To understand the situation, we have to look into China’s interest in Myanmar in the past decades.

### **China’s Strategic Interests in Myanmar**

The Chinese foreign policy is based on the objective to acquire capital, technology, resources and markets for its growing economy and population.<sup>65</sup> A stable relationship

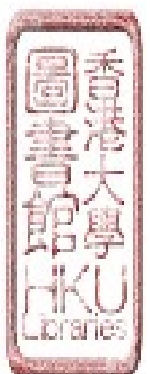
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<sup>62</sup> David I. Steinberg, *Burma/Myanmar: What everyone needs to know* (New York: Oxford University Press, 2010), p.84.

<sup>63</sup> Tea, “the road ahead,” p.8.

<sup>64</sup> Tea, “the road ahead,” p.3.

<sup>65</sup> Robert Sutter, “Myanmar in Contemporary Chinese Foreign Policy – Strengthening Common Ground, Managing Differences,” in *Journal of Current Southeast Asian Affairs*, 31, 1, p.30.



with Myanmar provides China with border security as well as economic interest which benefits Chinese companies especially state owned enterprises. Myanmar is important to China as it exports raw materials and commodities to China and import products made in China such as electrical appliances and pharmaceutical products etc. The location of Myanmar is also important as it helps China to gain access to the Indian Ocean and depend less on the Malacca Strait.<sup>66</sup>

Realists doubt the intention of China and see rising China as a threat to the region and world, whereas liberalists welcome the cooperation of countries within the region and think that regional trade can reduce the tension and threat among themselves. It will benefit both Myanmar and China, as increased economic cooperation results in a win-win situation. Myanmar matters to China also because of its strategic location, providing security buffer for China.

## **Myanmar's Importance to China**

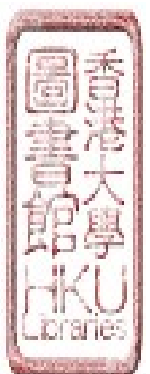
### *Natural Resources*

Natural resources are essential for a growing economy like China. China's growing population and demand for daily necessities trigger a concern about whether the Chinese economy can self-sustain. It was estimated that China will need to import three quarters of its oil requirement by 2015.<sup>67</sup> Therefore, China has to reach out to other countries to obtain natural resources; Myanmar is a key country in this regard.

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<sup>66</sup> Tea, "the road ahead," p.8.

<sup>67</sup> Tea, "the road ahead," p.6.



Infrastructure development was initiated and encouraged by China's "Go West Policy" in 2000. China's infrastructure development also flourished trade and investment in the nearby regions; for example, demand for goods from Myanmar has been on the rise as China increased its infrastructure investment in the Yunnan Province which borders Myanmar. Myanmar is a large market for Chinese goods and Myanmar is Yunnan's largest trading partner; 55% of Myanmar's total sales came from the border trade between Myanmar and Yunnan and 80% of Myanmar's exports go to China.<sup>68</sup>

As noted earlier, mining, oil, gas, and hydropower are some of the projects that China has invested in. Gold and timber reserves also make Myanmar an important economic asset beyond China's geopolitical interests. Up until now, China has built at least 30 dams to capture hydroelectric power from Myanmar's untapped river.<sup>69</sup> China also signed an agreement with Myanmar's Ministry of Energy whereby Myanmar is to sell 6.25 trillion cubic feet of gas from its Rakhine Coastline reserves to China's Yunnan province for the next 30 years.<sup>70</sup> China also has maintained bilateral relations with ethnic groups in Myanmar to counterbalance junta's interest within the country.<sup>71</sup>

### *Security Buffer*

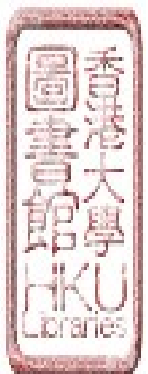
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<sup>68</sup> Tea, "the road ahead," p.6.

<sup>69</sup> Steinberg, Burma/Myanmar, p.154.

<sup>70</sup> Maung Aung Myoe, In the name of Pauk-Phaw: Myanmar's China policy since 1948 (Singapore: Institute of Southeast Asian Studies, 2011), p.164.

<sup>71</sup> Tea, "the road ahead," p.5.



China considers Myanmar as an important ally, given that the two countries share similar values and patterns in human rights, freedom of speech, and democracy. In fact, the two countries have been frequent targets of the West's criticism on these fronts. In terms of regional security, Myanmar is important to China as it is strategically located between China and India, thereby serving as a security buffer.

The “Malacca dilemma” refers to China's excessive reliance on the strait for its oil transportation (i.e. 80% of total oil supply)<sup>72</sup>. Maritime terrorism and piracy are therefore concerns to China, as well as influence of other powers over the strait. Therefore, China has moved quickly to deepen its strategic ties with Myanmar, as it provides an alternate route through the Indian Ocean.<sup>73</sup> Political analyst Christopher O'Hara stated, “China wants what Myanmar has — Indian Ocean access and abundant natural resources to support its rise.”<sup>74</sup> The previously mentioned gas pipeline project in Rakhine enables China to reserve more than 20 million tons of crude oil a year (from the Middle East) – accounting for nearly 10% of total crude oil imports.<sup>75</sup>

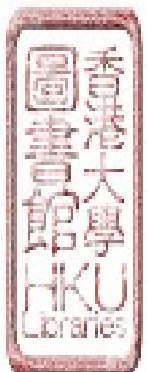
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<sup>72</sup> Shashank Joshi, “Can India Blockade China?” *The Diplomat*, August 12 2013, access: June 20 2015, <http://thediplomat.com/2013/08/can-india-blockade-china/>.

<sup>73</sup> Tea, “the road ahead,” p.6.

<sup>74</sup> Donghong Dai, “China and Myanmar: When neighbours become good friends,” *East Asia Forum*, March 6 2015, accessed June 17 2015, <http://www.eastasiaforum.org/2015/03/06/china-and-myanmar-when-neighbours-become-good-friends/>.

<sup>75</sup> Motokazu Matsui, “Myanmar's strategic location attracts China's energy giants,” *Nikkei Asia Review*, May 1 2015, accessed July 20 2015, <http://asia.nikkei.com/Business/Trends/Myanmar-s-strategic-location-attracts-China-s-energy-giants?page=2>.





Moreover, the Bangladesh-China-India-Myanmar (BCIM) Economic corridor helps improve China's access to the Indian Ocean channel.<sup>76</sup> From central government to provincial government, China is trying to pursue different interests in Myanmar. In pursuing these interests, China will have to bear in mind the potential threats to stability from the ethnic minorities living around the China-Myanmar border. The south-western frontier of China was at risk when there was the Kokang Incident which caused the loss of life in 2009.<sup>77</sup>

### *China's Emerging Concerns*

With the West lifting sanctions on Myanmar after 2010, China is increasingly aware of other states' interference in Myanmar and is concerned about China's diminishing influence. For example, India has moved to strengthen its security relations with Myanmar through "Look East Policy" to counter China. India views "China's energy trade route with Myanmar is entering its own backyard."<sup>78</sup> The U.S. has also increased its engagement with Myanmar as part of the Asia rebalance strategy, building a "c-shaped ring of encirclement" around China. China has perceived this new American interest in Myanmar as a threat to China's established role in the country, and has tended to view the dynamic in zero-sum, competitive terms. The move by the U.S. is seen by China as "harmful to its interest".<sup>79</sup> Given Myanmar's significance as

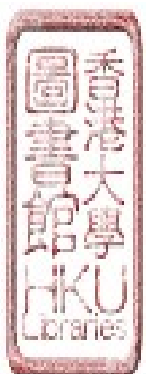
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<sup>76</sup> Donghong Dai, "China and Myanmar: When neighbours become good friends," East Asia Forum, March 6 2015, accessed June 17 2015, <http://www.eastasiaforum.org/2015/03/06/china-and-myanmar-when-neighbours-become-good-friends/>.

<sup>77</sup> Loreen Tsin, "China and Myanmar: Beijing's conflicting role in the Kachin peace process" (Report, Mercator Institute for China Studies, 2014).

<sup>78</sup> Dai, "China and Myanmar."

<sup>79</sup> Yun Sun, "Myanmar in US-China Relations," Great powers and the changing Myanmar (2014):1-14.



a strategic bugger for China, the increasing influence of the U.S. in Myanmar should be a top security concern, making it imperative for China to maintain strong Sino-Myanmar relations. The concern was evident in the visits by three members of the Politburo Standing Committee to Myanmar since 2009 to sign deals on construction, mining and hydropower with Myanmar.

### **Strategy for Myanmar**

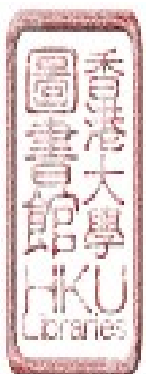
From China's foreign policy perspective, the stability of Junta regime would provide stability for Sino-Myanmar relations given Myanmar had been isolated and needed to depend on China. However, situation has changed since Myanmar showed its interest in engaging the West. In fact, Sun Yun views that China was "the most important negative incentive that promoted changes inside Myanmar."<sup>80</sup> The failure to reform would have prolonged Myanmar's international isolation and deepen its overdependence on China.

From Myanmar's foreign policy perspective, however, overdependence on China is said to put Myanmar at a highly disadvantaged position.<sup>81</sup> There have always been issues about Myanmar's natural resources are being exploited. The existing power generation projects funded by China appear to benefit the Chinese provinces only, without any evidence that the projects will help Myanmar's power shortage problem. Myanmar should consider the permanent environmental and social impacts brought on by the Chinese infrastructure projects. However, this would then be viewed by the

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<sup>80</sup> Yun Sun, "China and the changing Myanmar," *Journal of current Southeast Asian Affairs* (2012): 62.

<sup>81</sup> Sun, "China and the changing Myanmar," p.57.



Chinese as challenges to Sino-Myanmar relations as China can no longer be the exclusive for projects/investments.

Aung San Suu Kyi did mention her view on China after her release in 2010, *“China is a very important neighbor of our country, and should not be regarded as an enemy by us”*. *She knows that if she wants to participate in Myanmar’s politics, she needs China’s support to some degree. and she doesn’t want to be an enemy of China.*”<sup>82</sup>

Being an important trade partner and neighbor to China, Myanmar does not want to offend China but at the same time, cannot give away too much. Sending the right message without hurting the trust is what Myanmar has to think about going forward.

During Hilary Clinton’s visit to Myanmar, Ang San Suu Kyi mentioned about China and told that world that it would keep a friendly relationship with its neighbour.<sup>83</sup>

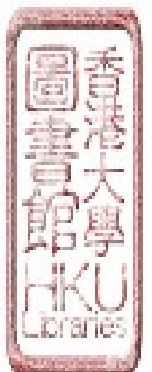
There is a high chance that economic ties will continue to be strong but priority will now be shifted to countries/companies which take care of people and country’s interest. Therefore, the old strategy of exchanging country’s resources for the support of the junta’s regime will eventually fade.

When issue such as South China Sea dispute arises, Myanmar has been one who speaks up for China’s interests within ASEAN. When facing issue such as “one-China” policy on Taiwan, Myanmar supports China. While ASEAN’s policy is more aggressive on regional security issues, Myanmar’s less reactive and rather mild

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<sup>82</sup> Shihong Bi, “The Economic Relations of Myanmar-China,” p.183.

<sup>83</sup> Shihong Bi, “The Economic Relations of Myanmar-China,” p.183.



when the issue is concerned with China. If engaging more internationally and depending less on China has become the direction of Myanmar's policy, Myanmar will be better off bandwagoning with ASEAN on security issue while maintaining economic ties with China like many other ASEAN members do.

### **Conclusion: Outlook on Sino-Myanmar Relations**

To reiterate and reassure the good relationship with China, Myanmar's new government and China signed a joint statement concerning strategic cooperative partnership in 2011.<sup>84</sup> This is a positive sign for China that Myanmar indeed wants to maintain the good relationship with China.

China has always believed that carrying out pragmatic foreign policy and investing in the country would enhance the relations between two countries, but Myanmar has been concerned about foreign influence and external interference. There is a clear need for Myanmar to diversify its foreign relations eventually.<sup>85</sup> Nowadays, with the lift of sanctions, Myanmar has more room to develop relations with other countries and depend less on only a few countries.

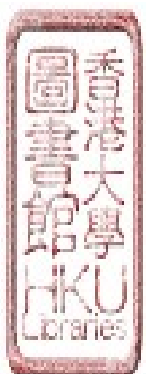
One would agree with Maung Aung Myoe, that neither the sinocentric world order of tributary relations nor the Wesphalian world order of sovereign equality can adequately define the nature of the Sino-Myanmar relations.<sup>86</sup> Myanmar is in an

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<sup>84</sup> Shihong Bi, "The Economic Relations of Myanmar-China," p.183.

<sup>85</sup> Myoe, In the name of Pauk-Phaw, p.184.

<sup>86</sup> Myoe, In the name of Puak-Phaw. p.184.

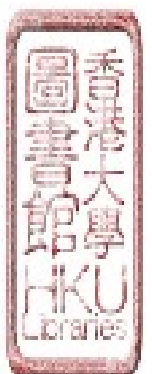


asymmetric relationship with China and now, Myanmar is in the right direction to 1) continue to be China's pauk-phaw, 2) bandwagon ASEAN community for security issue and 3) diversify its relations.

With Myanmar opening further to the West and decreasing investment from China in relative terms, the relations between China and Myanmar may become challenging. However, if the benefit of diversifying relations outweigh the cost of over-dependence on China, Myanmar will eventually benefit from the new shift. Maintaining economic ties in China would be advantageous but not at the expense of people's and country's interest.

## Japan

### Background



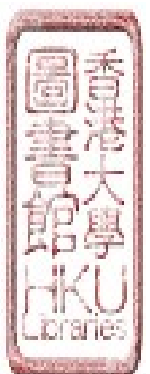
Japan has taken very different approaches to Myanmar in the past than the U.S., China, India and these differences have shaped Japan's various policies over time. Japan invaded Burma during the World War II effectively ending the British colonial rule, in the fighting where nearly two-thirds of all Japanese soldiers were killed. In the post-war period, Japan felt a special obligation to Burma, consistently providing generous assistance and not imposing sanctions on the country's successive military governments. Over the years, Japan has been by far the largest foreign donor to Burma, providing about US\$2.2 billion through 1988<sup>87</sup> and adding significant humanitarian assistance and debt relief in later years.

The Burmese government also saw Japan as a major partner, as part of its "Look East Policy". However, upon the military putsch in 1988, the Japanese economic relations were severely affected for three reasons. First, under the Japanese law, any change in government to that magnitude requires Japan to re-recognize the country and that caused years of red tape and political delay towards Myanmar. Second, Than Shwe was less inclined than its predecessor to view Japan as an important partner. Third, the U.S., not surprisingly, placed a great deal of pressure on Tokyo to observe the sanctions, to disengage from Myanmar. As a result, Japan went from being a major economic partner to a minor one in a very short time.

Today, Japan is very supportive of the developments in Myanmar, such as its bold moves towards inclusive political participation, release of political prisoners, as well

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<sup>87</sup> Rong Wang, *Annual Report on the Development of International Relations in the Indian Ocean Region (2014)*. Aufl. 2015 ed. Berlin, Heidelberg: Springer Berlin Heidelberg, 2015, p.93.



as key economic reforms, allowing trade unions to form, easing media restrictions and more. Japan recognizes that Myanmar needs international support to succeed in its reform and therefore is willing to engage more. Japan can best assist Myanmar and its continued development, as Myanmar transitions from a military government to a quasi-civilian government. In fact, Myanmar constitutes a major targeted assistance program by Japan and it is largely due to the potential Japan sees in Myanmar from economic and strategic perspectives, and in terms of improvements in human rights and democratization.

## **Myanmar's Importance to Japan**

### *Obtaining Access to Oil and Gas*

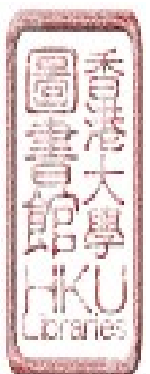
Japan is the fourth biggest oil importing country after the U.S, China and India,<sup>88</sup> and ranked the fifth-largest energy consuming country, with oil consumption of nearly 4 million barrels per day in 2013.<sup>89</sup> Lacking of crude oil, natural gas, and some other energy resources, 40 percent of its oil and gas is imported. In March 2011, the triple disaster overnight effectively took 30 percent of Japan's electrical power from nuclear reactors offline, and possible power shortages.<sup>90</sup> In response to this challenge, Japanese policymakers and consumers have realized the need for the country to end its reliance on nuclear power and import certain amounts of oil and gas from other countries.

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<sup>88</sup> "The WORLDFACTBOOK." Central Intelligence Agency. Accessed July 19, 2015.

<sup>89</sup> "Global Energy Statistical Yearbook 2015." World Energy Statistics. Accessed July 19, 2015.

<sup>90</sup> Janowski, Tomasz. "Factbox: Japan's Looming Nuclear Shutdown and Possible Impact." Reuters. July 22, 2011. Accessed July 19, 2015.



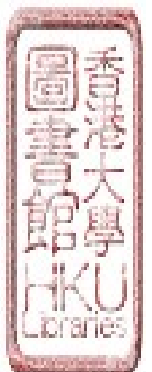
When considering the potential for obtaining more oil and gas for Japan, Myanmar truly is the last great frontier; the country earned US\$3 billion from the export of gas during the year of 2014.<sup>91</sup> Responsible oil and gas development and exploration in Myanmar should be allowed to advance, having access to a secure supply of energy is crucial to Japan's prosperity and stability. Japan should be promoting policies and working aggressively to promote those policies that ensure that Japan's energy supplies are both abundant and affordable.

Some suggest that it might not be safe, economical to explore and to produce oil and gas in the region, but the fact is that it is already happening. The technology and the engineering behind some of the existing and proposed activities are advancing rapidly and Japan is struggling to jump-start its own nuclear development. As discussed earlier, Myanmar's neighbors, such as China and India, are actively capitalizing on the country's untapped potential, making significant investments in the region. An example is the Sino-Burmese pipeline project; the new pipeline will serve as an alternative route for crude oil imports from Africa and the Middle East, allowing China to be less dependent on the Strait of Malacca for its oil supply.<sup>92</sup> The pipeline will also bring crude oil to Myanmar and is expected to create abundant work opportunities for people in both Myanmar and China. Despite recognizing the

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<sup>91</sup> "Industrial Products Leading in Myanmar Exports | Myanmar Business News." Myanmar Business News Industrial Products Leading in Myanmar Exports Comments. March 19, 2015. Accessed July 19, 2015.

<sup>92</sup> Yangrong Zhou and Du Juan, "Pipeline Boosts Energy Security." Data:blog.title. January 29, 2015. Accessed July 19, 2015.





strategic importance of Myanmar to the national and the economic security of Japan, Tokyo has moved slower to increase its presence in Myanmar so far, compared to others.

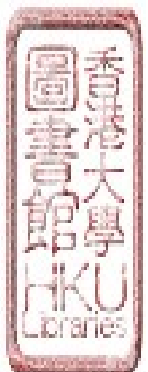
Myanmar has set a very ambitious goal of increasing production to millions of barrels a day and Japan will also have the vision to develop such a policy; this is something that Japan should be moving forward with. Recently, one of the largest Japanese oil exploration companies, Mitsui Oil Exploration Company has signed production and exploration sharing contracts with Myanmar Oil and Gas Enterprise for three deep-sea blocks for the first time. Under this agreement, Japanese companies acquired exploration and development rights in the Rakhine Basin, and the Thanintharyi Basin which cover more than 20,000 square kilometers, located 300 kilometers offshore in depths between 1800 and 2700 meters.<sup>93</sup> Japan is making the case for this strategic importance of Myanmar to Japan for energy, national, homeland security and for the incredible economic benefits that Myanmar can bring to Japan. Japan should be able to develop these resources for the good of the people of Japan.

### *Infrastructure*

Myanmar is experiencing some of the most significant changes since its independence in 1948. Myanmar was isolated from the outside world for decades and the new development path is expected to be a long and hard process for the country. There are positive signs too; the increased international focus on Myanmar has translated into

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<sup>93</sup> Shin, Aung. "The Myanmar Times." Shell Plans Exploration after Offshore Contract. February 9, 2015. Accessed July 19, 2015.

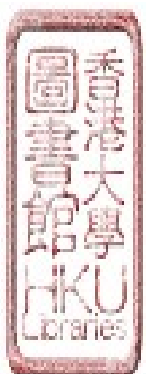


increased business interest in Yangon. There are a number of Japanese companies interested in Myanmar, and many more are in active scoping mode at this stage. There are always risks for foreign investors to do business in Myanmar, but the international commercial interest is very strong because of the Myanmar government clearly declared commitment to reform. The commercial interest reflects Myanmar's attractiveness, as a resource-rich country of around 60 million people,<sup>94</sup> strategically located between India and China and the rest of Southeast Asia. As the Myanmar government decided to open up economically and politically, Japan is looking to take the opportunity to invest and expend its development assistance in Myanmar.

The biggest difficulty facing Myanmar as an emerging target for foreign investment is infrastructure, not just the physical hardware, but also the software, such as human capital. Myanmar has not had the ability to invest in its hardware in roads, bridges and imports and moving goods around the country logistically is quite challenging, time consuming and costly. At the same time, human infrastructure is limited, as the country was cut off from the outside world and the education system has been underfunded and restricted. There is a very small talent pool of people who are familiar in dealing with outside parties and how international business is done and that pool typically consists of people who are over the age of 60 who were educated and exposed to very different Burma and people who are younger, under the age of 30 who have had the opportunity to study and work abroad and have come back to

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<sup>94</sup> "About Myanmar | US-ASEAN Business Council." About Myanmar | US-ASEAN Business Council. June 5, 2015. Accessed July 19, 2015.



Myanmar.<sup>95</sup> There is a generational gap of people who were raised in the up until very recent system, the military-dominated government, who did not have exposure to the outside world and could not get a proper education, so this human capital issue in addition to the lack of physical facilities to warehouse or transport goods. These are the key challenges that Myanmar is facing today, as the overall infrastructure needs to be improved before global companies can set up operations.

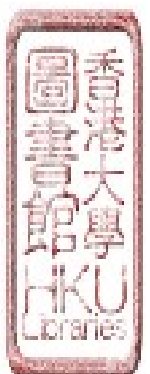
Water shortage is another major issue in Myanmar and the growing demand for water with the social development is part of the problem. In Myanmar, water is getting scarcer not only in rural areas, but also in downtown Yangon, where less than 10 percent of the population is concentrated. The water available from nearby rivers, dams and lakes is only enough for half of Yangon's population and individuals have to compete with factories for water in one of the Myanmar' largest cities.

Japan has been very active in developing infrastructure in Yangon, utilizing the Japan International Cooperation Agency (JICA) as a platform to provide official development assistance (ODA). Japan has been involved in projects relating to waterworks, hospital upgrades, and bridge construction and providing technical assistance with the Yangon port facilities.<sup>96</sup> To address the water shortage, JICA signed the ODA loan agreements with Myanmar to lend around 63 billion yen (\$507

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<sup>95</sup> Toshihiro Kudo, "One Year of Myanmar's Thein Sein Government: Background and Outlook of Reforms," Ido.go.jp, May 1, 2012, accessed July 19, 2015, [http://www.ido.go.jp/English/Research/Region/Asia/pdf/1204\\_kudo\\_en.pdf](http://www.ido.go.jp/English/Research/Region/Asia/pdf/1204_kudo_en.pdf).

<sup>96</sup> "Technical Cooperation Projects." (On-going and Planned (R/D Signed) , as of July 2015). Accessed July 19, 2015.



million) for the Greater Yangon Water Supply Improvement Project,<sup>97</sup> to be expanded into Yangon's surrounding suburbs and other neighboring communities, including the Thilawa Special Economic Zone to improve the water supply services, and contribute to economic development.

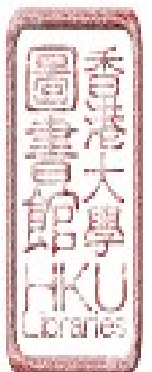
Many Japanese firms have also reintegrated into Myanmar, such as Sony, Mitsubishi, and Suzuki and they have increased investments and projects. According to the Ministry of Information of Myanmar, Suzuki recently was allowed to build a second car factory in Myanmar.<sup>98</sup> Suzuki will hire more than 300 workers and invest at least US\$8 million. Moreover, Japanese mobile service providers, NTT DoCoMo and Telenor both have a very strong presence in the country and have been very active in telecommunications since 2012. For example, both companies are planning to boost their network capacity in the country nine fold.

Apart from infrastructure projects, Japan has been continually giving development aid to Myanmar. For example, since Myanmar became independent from the British in 1948, the number of people using the network has increased sevenfold, putting pressure on rail infrastructure. The speed of freight trains is strictly limited to 12-14km/h, and trains are impassable during the monsoon season due to poor track quality and conditions. Japan agreed to provide aid to update the railway connecting two of the largest cities in Myanmar, Mandalay and Yangon due to the growing

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<sup>97</sup> "Press Releases." Signing of Japanese ODA Loan Agreement with the Republic of the Union of Myanmar. September 5, 2014. Accessed July 19, 2015.

<sup>98</sup> "Suzuki to Build Second Plant in Myanmar, Report." Suzuki to Build Second Plant in Myanmar, Report. April 6, 2015. Accessed July 19, 2015.



economy and population and the use of rail transport increases.<sup>99</sup> The Yangon-Mandalay Railway Improvement Project was part of the 2014 ODA loan agreement which provided more than 60 billion yen to Myanmar. The project is designed to address Myanmar's essential needs, improving lives of rural residents and providing a key service of which people in Myanmar can afford.

### **Economic Cooperation**

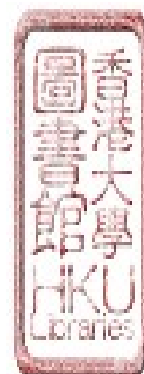
Japan has actively advanced cooperation with Myanmar in aid and economic assistance. In May 2013, Japan agreed to write off about US\$2 billion in Myanmar's remaining debt to Japan. Meanwhile, Japan also agreed to provide a loan of over 51 billion yen's Official Development Assistance. Of the ODA loan, Japan will provide up to 20 billion yen (US\$161 million) for the Thilawa Special Economic Zone project, the site of the future industrial zone, 25km south of Yangon, repayable over 40 years at 0.01 percent interest.<sup>100</sup> The money will help with electricity infrastructure in the area and an expansion of the port.

Prime Minister Shinzo Abe's visit to Myanmar was even more ambitious in November 2014, where he agreed to provide loans for a number of projects in total of 26 billion yen (US\$209 million). Moving beyond the largest city, Japan also had new development projects announced in the areas of improving communications in the new capital Naypyidaw, all kinds of road construction equipment in the north,

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<sup>99</sup> "Press Releases." Signing of Japanese ODA Loan Agreement with the Republic of the Union of Myanmar. September 5, 2014. Accessed July 19, 2015.

<sup>100</sup> Maiko Ichihara, "Japan's Faltering Support for Burmese Democracy." January 20, 2015. Accessed July 19, 2015.



enhancement of television programs and broadcast editing equipment of the state television broadcaster, Myanmar Radio and Television, as well as the establishment of disastrous weather monitoring system.

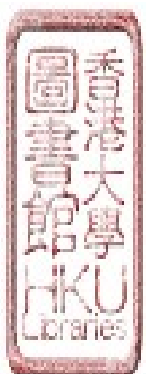
In April 2015, Myanmar's government decided to end a 50 years ban on foreign banks operating in the country and announced that it was going to open up nine positions for foreign banks, specifically in the area of corporate banking. Three of the banks that were chosen were from Japan, specifically the Bank of Tokyo-Mitsubishi UFJ, Mizuho bank and Sumitomo Mitsui, a Chinese bank was also chosen, the Industrial and Commercial Bank of China (ICBC). Other banks that were chosen were from Singapore, Australia and other parts of Southeast Asia including Malaysia and Thailand.<sup>101</sup> There is a lot of anticipation in Japan when the area of financial services is very likely to grow with an increase in FDI.

### **The China Factor**

During the period when the U.S. placed economic sanctions on Myanmar, China was especially active in Myanmar, launching projects aimed at promoting Chinese economic development. Indeed, in recent years, China has provided more FDI in Myanmar than any other country and an unknown but significant amount of smaller-scale private mostly undocumented investment. In addition to the gas pipeline project, the largest Chinese project in Myanmar, other major projects include the

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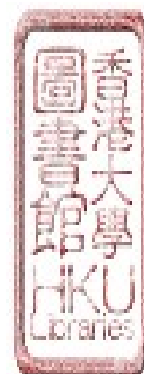
<sup>101</sup> Michael Peel, "Myanmar Opens Doors to Foreign Banks," Financial Times, October 1, 2014. Accessed July 19, 2015.



Yunnan–Burma Railway and the Myitsone Dam which was halted by President Thein Sein in September 2011.

Japan had always been more concerned about the Chinese influence in Myanmar than was the U.S., and this concern motivated Japan to continue the assistance programs in Myanmar even as the U.S. cut all aid and imposed comprehensive sanctions. The U.S. meanwhile considered its direct engagement with China, such as economic, business, political and military for that bilateral relationship and it was less concerned with China's actions in Southeast Asia. With China's rise, however, the U.S. has become more sensitive to Beijing's influence in Myanmar. That sensitivity played a major role in the U.S.' decision to lift its sanctions partially in 2012. China's aggressive behavior in the Indian Ocean and the South China Sea has also brought greater attention and provided a broader context to China's actions in Southeast Asia.

China has viewed the U.S.' move to improve relations with Myanmar and increased Japanese assistance as part of the second containment policy following the first during the Cold War period. As a result, the views of Japan and the U.S. on the importance of offsetting China's influence in Myanmar have aligned more closely. At the same time, Myanmar's attitudes towards the Chinese influence have hardened; the change was seen in Thein Sein's move towards democracy and his desire to diversify Myanmar's economic relations away from China. Most dramatically, the effort to lessen Chinese influence resulted in the suspension until later this year of the



Myitsone Dam project. Myanmar has also significantly slowed the rail project and has operated the pipeline that operate between two countries far below capacity.

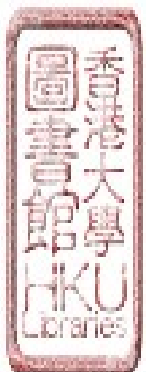
Myanmar is determined to retain its independence from the powerful check against any country, such as China, the U.S., and Japan, from achieving excessive influence. Myanmar knows how to maintain its independence from maneuvering among larger countries during the Cold War era, as Burma was the quintessential neutral country and U Thant became UN Secretary General in 1961 based on this reputation.<sup>102</sup> The background of geopolitical competition of jockeying and jostling is interesting, however, Japan and the U.S. should make their policies based on smart, coordinated actions to assist Myanmar and its political and economic development rather than thinking primarily in terms of trying to check China's actions directly.

### **National Security**

The geostrategic importance of Myanmar serves as a premier gateway to the Southern China, Southeast Asia, and the Indian Ocean, this has put the country a target of China's intervention, such as recent development of deep-water ports, pipelines and roads. Meanwhile, Japan has become increasingly concerned about China's assertive behavior in the region such as its growing military capabilities. Japan's top priority in its relations with Myanmar is to strengthen security cooperation. Increased cooperation between the two countries is built on common interests and national security considerations. There have been a number of exchange visits between

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<sup>102</sup> "UN Secretary-General U Thant." UN Secretary-General U Thant. Accessed July 19, 2015.





military officers from Japan and Myanmar to further develop relations for future defense cooperation. For example, in May 2014, Japan's military chief, Gen. Shigeru Iwasaki met with the President of Myanmar in Yangon for the first time since the end of World War II, and they reaffirmed their mutual security interests, to increase exchanges at every level as well as consultation on humanitarian assistance.<sup>103</sup>

The current Japanese Prime Minister Abe visited Myanmar twice already, whereas in the previous decade, Japan had no ministerial visits. Also, Japan invited the President and Aung San Suu Kyi to visit Japan.<sup>104</sup> A significant achievement on these visits was a gentle opening of an engagement with the Myanmar military, which is very important because for all the reforms and the progress that have been made on the peace process with the ethnic nationalities, this engagement had been missing. For Japan to actually forge ahead with this, as Indonesia has also done in the past over the years, is to demonstrate that it is possible to engage with the military directly; this is going to be very important for the Japanese national security.

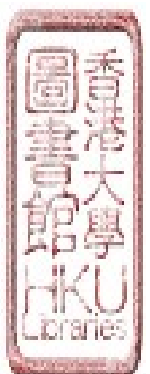
### **Conclusion: Japan-Myanmar Relations**

Japan enjoys a greater degree of trust within Myanmar both at the national level and in the individual locations where Tokyo has provided relief and fostered development. However, the Japanese approach is limited by an absence of pressure on Myanmar's

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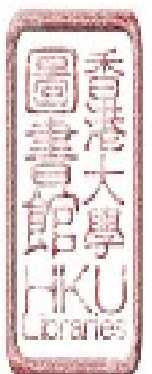
<sup>103</sup> Kyoko, "Japan, Myanmar to Boost Defense Ties | The Japan Times." Japan Times RSS. May 29, 2014. Accessed July 19, 2015.

<sup>104</sup> "Visit to Myanmar by Prime Minister Abe." Ministry of Foreign Affairs of Japan. May 27, 2013. Accessed July 20, 2015.



government to change its repressive policies and improve democratic institutions, although Japanese representatives have quietly counseled Myanmar's leaders to change and in some cases have made progress on specific issues. However, a lack of consistent pressure on the authoritarian regime has allowed Myanmar in many cases to take Japan's assistance for granted. It is not enough for Japan to continue to provide assistance without using its enormous influence to help move Myanmar towards a truly democratic institution that protects rights and freedom for its people and provide them a better life. Japan needs to adopt more urgency in keeping Myanmar on the road of openness and democracy.

Democracy is not easy to establish through a process of reform and there will be conservative backlash as evidenced in the military coup in Thailand in 2006. Japan is a very pragmatic player in the region, it tends to be the country that works in a very quiet, subtle way, making way through cooperation and engagement. The leader of the opposition should be very cautious and lower their expectations. With Myanmar's decision to move away from the military regime towards more open democratic governance, the contrast between American policies on the one hand and Japanese policies on the other hand has narrowed and the chances for cooperation and complementarily have grown.



## ASEAN

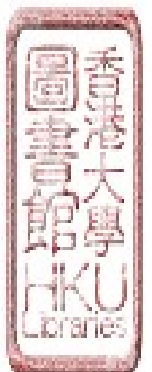
### **What is ASEAN?**

ASEAN (The Association of Southeast Asian Nations) is an important regional organization which was established in 1967 in Bangkok, Thailand with the founding members, Malaysia, Indonesia, Philippines, Singapore and Thailand. After the 1980s, Brunei Darussalam, Vietnam, Lao PDR joined ASEAN one after another. Myanmar became a member in 1997, followed by Cambodia two years later, completing the 10-member association today.

The basis of ASEAN was to protect security threats from internal communist insurgencies and external regional threats. All of the member countries suffered from internal insurgencies and regional threats from ethnic conflicts. The leaders managed to create a “great wall” to pursue their mutual interest. Meanwhile, to balance the external interests, they wanted to make a platform to counter foreign powers.

### **Myanmar-ASEAN Relations**

Myanmar-ASEAN relations are mutually independent and interrelated from the past to now. As mentioned earlier, on July 23rd 1997, ASEAN officially accepted Myanmar as a member. The geographic proximity, cultural similarities and

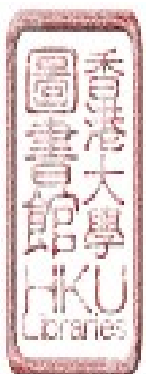


comparable security situation of Myanmar impelled ASEAN's original members to invite Myanmar to participate in the existing union. Myanmar was also suffering from a communist insurgency, at the same time, affected by foreign power intervention. Since Myanmar joined ASEAN, ASEAN has suffered pressure from the West on Myanmar issues. For example, in 2005, by U.S. Secretary of State Condoleezza Rice decided not to attend the 2005 ASEAN Post Ministerial Conference and ASEAN Regional Forum (ARF) meetings with a "scheduling conflict" excuse, and the outside world viewed this behavior as the U.S. dissatisfaction with how ASEAN dealt with Myanmar issue.

Myanmar and ASEAN's complicated relations began in 1967, when ASEAN was first established. At that time, ASEAN invited Myanmar to join the association, but Myanmar refused to because it was afraid to lose its neutrality as a member of Non-Aligned Movement. Because some of the ASEAN states were also in SEATO (Southeast Asia Treaty Organization), if Myanmar were to join ASEAN, Myanmar would hurt its neutrality status. As Kavi Chongkittavorn notes, "at that time, Rangoon said that it did not want to join ASEAN, which was seen as an imperialist organization given its policy of neutrality."<sup>105</sup> For the following decades, Myanmar disassociated itself from ASEAN.

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<sup>105</sup> Chongkittavorn K, "The Evolution of Constructive Engagement", in From Consensus to Controversy: ASEAN's relationship with Burma's Slorc, Bangkok: Alternative ASEAN Network on Burma, 1997, p. 23.



During this period, both sides had little interest in each other as ASEAN managed its own internal affairs and Myanmar retreated into isolation under the domination of Ne Win government. Marvin Ott notes, “ASEAN emerged in the 1970s and 1980s as a close knit club of like-minded states focused on high economic growth. Burma was outside the club, out of step and increasingly irrelevant. Only Thailand, which shared 2,100-mile border had any sustainable interest at stake”.<sup>106</sup>

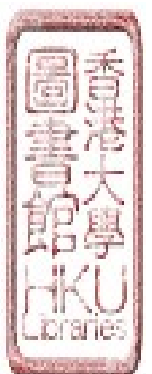
In 1980s, Southeast Asia faced a need to reassess the policy priorities. A series of changes in the security order took place in the region, and Myanmar’s opening up was also a symbol for the emergence of a new regional landscape. ASEAN’s members reconsidered their interests and adjusted policy measures to deal with the new environment; ASEAN looked to Myanmar again to fortify its security, economic and political position, from little interest to constructive engagement.

In the early 1990s, although the domestic politics and human rights issues in Myanmar were still a big concern to ASEAN, the rise of China prompted ASEAN to engage more with Myanmar in 1994.<sup>107</sup> After 1990 elections, Myanmar faced the Western sanctions and isolation. Therefore Burma’s State Law and Order Restoration Council (SLORC) needed to connect with other organizations that would support the government’s international reputation and recognition and provide foreign investment

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<sup>106</sup> Roberts, Christopher. ASEAN’s Myanmar Crisis: Challenges to the Pursuit of a Security Community. Institute of Southeast Asian Studies (2010), p.111.

<sup>107</sup> Aung Zaw, “ASEAN-Burma Relations,” 38. 4. Aung Zaw, “ASEAN-Burma Relations,” p.38.



and economic assistance. Security and economic development were key reasons which led to Myanmar's determination to join ASEAN.

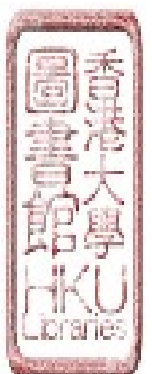
However, the admission of Myanmar made ASEAN suffer from many controversies since. In 1996, Myanmar officially joined ARF but both the European Union and the U.S. protested against Myanmar from becoming a full member. Due to Myanmar's poor human rights records, ASEAN's existing members such as Thailand and the Philippines also opposed Myanmar's entry. But Myanmar finally got through the barriers under the assistance of Malaysia which chaired ASEAN at that time.<sup>108</sup>

Some scholars argue that Myanmar was treated as the 2<sup>nd</sup> class citizen of ASEAN for quite a while. Although through ASEAN, Myanmar achieved regional recognition and attracted foreign investors like Singapore and Thailand, (important for the military government, the country was not regarded as a "key actor" within the association due to its economic sanctions, human rights issues, and domestic politics.

In 2011, Myanmar government carried out a range of reform efforts in economy and politics. Such progress inspired ASEAN to authorize Myanmar the chairmanship in 2014. It was seen as a significant step forward for Myanmar, as it supported Myanmar to gain political legitimacy, and gave the state the chance to be regarded as a responsible member of the international community. This meant that Myanmar would

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<sup>108</sup> Mya Than, Myanmar in ASEAN: Regional Cooperation Experience, p.84.



host the major ASEAN meetings, including the leaders' summit and ARF, with other regional powers such as Russia, Japan, China, and the U.S.

The Union Election Commission in Myanmar announced on July 8, 2015, that voting would be held across the country on 8 November, which is welcomed by the ASEAN Parliamentarians for Human Rights (APHR). The world and ASEAN will watch the highly anticipated election as a main assessment of the country's ongoing transition. Meanwhile, ASEAN is concerned about the transparency of the election: "we didn't expect this transition to take place overnight, and a level of patience and understanding is certainly necessary. But we do insist that the process be genuine and transparent," said APHR's Chairperson Charles Santiago, a member of parliament in Malaysia.<sup>109</sup>

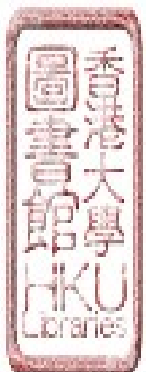
### **Economic Relationship between Myanmar and ASEAN**

#### *Summary of Myanmar and ASEAN Economy*

Myanmar has been implementing market-oriented economy for decades, ever since the economic reforms of 1988. In the past 10 years, Myanmar's economy experienced significant in terms of GDP level (21% annual growth rate in 2003-2012). In the meantime, its economy is less dependent on agriculture and more relying on manufacturing. Manufacturing sector's increasing contribution to overall national account indicating that Myanmar is on its way of modernizing its economic structure.

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<sup>109</sup> Mizzima, "ASEAN Parliamentarians welcome Myanmar election date, raise concerns," July 11, 2015, accessed July 15, 2015, <http://www.mizzima.com/news-regional-election-2015-election-news/asean-parliamentarians-welcome-myanmar-election-date-raise>.



Myanmar's high growth rate is outstanding even when compared to other ASEAN countries. As shown in below chart, Myanmar had the highest GDP growth rate for 2008-2012 (Figure 2). However, this is partly due to the fact that Myanmar is still a newly developing country and the base is small, which makes a high growth rate possible. Despite of its fast growth for decades, Myanmar's GDP level is still among the lowest within ASEAN. Such fact suggests that Myanmar still has a long way to go and a lot to learn from its ASEAN fellows. However, comparing GDP level among ASEAN members may not be a fair game, as they all have different populations (a key factor for GDP level). A clear evidence is that, Singapore as a well-known rich country, only rank No. 6 in terms of total GDP. Thus, a more apple-to-apple comparison should be on GDP per capita, which nets of the effect of population scale.

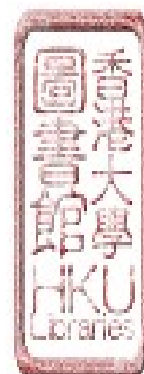
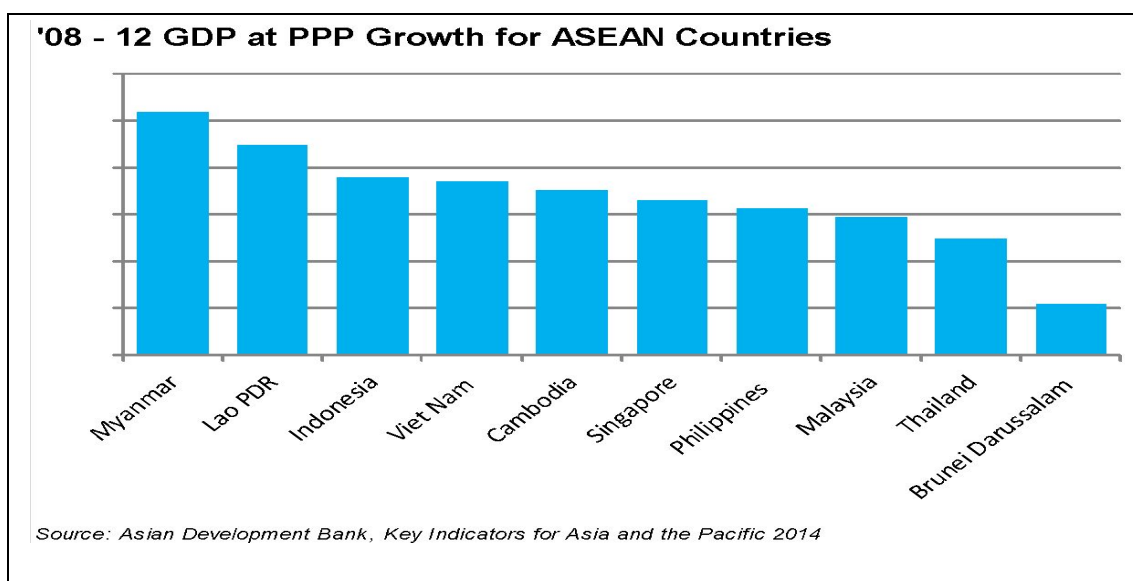




Figure 2. 2008~2012 GDP at PPP Growth for ASEAN Countries<sup>110</sup>

Myanmar is among the poorest in ASEAN countries in terms of GDP per capita. A small figure of GDP capita not only suggests a low income and welfare level for Myanmar people, but also implies an unsatisfactory productivity of the economy. To understand why Myanmar's GDP is still low, one should look at some key economic indicators for Myanmar and other ASEAN countries. Below table (Figure 3) shows that, for Myanmar, (1) its large amount of labor force does not yield proportionate GDP level, implying an unsatisfactory productivity, and (2) export growth rate is effectively zero, implying that Myanmar's product and service still have relatively low competitiveness in the global and regional market.

Selected Economic Indicators (2011) for ASEAN Countries							
Countries	Labor Force (Million)	GDP At current prices (US\$ million)	Real GDP Growth	GDP Per capita At current prices (US\$)	Export Growth Rate (%)	Import Growth Rate (%)	Inflati (%)
Myanmar	30.1	52,842	10.4	875	0.4	37.3	
Brunei	0.21	16,360	2.2	38,703	33.1	19.6	
Cambodia	7.2	12,775	7.1	880	35.8	25.9	
Indonesia	117.3	846,821	6.5	3,563	29	30.8	
Laos	N/A	8,163	8	1,279	6.1	17.6	
Malaysia	12.5	287,922	5.1	9,941	8.7	8.6	
The Philippines	40	224,337	3.9	2,341	-6.7	9.5	
Singapore	3.2	259,858	4.9	50,130	7.5	8.6	
Thailand	38.8	345,811	0.1	5,116	11.7	19.1	
Vietnam	51.4	123,267	5.9	1,403	34.2	25.8	

Source: Asian Development Bank, Key Indicators for Asia and the Pacific 2012

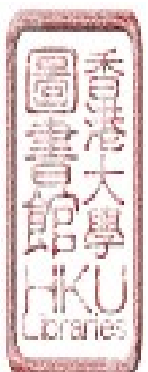
Figure 3. Selected Economic Indicators (2011) for ASEAN Countries<sup>111</sup>

<sup>110</sup> Asian Development Bank, Myanmar GDP Composition, "Key Indicators for Asia and the Pacific 2014, September 2014"

<http://www.adb.org/publications/key-indicators-asia-and-pacific-2014>

<sup>111</sup> Asian Development Bank, 2008~2012 GDP at PPP Growth for ASEAN Countries, "Key Indicators for Asia and the Pacific 2014", September 2014,

<http://www.adb.org/publications/key-indicators-asia-and-pacific-2014>

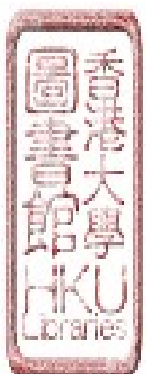


To summarize the economic standing of Myanmar within ASEAN:

1. Myanmar has been enjoying high economic growth for years.
2. Despite of the fast pace of growth, its economic scale and GDP per capita level are still low, compared to other ASEAN members.
3. Key reasons Myanmar's low GDP per capita is its low productivity and low competitiveness of goods and services.
4. Given Myanmar's large labor force scale, an injection of experience, technology and capital will increase labor productivity and export competitiveness, and eventually boost GDP growth at both national level and per capita level.

ASEAN could provide a platform for Myanmar to gain experience, technology and capital. Singapore, Malaysia and Thailand have been involved in global trade and international capital market for years, and thus can share the lessons that Myanmar needs.

*Trade between Myanmar and ASEAN*



Myanmar Exports to ASEAN Countries (USD million)				
Countries	2007		2012	
	Value	% of Total	Value	% of Total
<b>Thailand</b>	<b>2,104.9</b>	<b>44%</b>	<b>3,362.6</b>	<b>41%</b>
India	729.8	15%	1,227.2	15%
China	336.9	7%	1,181.2	14%
Japan	269.2	6%	612.3	7%
South Korea	73.4	2%	319.2	4%
<b>Malaysia</b>	<b>126.6</b>	<b>3%</b>	<b>167.6</b>	<b>2%</b>
<b>Singapore</b>	<b>55.6</b>	<b>1%</b>	<b>71.7</b>	<b>1%</b>
Bangladesh	27.0	1%	67.8	1%
<b>Viet Nam</b>	<b>68.5</b>	<b>1%</b>	<b>99.5</b>	<b>1%</b>
Taipei, China	55.3	1%	69.4	1%
<b>ASEAN 4 Total</b>	<b>2,355.7</b>	<b>49%</b>	<b>3,701.4</b>	<b>45%</b>

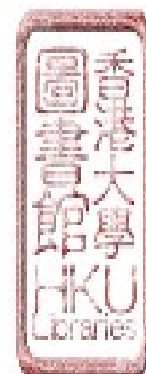
*Source: Asian Development Bank, Key Indicators for Asia and the Pacific 2014*

Figure 4. Myanmar Exports to ASEAN Countries (USD million)<sup>112</sup>

Trade represents commodity and service flow. While engaging in global trades, Myanmar can obtain experience and technology from more developed countries. ASEAN members are important counterparties for Myanmar's foreign trade, both import and export. Thailand has been the most important importer of Myanmar's goods and services, accounting for over 40% of Myanmar's total exports as seen below.

It is well known that net export is one of the four key components of national account. An increase in export will also benefit the national welfare. In fact, in the early phase

<sup>112</sup> Asian Development Bank, "Key Indicators for Asia and the Pacific 2014", September 2014  
<http://www.adb.org/publications/key-indicators-asia-and-pacific-2014>



of most developing countries, average income is low and thus the foundation of internal consumption is weak. Export helps to fuel GDP growth, and ultimately to accumulate wealth. To achieve export growth, Myanmar needs to leverage on its low labor cost. While producing goods and delivering services, Myanmar's experience and productivity will increase, improving its competitiveness and increasing national wealth eventually.

The other side of global trade is import. Singapore and Thailand are still the two most important trade counterparties within ASEAN (shown in below table). Myanmar imported 9% of goods and services from Singapore in 2012, while 2007 figure was 15%. Such a decrease in imports from Singapore could have negative effects for Myanmar, as Singapore is the most developed country in ASEAN, with cutting-edge technology and production experience, and thus a good country to learn from.

Myanmar Imports to ASEAN Countries (USD million)				
Countries	2007		2012	
	Value	% of Total	Value	% of Total
China	1,861.1	33%	6,242.5	37%
<b>Thailand</b>	<b>1,054.0</b>	<b>19%</b>	<b>3,419.2</b>	<b>20%</b>
<b>Singapore</b>	<b>855.8</b>	<b>15%</b>	<b>1,474.6</b>	<b>9%</b>
South Korea	321.2	6%	1,464.0	9%
Japan	194.0	3%	1,384.4	8%
<b>Malaysia</b>	<b>231.6</b>	<b>4%</b>	<b>774.1</b>	<b>5%</b>
India	191.4	3%	586.7	3%
<b>Indonesia</b>	<b>288.6</b>	<b>5%</b>	<b>441.7</b>	<b>3%</b>
Taipei, China	77.2	1%	160.1	1%
Germany	58.3	1%	147.3	1%
<b>ASEAN 4 Total</b>	<b>2,430.0</b>	<b>43%</b>	<b>6,109.7</b>	<b>36%</b>

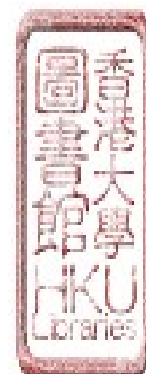


Figure 5. Myanmar Imports from ASEAN Countries (USD million)<sup>113</sup>

The high concentration (36% in 2012) of ASEAN members' share of Myanmar imports is also an evidence that ASEAN members can benefit from each other from the variable economic status and levels of development, i.e. poor countries can learn from the rich, and the rich can better utilize (and also educate) the developing countries' cheap labor.

### **Investment from ASEAN to Myanmar**

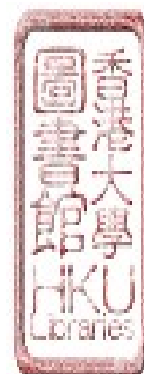
In modern economic development process, capital plays an important role, as it can increase productivity of labor, land and other factors of production. Generally speaking, developing countries can achieve capital increment through two channels, (1) reinvestment of what it produced last year, and (2) foreign investment (in terms of debt and equity), i.e. capital injection from outside. A popular way of getting outside capital is through FDI. According to the working paper of Thandar Khine<sup>114</sup>, FDI can help Myanmar in the following four aspects:

1. Finance new projects: As stated earlier, without FDI, Myanmar may have to fund new projects through either internal accumulation of capital (which is

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<sup>113</sup> Asian Development Bank, "Key Indicators for Asia and the Pacific 2014", September 2014  
<http://www.adb.org/publications/key-indicators-asia-and-pacific-2014>

<sup>114</sup> Thandar Khine, 2008 working paper, Foreign Direct Investment Relations between Myanmar and ASEAN



slow) or international debt (which is expensive). FDI is a more efficient way of obtaining capital.

2. Promote exports: More capital per labor means higher productivity, which creates a “franchise” for Myanmar and eventually increase its competitiveness in the global market.
3. Transfer of technology and experience: Foreign investors usually bring not only capital, but also new technology and managerial experience, which will also help Myanmar’s competitiveness.
4. Create local employment opportunity: FDI needs to be allocated into new projects, which certainly ask for more labors. Thus Myanmar’s citizens will benefit from the incremental job opportunities.

Again, ASEAN members have been playing an important role for Myanmar’s FDI.

<b>FDI Flow into Myanmar from ASEAN (as of 2013)</b>			
<b>Country</b>	<b>Number of Projects</b>	<b>Amount (US\$ million)</b>	<b>% of Total Investment</b>
Thailand	61	9,568	22.9
Singapore	83	2,167	5.2
Malaysia	43	1,031	2.5
Vietnam	5	362	0.9
Indonesia	12	242	0.6
The Philippines	2	147	0.4
Brunei	2	3	0.007
Cambodia			
Lao PDR			

*Source: Directorate of Company Administration and Investment, Ministry of National Planning and Economic Development.*

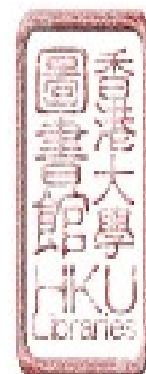


Figure 6. FDI Flow into Myanmar from ASEAN (as of 2013)<sup>115</sup>

As shown in above table, ASEAN countries in total contribute about 30% FDI for Myanmar, while Thailand alone has a significant 23% stake. Most of the recent FDI capital was injected into power sector and oil and gas sector. Investment in the power sector is highly developmental and directly beneficial for the people of Myanmar.

FDI in the past two decades for Myanmar have ranged from power, mining, manufacturing, oil and gas, to hotel and tourism sectors. It is worthwhile to note that Singapore has been showing great interest in investing Myanmar's tourism industry, which is a great opportunity for Myanmar to learn from Singapore for services industry.

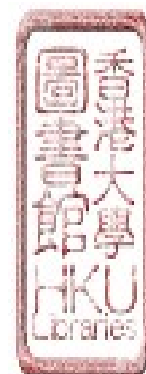
There is still a great potential for FDI to grow, and to unlock this potential, Myanmar needs to develop a modern capital market, such as a viable stock exchange. The establishment of an efficient, well-regulated capital market is important, as it provides necessary confidence and liquidity for foreign investors to consider Myanmar.

### **Further Development in Economic Relations with ASEAN**

There is still a great potential for trade volume and FDI level to grow between Myanmar and its ASEAN fellows. A golden opportunity would be the ASEAN

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<sup>115</sup> FDI Flow into Myanmar from ASEAN(as of 2013), Directorate of Company Administration and investment,  
<http://dica.gov.mm.x-aas.net/>



Economic Community (AEC) project. The 9th ASEAN Summit agreed to establish the AEC as an end goal of economic integration, as outlined in the ASEAN Vision 2020. This will enhance the depth of economic relations among the ASEAN countries. Myanmar will also need to enhance its attractiveness in order to fully participate in this economic community. The following are some practical changes Myanmar could implement:

On the trade side,

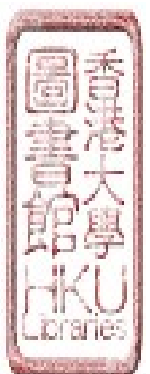
- Tariff
  - Lower tariff has been proved to be a great catalyst for global trade.
  - It can also lower the likelihood of trade-related dispute among countries.
- Custom clearance efficiency
  - It usually takes two days for containerized cargo of import and one day for containerized cargo of export to clear the custom<sup>116</sup>
  - If such time can be reduced, the trade volume will also increase.
- Infrastructure framework
  - Infrastructure construction such as transportation will boost the efficiency of logistics.

On the FDI side,

- Capital market

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<sup>116</sup> Kyaw Soe Thein , Myanmar in ASEAN: Working Toward the ASEAN Economic Community

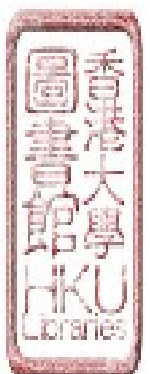




- A modern capital market, e.g. stock exchange to provide transparency, confidence, and liquidity to foreign investors
- Myanmar needs not only the market, but also the corresponding legal and regulatory environment associated with it.
- Foreign currency exchange
  - A free (or less-controlled) foreign exchange market will smoothen the capital injection process.
- Favorable land use and tax policy
  - Most developing countries use land and tax policy to attract foreign investors.
  - The gains from incremental FDI for Myanmar are likely to outweigh the reduction of land use and tax revenue

### **What Role Will ASEAN Play in Myanmar's future?**

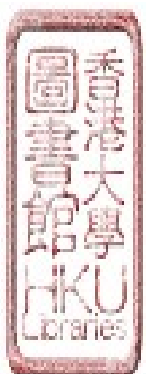
ASEAN will continue to provide Yangon with diplomatic-political support. Myanmar's military-led government should be comfortable given ASEAN's emphasis on non-interference and its interest in not seeing extra-regional countries impose a political solution on a member state. Nevertheless, the policies of ASEAN countries in terms of Myanmar's domestic ethnic conflicts, will impact its internal politics and regional relations. Myanmar's domestic issues place most ASEAN countries in a serious dilemma. On the one hand, ASEAN members insist that Myanmar is not a representative measure of ASEAN's relationship with the Western world. On the



other hand, these states find themselves under escalating international pressure to respond more strongly to developments in Myanmar.

### **Myanmar-ASEAN Relations: Conclusion**

Myanmar joined ASEAN for its political strategic interest and economic development. At the bilateral level, Myanmar's key focus should be strengthening its economic relations with Thailand, a key trade partner. The military leadership should realize that, its domestic politics and practice, especially the treatment of Aung San Suu Kyi and internal minority conflicts, could diminish Myanmar's dividends from the ASEAN membership. In the coming Myanmar national presidential election in November 2015, should Aung San Suu Kyi's NLD emerge as the winner, it may also reshape Myanmar's position among the ASEAN group to a certain extent.



## The U.S.

### Background

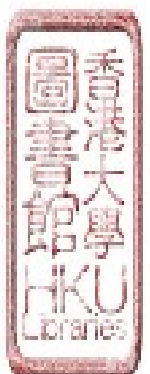
The U.S.' interests in Myanmar date back to World War II, where the U.S. contributed to the anti-Japanese campaign<sup>117</sup>. Post World War II, Myanmar's colonial status fell under the U.S.' broad ideological interests of freeing Asia from colonial rule. Following the defeat of the KMT in China, the U.S.' ideological interests immediately transitioned to anticommunism. Given the perceived threat of communism on the back of Chinese expansion, the U.S. provided economic aid to the government as well as military assistance to KMT troops within Myanmar<sup>118</sup>. The U.S. hoped that the residual KMT forces within Burma would serve as a base for an eventual counterattack on mainland China. The plan failed to materialize and resulted in the loss of administrative control over certain areas in the Shan state and the escalation of opium production<sup>119</sup>. At one point, Burma supplied the majority of heroin into the U.S. In response to a growing epidemic in the U.S., targeting opium production became an important policy objective. Wary of potential Chinese excursions into Burma, the government under U Nu stopped the U.S. aid program. The U.S. aid to Myanmar was again resumed in 1956 and lasted through the coup of 1962. During the Cold War, Burma stood neutral by adopting a non-alignment policy;

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<sup>117</sup> David I. Steinberg, "The U.S.-Burmese Relationship and Its Vicissitudes", *Center For Global Development*. Washington, D.C. 2006.

<sup>118</sup> Harn Yawngwe, "Timeline: US-Burma/Myanmar Relations", *Contemporary Southeast Asia: A Journal of International and Strategic Affairs*. Vol. 32, No. 3, 2010.

<sup>119</sup> Harn Yawngwe, "Timeline: US-Burma/Myanmar Relations", *Contemporary Southeast Asia: A Journal of International and Strategic Affairs*. Vol. 32, No. 3, 2010.



this allowed U Than to become the UN Secretary General in 1961<sup>120</sup>. Following the Vietnam War, the U.S. again resumed aid aimed at economic assistance and limiting opium production. The U.S. finally terminated all aid programs after the coup of 1988 and the bilateral relations were effectively suspended<sup>121</sup>. Despite the abandonment of socialism and the opening up for foreign investment, the U.S. withdrew its ambassador and denied visas to high ranking Burmese officials and their families.

### **The U.S.' Interests in Myanmar**

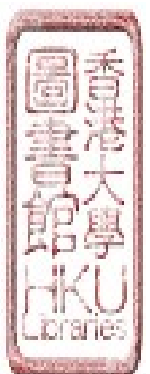
Between 1988 and 2009, the U.S. interests and policy towards Myanmar were exclusively focused on democracy and human rights<sup>122</sup>, a contrast to the U.S.' post-Cold War strategy towards other Southeast Asian countries focusing on free trade and investment liberalization. With limited economic and security interests, the Clinton administration found little motivation to use political capital to change the stance towards Myanmar. Such a backdrop allowed the plight of Aung San Suu Kyi to emerge as a primary driving factor behind the U.S. policy towards Myanmar. Her image effectively evolved to represent the struggle for democracy and human rights. The U.S. consistently isolated Myanmar from the international system and systematically applied sanctions in order to induce a power transfer to ultimately try to achieve a democratic government. Economic and strategic interests took a

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<sup>120</sup> David I. Steinberg, "The U.S.-Burmese Relationship and Its Vicissitudes", *Center For Global Development*. Washington, D.C. 2006.

<sup>121</sup> Harn Yawngwe, "Timeline: US-Burma/Myanmar Relations", *Contemporary Southeast Asia: A Journal of International and Strategic Affairs*. Vol. 32, No. 3, 2010.

<sup>122</sup> David I. Steinberg, "The U.S.-Burmese Relationship and Its Vicissitudes", *Center For Global Development*. Washington, D.C. 2006.



backseat to ideological pursuits because U.S.’ economic interests in Myanmar have been minimal and the strategic interests have never been as important as states like Iran or North Korea. Myanmar’s isolation following the coup of 1988 drove Myanmar into the embrace of China even though it had traditionally been wary of China’s intentions.

Up until the recent setbacks in Iraq and Afghanistan, U.S. foreign policy was primarily dominated by idealists and humanists. The moral struggle against inhumane ideologies defined U.S.’ idealism. The U.S.’ policy goals in Myanmar were centered on reform and democratization<sup>123</sup>. Since World War II, the moral struggle has been losing ground as there are fewer tyrannical and inhumane regimes that pose legitimate immediate security threats to the U.S. itself. Myanmar was one of the few special states that still captured the attention of the idealists. It represented issues that were specialized and popular, satisfying the West’s desire to pursue moral causes<sup>124</sup>.

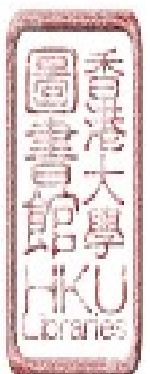
In 2007, the UN rejected the claims by the U.S. that Myanmar was a threat to regional peace but nonetheless in 2009, the Obama administration asserted that the government of Myanmar continues to pose an “unusual and extraordinary threat to the national security and foreign policy of the United States”<sup>125</sup>. Throughout recent history, the pursuit of idealism and moral causes drove the U.S. into many unsuccessful foreign

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<sup>123</sup> Lynn Kuok. “Promoting Peace in Myanmar”, *Center of Strategic & International Studies*, 2014.

<sup>124</sup> David I. Steinberg, “The United States and Myanmar a ‘boutique issue’”. *International Affairs*. 86: I, 2010.

<sup>125</sup> David I. Steinberg, “The United States and Myanmar a ‘boutique issue’”. *International Affairs*. 86: I, 2010.



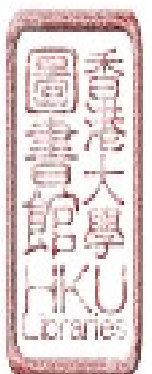
campaigns; the U.S. found itself too stretched geopolitically and suffered embarrassing setbacks abroad. Specifically, the U.S.' policy objective of achieving democracy and human rights yielded little results. In place of idealism, the U.S. has been gradually adopting pragmatism and at the same time recognizing that sanctions to induce political reform is the wrong formula.

The U.S.' main interests in Myanmar can be categorized into democracy, human rights, economy, and security<sup>126</sup>. In 2009, the U.S. adopted a new policy of engagement allowing direct senior dialogues between the U.S. and Myanmar. The new U.S. posture towards Myanmar engendered a progressive process of normalizing economic and political relations. The civil government formed in 2011 implemented reforms and embraced reconciliations that were satisfactory to the U.S. demands. Aung San Suu Kyi was freed from house arrest along with release of thousands of other political prisoners. In 2011, The U.S.-Myanmar rapprochement was firmly underway resulting in an official state visits from Secretary of the State Hillary Clinton in 2011 and President Barack Obama in 2012. Both expressed desires for improved relations based on increased cooperation. In response to reforms, the U.S. eased certain economic and financial sanctions in 2012. Nonetheless, the U.S. remains the largest critic of Myanmar's government with continuing claims that the new government and constitution are not legitimate<sup>127</sup>. The stances from the rest of the international community are much more modest providing some policy space for Myanmar.

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<sup>126</sup> Lynn Kuok. "Promoting Peace in Myanmar", *Center of Strategic & International Studies*, 2014.

<sup>127</sup> Kuok. "Promoting Peace in Myanmar", *Center of Strategic & International Studies*, 2014.



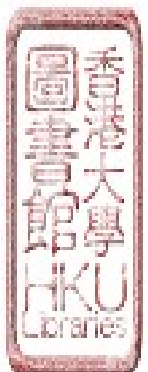
A rising China that has become more assertive regionally has placed the U.S. security interests in Myanmar firmly at the top. Both countries now look to leverage on the convergence of interests. A more pragmatic U.S. attitude has paved way for warmer relations to a strategic repositioning away from China. China has been eroding U.S. influence in the region and its “charm offensive” has made significant progress in setting the stage for reorienting the region away from a U.S.-led order.

Traditional wisdom holds that reform towards democracy is opening up bright prospects for Myanmar. But there exists a weak link between liberal democracy and economic development for many developing countries<sup>128</sup>. Perennial conflicts would still exist if the democratic institutions do not account for the interests of the minority groups. Myanmar’s ethnic divide is well known and presents the single most important hurdle for Myanmar’s development. There are 135 ethnic groups living in Myanmar with the minorities primarily residing in the mountainous border areas. Most minority groups feel excluded from the mainstream and are fighting for greater autonomy and acceptance of their cultural and religious identities. A fledgling democracy without solid economic fundamentals would find it hard to establish strong institutions that can conduct peaceful integration of the minority interests<sup>129</sup>. A failed integration progress would potentially evolve into fertile grounds for ethnic

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<sup>128</sup> Bruce Bueno de Mesquita and George W. Downs, “Development and Democracy”, *Foreign Affairs*. Vol. 84, No.5, 2005.

<sup>129</sup> Robert Kaplan, “How Myanmar Liberates Asia”, *Strafor: Global Affairs*, March, 2012.



conflicts<sup>130</sup>. Otherwise, adding too many domestic electoral constraints would ultimately jeopardize Myanmar's transition and development. Also empirically, it is difficult to sustain a functioning and effective democracy under ethnic and cultural heterogeneity<sup>131</sup>.

Among the U.S.' interests in Myanmar, promoting peace is a primary policy objective. Ethnic conflicts pose an immediate threat to Myanmar's democracy with the possibility of stalling or even reversing the much needed reforms. But perversely, the very process of democratization leads to increased ethnic divide<sup>132</sup>. Through the lessons learned from previous foreign policy blunders around the world, the U.S. policy makers are beginning to appreciate the complexity of the democracy building process. It is becoming apparent that the right formulation starts with the development of civic institutions and a strong middle class before mass suffrage and the extension of certain freedoms<sup>133</sup>. The common attribute of previous peaceful democratic transitions was allowing the entrenched interests of the incumbent elite to be preserved as they fell from power. But those entrenched interests become direct obstacles to the institutionalization process. To promote peace, the junta's interests must be cushioned as the regime slowly sells off its power. Therefore, it is even more crucial for the U.S. policy makers to adopt pragmatism in their policy stance towards

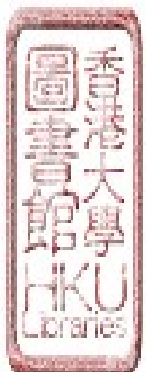
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<sup>130</sup> Jack Snyder, *From Voting to Violence: Democratization and Nationalist Conflict*, New York: Norton, 2000.

<sup>131</sup> Jack Snyder, *From Voting to Violence: Democratization and Nationalist Conflict*, New York: Norton, 2000.

<sup>132</sup> Lynn Kuok. "Promoting Peace in Myanmar", *Center of Strategic & International Studies*, 2014.

<sup>133</sup> Jack Snyder, *From Voting to Violence: Democratization and Nationalist Conflict*, New York: Norton, 2000.





Myanmar with the acceptance that maintaining peace is first order to achieving all the prescribed reforms.

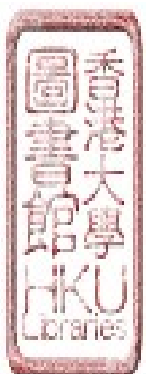
As a state which is late to the industrialization game, the entry costs for Myanmar are very high while the character of the world economy is no longer conducive to the most successful development model that was adopted by North Asian states such as Japan, Korea, Taiwan, and most recently China. All these states retained a strong level of authoritarianism until a certain stage of economic development was achieved. For late industrializers, a strong centralized state with strong central coordination capability is needed to extract the entry costs to the industrialization game<sup>134</sup>. The military has played an influential role in politics since Myanmar's establishment. As morally unacceptable as it may be, Myanmar's military, known as the Tatmadaw, is the only institution that has a strong track record of delivering peace and is arguably still more capable than any democratic government given the weak institutions<sup>135</sup>. Even with a civilian government, the military will still have to play a prominent role in the future especially in the face of complex ethnic conflicts. The military's political role in each country depends on the country's historical context and the nature of the civilization in which the country exists. In addition to national security, the military assumes various political responsibilities including power consolidation, national integration, institution building, and political brokering<sup>136</sup>. Myanmar's

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<sup>134</sup> Peter Gourevitch, "The Second Image Reversed: The International Sources of Domestic Politics". *International Organization*. Vol. 32, No. 4, 1978.

<sup>135</sup> HNIN Yi, "The Political Role of the Military in Myanmar", *RCAPS Working Paper Series "Dojo"*, Ritsumeikan Asia Pacific University, 2014.

<sup>136</sup> HNIN Yi, "The Political Role of the Military in Myanmar", *RCAPS Working Paper Series "Dojo"*, Ritsumeikan Asia Pacific University, 2014.



current regime is transitioning towards a closely linked coalition between civilians and the military with emphasis on state capitalism. Such regime type is actually conducive for economic development<sup>137</sup>. For Myanmar, while reverting to full military rule is unlikely, there exists an optimal mix of civilian and military governance that would promote modernization and industrialization<sup>138</sup>. The Tatmadaw's future position should reflect a type of civilian-military relationship where it retains an influential role in the decision making process as well an active role in the government to guaranteeing the democratic process.

Most analysts have regarded the Bush administration's foreign policy as largely ineffective: unable to contain the rise of China and at the same time unable to provide satisfactory leadership amongst the smaller states within Southeast Asia. The success of China alone poses a great challenge to the liberal international order championed by the U.S. China's increasing economic leverage and military assertiveness cause general unease in the region. In recognition of the political, strategic, and economic importance of the Asia-Pacific in the 21st Century, the U.S. is rebalancing a substantial degree of its foreign policy towards the region<sup>139</sup>. The U.S. pivot is premised on the desire for a peaceful, democratic, and economically strong region<sup>140</sup>. While the foundation of the U.S. rebalancing is to strengthen the existing U.S.

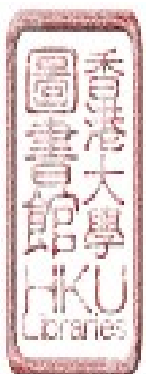
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<sup>137</sup> Amos Perlmutter, "The Comparative Analysis of Military Regimes: Formations, Aspirations, and Achievements", *World Politics*, Vol. 33, No. 1, 1980.

<sup>138</sup> Update Briefing, "Myanmar's Military: Back to the Barracks?", *International Crisis Group*, 2014.

<sup>139</sup> Kurt Campbell and Brian Andrews, "Explaining the US 'Pivot' to Asia", *Chatham House*, Aug, 2013.

<sup>140</sup> Mark E. Manyin et al., "Pivot to the Pacific? The Obama Administration's "Rebalancing" Towards Asia", *Congressional Research Service*, March, 2012.



alliances in the region, such objective alone does not shift the balance of power in favor of the U.S. As a critical regional pivot state, a shift in Myanmar's policy association will have important implications for regional balance of power and regional security. Hence, the U.S.' re-engagement with Myanmar is a principal component of the U.S.' pivot back to Asia<sup>141</sup>.

The U.S. also recognizes the importance of the Indo-Pacific region, where the world's largest democracy, India, looks to project towards the East<sup>142</sup>. Geographically, Myanmar is where the U.S. and India will converge based on similar interests and values. As a large member of ASEAN, Myanmar has been the shortfall in the U.S.-ASEAN relations. A normalized Myanmar would elevate the U.S.-ASEAN relationship to the next level contributing to a more unified ASEAN that would be more capable at achieving the economic and security needs of its member states<sup>143</sup>. In a world that is trending towards multi-polarity, having influence and affecting Myanmar's transition process will be a crucial factor in achieving an advantage in the new great power competition<sup>144</sup>. For Myanmar, ASEAN provides the perfect platform to conduct balancing. Given the setup of ASEAN, balancing even opens up the prospect of going from cooperation to integration.

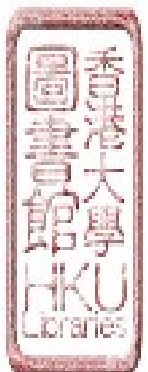
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<sup>141</sup> Wei Ling, "Rebalancing or De-Balancing: U.S. Pivot and East Asian Order", *American Foreign Interests: The Journal of the National Committee on American Foreign Policy*, June, 2013.

<sup>142</sup> Mark E. Manyin et al., "Pivot to the Pacific? The Obama Administration's "Rebalancing" Towards Asia", *Congressional Research Service*, March, 2012.

<sup>143</sup> Jurgen Haacke, "Myanmar: now a site for Sino-US geopolitical competition?", *LSE IDEAS*, 2012.

<sup>144</sup> Jurgen Haacke, "Myanmar: now a site for Sino-US geopolitical competition?", *LSE IDEAS*, 2012.



While the cumulative economic and political progress in Myanmar has been slow, the international structure has undergone tremendous changes. Fortunately for Myanmar, the shifting distribution of power from a backdrop of a rising China is creating opportunities for Myanmar to overcome its domestic political dilemmas versus the need for economic development. In Gourevitch's "The Second Image Reversed", the two aspects of the international system that affect states at the domestic level are trade and war<sup>145</sup>. The rise of China is presenting challenges to the existing global order on both economics and security fronts<sup>146</sup>. Myanmar represents the pivot point of the challenges of the new and existing order. One of the major forces driving the world's development has been globalization. Yet globalization has been very unequal where the U.S. and its advanced economy allies reaped the majority of the gains. Only within the international system where the U.S. interest and norms prevail could states participate in globalization.

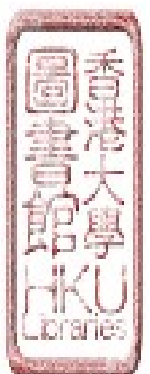
Within the context of containing a rising China, the U.S. has elevated the barriers to entry into the globalization game by packaging the Trans Pacific Partnership (TPP) into its Pivot back to Asia<sup>147</sup>. Such shifts portend the end of globalization as China seeks to establish its own economic bloc and construct its own system and institutions. However the TPP in its current form has seen setbacks given the high

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<sup>145</sup> Peter Gourevitch, "The Second Image Reversed: The International Sources of Domestic Politics". *International Organization*. Vol. 32, No. 4, 1978.

<sup>146</sup> Mark E. Manyin et al., "Pivot to the Pacific? The Obama Administration's "Rebalancing" Towards Asia", *Congressional Research Service*, March, 2012.

<sup>147</sup> Kurt Campbell and Brian Andrews, "Explaining the US 'Pivot' to Asia", *Chatham House*, Aug, 2013.



political hurdles for participation<sup>148</sup>. President Obama explicitly alluded to the risks of China filling the void if TPP fails to materialize<sup>149</sup>. On the other hand, China's successful launch of the Asian Infrastructure Investment Bank (AIIB) signals the beginning of a new economic order where China intends to construct a parallel set of institutions that reflects its own interests and rules. Although Myanmar has been excluded from the TPP, it was designated as one of the twenty-one founding members of the AIIB. Two competing sets of international systems afford Myanmar various strategic choices without compromising domestic imperatives.

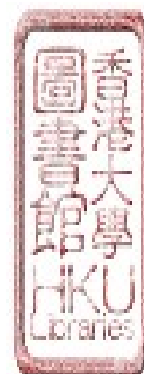
The international system championed by the U.S. is characterized by a balance between openness and stability. The U.S. with its strong institutions and its special set of endowments benefits greatly from such an arrangement. Hence a key part of the U.S. strategy is to ensure free trade and open access to sea lanes. But the costs and benefits of participating in such a system are not entirely straightforward for states like Myanmar. An open economy hailed by the U.S. could be much more damaging without the proper institutions to defend against instability<sup>150</sup>. On the other hand, too much economic interdependence with China also presents undesirable vulnerabilities. Both the U.S.- and China-led orders presents negative features of participation. Going forward, the formation of regional blocs will be the prevailing balancing strategy for smaller to medium powers to achieve security and economic

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<sup>148</sup> Ian F. Fergusson et al., "The Trans-Pacific Partnership Negotiations and Issues for Congress", *Congressional Research Service*, March, 2015.

<sup>149</sup> Ian F. Fergusson et al., "The Trans-Pacific Partnership Negotiations and Issues for Congress", *Congressional Research Service*, March, 2015.

<sup>150</sup> Jack Snyder, *From Voting to Violence: Democratization and Nationalist Conflict*, New York: Norton, 2000.



independence<sup>151</sup>. The Sino-U.S. competition creates a complicated international landscape that creates an opportunity for Myanmar as it possesses a decisive geographic advantage. Myanmar's geographic importance holds the key in achieving regional integration<sup>152</sup>.

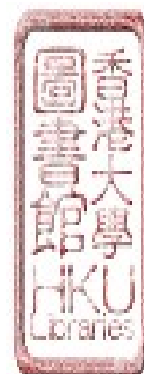
Beyond promoting democracy and human rights, a strengthened regional bloc serves the U.S.' interests of balancing China and securing U.S. economic interests within the region. Essentially through Myanmar, the regional bloc through the vehicle known as ASEAN would be able to reap in the gains of globalization without sacrificing stability. By straddling the Sino-U.S. competition, ASEAN would have access to Chinese capital and the U.S. technology. Meanwhile, ASEAN itself possesses a big end consumer market with ample natural resource endowments. Myanmar integrated into the regional order would unlock trade routes uniting the region into one continuous entity<sup>153</sup>. The need to interact and to be subjected into the norms of other regional blocs would be reduced. Such a set up paves the way for a sustainable path to development where the political and value systems of the region could be preserved.

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<sup>151</sup> Denny Roy, "South East Asia and China: Balancing or Bandwagoning?", *Contemporary Southeast Asia*, Vol 21, No. 2, 2005.

<sup>152</sup> Robert Kaplan, "How Myanmar Liberates Asia", *Strafor: Global Affairs*, March, 2012.

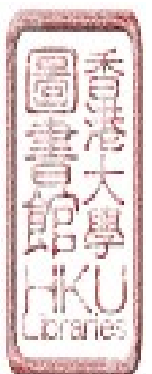
<sup>153</sup> Robert Kaplan, "How Myanmar Liberates Asia", *Strafor: Global Affairs*, March, 2012.



## **Conclusion: Implications for Myanmar's Future**

Geography is deterministic in Myanmar's strategic regional role. Namely, Myanmar's geographic location allows it to serve as a bridge where China, India and Southeast Asia all converge. Its abundant natural resources have historically made Myanmar a target of foreign intervention. It is the ultimate pivot state in Asia where the great emerging powers collide. Therefore Myanmar's politics are characterized by struggles between foreign intervention and domestic ethnic conflicts. Growing political, economic and informational interdependence has contributed to the convergence of domestic and foreign policies. Myanmar's current ongoing political transition and liberalization presents a unique case to analyze the interplay between foreign and domestic dynamics that becomes the basis of policy preference formation.

Reverting to Peter Gourevitch's "The Second Image Reversed", the international system in which the state resides in is a crucial variable in defining the domestic politics. Economic forces and the distribution of power of the international system



affect states at the domestic level<sup>154</sup>. In the case of Myanmar, it was excluded from the international system dominated by the U.S. interests. Therefore it was mainly China and to a lesser extent, ASEAN, which supplied the international forces that shaped Myanmar's domestic structure in recent history. As an aspiring entrant to the international system, Myanmar essentially has to accept and open up to changes in its domestic structure which is currently unfolding as the democratic transition takes place.

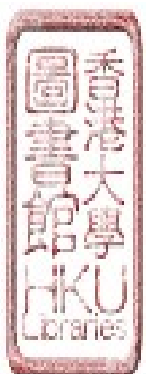
According to Putnam's logic of two-level games, Myanmar balances its national interest with domestic constraints. From the logic of two-level games, Myanmar has little international bargaining power due to its uni-polar domestic power structure; therefore, actors can do little to harness domestic constraints as bargaining chips<sup>155</sup>. But now that its political structure has transitioned into a format that is more aligned with the U.S.' political preferences, the rapprochement between Myanmar and the U.S. have opened up room for foreign policy maneuvering. By supporting Myanmar's adoption of democratic principles, the domestic interest aggregation process is allowed to function and hence the additional domestic constraints actually open up policy space on the foreign policy side<sup>156</sup>. Such a link between domestic politics and foreign policy is constructed under the need for current leaders and vested interests to retain political power via economic development. Myanmar's isolation

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<sup>154</sup> Peter Gourevitch, "The Second Image Reversed: The International Sources of Domestic Politics", *International Organization*. Vol. 32, No. 4, 1978.

<sup>155</sup> Robert Putnam, "Diplomacy and domestic politics: the logic of two-level games", *International Organization*. Vol. 42, No.3, 1988.

<sup>156</sup> Robert Putnam, "Diplomacy and domestic politics: the logic of two-level games", *International Organization*. Vol. 42, No.3, 1988.





from the international community imposes time decay on the regime as deteriorating economic performance puts the legitimacy of the regime into question. The drive for economic development should dictate political transformation so as to gain access to the international system.

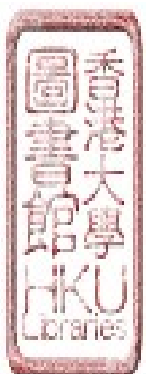
Multi-polarity presents to Myanmar a menu of strategic and economic choices. The U.S.' experiences abroad reveal that even a global hegemon has limited leverage over regional issues. The extent to which international factors can affect domestic structure has been constrained by strategic competition amongst major powers. In such a world, the U.S. can no longer monopolize international relations which allows for a more democratic international system that ironically can aggregate the different interests of non-fully democratic countries<sup>157</sup>. Competing orders will allow Myanmar to benefit economically without political reforms or fully converge to liberal democracy. A more pragmatic U.S. has seen its policy objective shift from regime change to regime modification.

To achieve equilibrium under multi-polarity, balancing against potential hegemon is needed<sup>158</sup>. Once again geography is deterministic; Myanmar's ultra strategic geography affords it the luxury to avoid directly entering the balancing game while allowing it to benefit from the balancing efforts of other powers. Major Powers' intertwining interests in Myanmar open up hedging space for Myanmar. Hedging

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<sup>157</sup> Paul Mancinelli, "Conceptualizing New Type of Great Power Relations: The Sino-Russian Model", *Jamestown Foundation*, China Brief Vol. 1, Issue: 9, May, 2014.

<sup>158</sup> John J. Mearsheimer, *The Tragedy of Great Power Politics*, New York: Norton, 2001.



capability empowers Myanmar to avoid the classic strategic choices of bandwagoning or balancing<sup>159</sup>. Myanmar thus is well positioned to harness the economic benefits of China while retaining security insurance via the U.S. For the U.S., much of the developments and strategic thinking has been framed within the Pivot to Asia strategy, which the very nature of the strategy is geared towards a China containment framework<sup>160</sup>. Such framework is perceived as a zero-sum game and draws much apprehension from all states involved. The U.S. Pivot reflects largely realist thinking and basing foreign policy under the realist assumptions and variables will impose a major constraint on the Sino-U.S. relationship. While Myanmar certainly benefits from Sino-U.S. competition, the region has more to gain from Sino-U.S. cooperation. While a U.S. presence is much welcomed, at the end of the day, most states in the region are still pragmatic enough to preserve their interests with China.

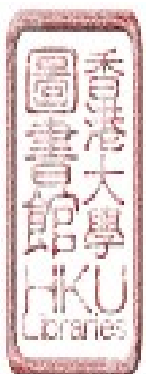
The Sino-U.S. relationship will be the defining factor in international relations during the 21st century. According to Waltz, “international relation is written in terms of the great powers of an era”. Following the 5th U.S.-China Asia Pacific consultations, the U.S. and China, for the first time ever, jointly announced Myanmar as an area of potential future cooperation<sup>161</sup>. Reversing the logic of “The Second Image Reversed”, Myanmar’s domestic preferences have the potential of setting the structure of a new global system consisting of multiple orders. Myanmar’s pivotal status could

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<sup>159</sup> A. Fiori and A. Passeri, “Hedging In Search of A New Age of Non-Alignment: Myanmar Between China and the U.S.”, *SISP Conference*, 2013.

<sup>160</sup> Wei Ling, “Rebalancing or De-Balancing: U.S. Pivot and East Asian Order”, *American Foreign Interests: The Journal of the National Committee on American Foreign Policy*, June, 2013.

<sup>161</sup> Yun Sun, “Myanmar in US-China Relations”, *Stimson*, Issue Brief No. 3, June, 2014.

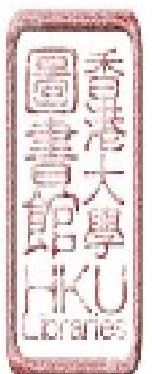


transform the Sino-U.S. relationship out of the tradition realist framework that has historically proven to be violent during the power transition process. The policy options that Myanmar adopts will be decisive in how this feasible such cooperation could be. In reality, China does not seek to displace the U.S.; it simply desires an alternative order that is reflective of its interests. On the other hand, the U.S. is more about ensuring that China's rise does not negatively impact the rest of the world. At the end of the day, both China and the U.S. desire to achieve peace, stability, and development. As global powers, both sides will be accountable for developing a prosperous path for the world.

Conflicts of interests currently drive the Sino-U.S. relations. However, Myanmar is an area where common interests and common goals exist for both powers as both sides are committed to Myanmar's peace and development<sup>162</sup>. Myanmar's willingness to allow U.S. and China to engage within the overlapping interests makes room for attaining absolute gains within the relationship. Both the U.S. and China have expressed keen interest to operationalize a "new model of great powers relations" where peace is the prerequisite. The construction of such model removes ideological constraints to allow the relationship to become results oriented rather than dictated by abstract principles. Under such a new model, both the U.S. and China implicitly agrees to accommodate one and the other by accepting differing political systems and emphasizing mutual respect of concerns and interests. Traditionally, non-alignment is Myanmar's preferred foreign policy of choice. Sino-U.S. cooperation under the

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<sup>162</sup> Yun Sun, "Myanmar in US-China Relations", *Stimson*, Issue Brief No. 3, June, 2014.

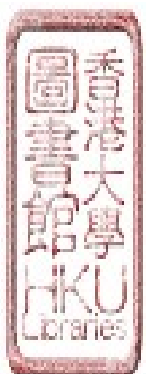


newly formulated “model of great power relations” is consistent with Myanmar’s preference of non-alignment<sup>163</sup>. Intertwined interests in Myanmar would serve as a major pillar to this new relationship. Myanmar’s primary domestic concern is the integration of its ethnic minorities. There is an inherent need for a system that fairly distributes power and opportunities. Only democratic virtues can resolve such needs. But economic development is precondition for sustaining a democracy.

The prescriptions to Myanmar’s economic development are fairly straight forward in economic terms. It is the domestic and foreign political hurdles that must be resolved to implement the necessary policies to achieve economic development. In light of the developments in the Middle East, the first step for Myanmar is to retain order and authority to which the military regime is the only viable solution. Just like in China under Deng Xiaoping, the legitimacy of the military affords the authority to pursue the painful economic reforms that will deliver growth. By placing itself in the middle of the new model of Sino-U.S. relations, Myanmar is given the opportunity to adopt an authoritarian system of economic development. Meanwhile continued U.S. influence and presence would ensure accountability in the reform and development process. The formulation of a “new model of great power relations” provides a conducive backdrop for Myanmar to achieve economic development and democratic reform. Through Myanmar, the U.S. opens the door for China to participate in the norms and rules setting process along with the U.S. while China receives a venue to assuage misperceptions surrounding its rise. Such prospects unlock the true potential

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<sup>163</sup> Yun Sun, “Myanmar in US-China Relations”, *Stimson*, Issue Brief No. 3, June, 2014.

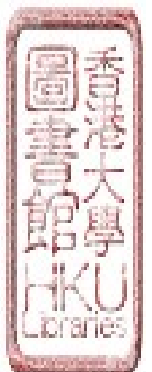


of Myanmar as a key strategic pivot state. By entangling the U.S. for security interests, there is an implicit agreement for the ultimate transition towards democracy. In other countries like China where no such implicit agreement exists, future political uncertainties remain large. Economic development necessitates political progress. Fortunately for Myanmar, the implicit agreement towards democracy ensures political progress will be allowed to evolve to reflect the varying stages of economic development.

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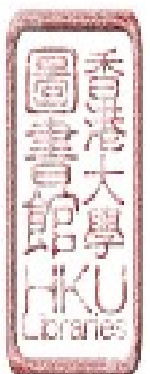
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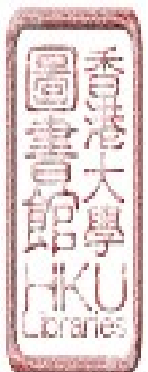
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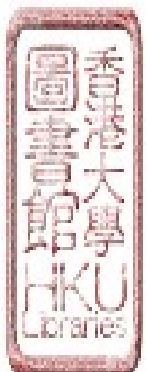
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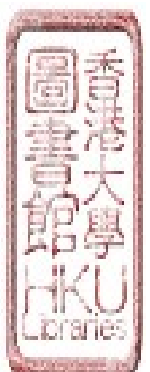
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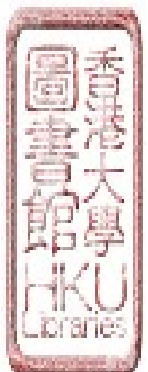
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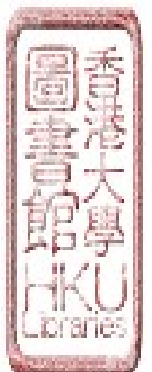
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