

# Myanmar: Choosing Sides

MEGHA BAHREE

**N**AYPYIDAW—In September 2007, India and China, Myanmar's two principal neighbors, stood by valiantly as the ruling junta brutally suppressed protests over increased fuel prices, led by pro-democracy groups and Buddhist monks. At least 13 were killed and thousands arrested. The nascent democratic transition that began in March 2011 has now placed Myanmar at the center of Southeast Asia's strategic landscape. Not surprisingly, India and China are stepping up their efforts to win deals—and influence—in the new capital, Naypyidaw, even as they face new competition from the Western world. But neither of the two Asian neighbors is particularly welcome here.

India and Myanmar have deep historical ties. Myanmar was a part of Britain's Indian empire until 1937, and the two countries share a thousand mile land border, as well as a maritime boundary in the Bay of Bengal along India's eastern coast. The land border includes four of India's unstable and politically sensitive states in the northeast, and the influx of drugs, arms, immigrants, and militants from Myanmar has long been a cause of concern for the Indian government.

In the early 1940s, large numbers of Burmese fled to India to escape the Japanese occupation of their country—among them,



Helen Jairag Richardson, who became a celebrated Bollywood dancer in the 1960s and 1970s. After gaining independence from the British in 1948, many Burmese elite, including the Nobel Prize-winning dissident Aung San Suu Kyi, continued their education in India. Today, by some estimates, about a million people of Indian origin live in Myanmar, and India is home to thousands of refugees who escaped the rule of the junta.

within the past decade. Though many live in squalid conditions in the Indian capital, both the Indian and Myanmarese governments are quite apathetic about their plight.

#### CHINA UNDETERRED

Military rule and sanctions didn't deter China. Beijing was quick to embrace the military junta, and consequently China is now Myanmar's biggest trading partner. Of Myanmar's \$18 billion of trade in the fiscal year ending last March, \$5 billion was with China, while India's share was barely \$1.3 billion. Today, Yangon's markets are stocked with Haier home appliances, Lenovo computers, Chinese pharmaceuticals, and cheap cellphones. Over the years, China has simultaneously dipped into Myanmar's natural resources and strengthened its own strategic position as its neighbor. Today, China has access to natural gas through a Myanmar-China pipeline. It also has a substantial naval presence in Myanmar's ports, says Gareth Price, senior research fellow in the Asia Program at Chatham House, a London think tank.

It was that kind of access, along with China's growing influence on Myanmar, that led India, in the mid-1990s, to shift policy course and engage directly with the junta. India opposed American and EU trade and investment sanctions on Myanmar during the junta period. And even though it affirmed its support for Myanmar's transition to democracy, the damage was done—Myanmar's pro-democracy groups viewed New Delhi with a strong degree of suspicion.

But Myanmar remains of immense strategic importance to India—not just as a part of New Delhi's constant effort to ward off

Chinese influence in the region, nor to gain access to its natural resources, but because it provides a conduit for India to access the rest of Southeast Asia. Tata Motors, for instance, views Myanmar as a valuable link to lucrative Southeast Asian markets and hopes to sell its Nano car in Bangladesh, Thailand, and Indonesia, as well as Myanmar—once its roads are upgraded. Still, India has been "unable to step up its act," says Arvind Ramakrishnan, Asia head for Maplecroft, a London-based risk analysis group.

In an attempt to level the playing field, India has signed with the Association of Southeast Asian Nations to build a rail corridor connecting eastern India with Myanmar. But if

India's past record of completing projects is any indication, this effort will be many years off. In a more diplomatically significant move, Indian Prime Minister Manmohan Singh visited Myanmar in 2012—the first visit by an Indian prime minister since the late Prime Minister Rajiv Gandhi 25 years earlier—and used the visit to signal a significant deepening of relations, says Chatham House's Price. The two countries signed a dozen agreements that are "likely to form the cornerstone of tangible interaction between India and Burma over the next few years," observes Price. India's foreign secretary, Ranjan Mathai, described the measures as "a whole series of small but significant steps to

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#### INDIA IS CURRENTLY MYANMAR'S FOURTH-LARGEST SOURCE OF FOREIGN INVESTMENT, WELL BEHIND CHINA.

*Megha Bahree, a former Forbes and Wall Street Journal correspondent, writes about South Asia from New Delhi.*

ensure that our relationship with Myanmar had substance and left them with no doubt that we regarded them as a key neighbor."

The agreements cover a range of initiatives including extending a line of credit to Myanmar, setting up a joint trade and investment forum, the creation of a Myanmar Institute of Information Technology, as well as initiating air services between the two, amongst others. The most far-reaching agreement covers the India-Myanmar Border Area Development. It is intended to connect, or reconnect, border areas that since 1962 have been largely cut off. While this is one of the most fundamental issues, much is contingent on successfully upgrading a variety of road connections. Under this agreement, India has also offered \$5 million per year for five years to undertake the construction of small roads and bridges, as well as schools, health centers, agriculture, and training programs.

#### THE BIG GULP

The big projects from foreign investors in the sectors of power, petroleum, and infrastructure are crucial to maintaining Myanmar's economic growth. Its nominal GDP has risen from \$20.2 billion in 2007 to an estimated \$51.9 billion in 2011. India is currently its fourth-largest source of foreign investment, well behind China, which invested some \$13 billion in 2011.

In September 2012, China and Myanmar signed nine bilateral economic and trade cooperation pacts and two financial transaction agreements, according to Maplecroft. The two countries are also cooperating on constructing large-scale projects, including oil and gas pipelines and railway links to connect them. Over the years, China has also been a supplier of arms and ammunition, and in a bid to keep the Myanmar military at bay, it allowed rebels to slip in and out

of shared border areas, while turning a blind eye to smuggling, says Maplecroft's Ramakrishnan. But in a sign that Myanmar's new government might want to bolster its image in the West, and among its own people, President Thein Sein's government, in the face of local protests, suspended a major plan by China to build the \$3.6 billion Myitsone dam on the Irawaddy River in Kachin state in northern Myanmar.

The dam, the largest of several that China was planning along the Irawaddy, would displace 10,000 people and submerge 47 villages in a 300 square mile area. Several villages had been forcibly relocated, leading to local anguish and resistance. It didn't help that under that agreement 90 percent of the electricity was meant for China, and not energy-starved Myanmar. With the potential loss of land and livelihood to produce power for another country, locals have been protesting the project since its proposal in 2001, and activists in exile have carried out protests in other countries. The U.K.-based Kachin National Organization protested the construction of the dam, in February 2010, in front of Myanmarese embassies in Britain, Japan, Australia, and the United States. In April 2010, three bombs exploded near the site of the dam, killing three and wounding more than 20, local media reported. While no group took responsibility for the attacks, Kachins were suspected. The British newspaper, *The Guardian*, citing cables obtained by Wikileaks, reported that the American embassy in Yangon funded some of the civil society groups in the Kachin region that forced the Myanmarese government to suspend the construction of the dam.

"To postpone the dam is a really, really big deal," says Ramakrishnan. "China is a very important economic partner." Price adds that Chinese leaders suddenly have to deal with a new uncertainty when it comes

to Myanmar. "Until a couple of years ago, it was clear. It was a military regime, and Chinese investors knew exactly what to expect from them," says Price. "Now there's a level of uncertainty." That has not deterred China, which remains actively engaged in other infrastructure projects, and, in June 2013, pledged a \$100 million soft loan to help support Myanmar's key agricultural sector. Beijing also mediated the peace talks between Kachin rebels and the Myanmar government, which eventually resulted in a seven-point preliminary ceasefire agreement on May 30, 2013.

By comparison, India's investments in that country are still tiny, with the exception of a \$1.3 billion pledge to a gas pipeline. To be sure, Indian companies are actively assessing future opportunities in Myanmar. Seven Indian companies have been shortlisted for 18 onshore gas blocks that are being offered for bidding. Engineering and construction company Punj Lloyd Corp. has won the bid to construct two parallel pipelines for oil and gas—an investment worth \$475 million—and oil and gas exploration and production company Jubilant Energy NV has won a government contract for \$73 million to explore an onshore block in central Myanmar.

#### NO HOLDS BARRED

With the removal of most economic and investment sanctions, global corporations are waking up to the potential of Myanmar as a new market for everything from airplane engines to hotels to packaged food. Naypyidaw, too, has realized that it no longer has to tie itself down to its old companions—Beijing and New Delhi.

With fewer than 1.5 million mobile connections and barely 110,000 individuals with Internet access, Myanmar is one of the

last few untapped markets for cellular services and Internet providers. Some pay up to \$200 to purchase SIM cards that are awarded through lotteries. In June, Myanmar awarded 15-year mobile telephony licenses to Qatar's Ooredoo and Norway's Telenor, choosing those two after a round of bids, with 90 companies expressing interest.

"In the past, China was the dominant partner, but now there's an attempt to balance the various countries trying to influence it," says Price. That could change once again if opposition leader Aung San Suu Kyi comes to power in the 2015 elections. While addressing hundreds of potential investors and corporate partners at an ASEAN gathering in Singapore in September, Suu Kyi urged businesses to push for transparency in their dealings with enterprises in Myanmar.

"I am asking for caring, intelligent investment," she said. "We've got to look to rural development, to small and medium enterprises," to ensure equitable growth and development in Myanmar.

That would be yet another hoop to jump through for foreign investors who currently work mostly with Myanmar's biggest companies. Despite the recent changes, China still has an upper hand in Myanmar over other countries, especially India. But with new potential investors—including foreign, state-owned companies—lining up, Beijing could see its hold on Naypyidaw begin to slip, bringing a new balance of economic and political power to this corner of Asia. ●

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