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# Annual Report on the Development of International Relations in the Indian Ocean Region (2014)



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Editors

# Annual Report on the Development of International Relations in the Indian Ocean Region (2014)



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# Preface

## Asia in the Global Context

When looking back at 2013, there are three things that can sum up the global situation: One main line, two main trends, and three centers.

### One Main Line

On December 25, 1991, the Soviet Union broke up, bringing an end to the Cold War. This marks the end of the Yalta Conference bipolar system after the conclusion of World War II in 1945, and the US became the world's sole superpower. In my opinion, after the bipolar system ended, the world has been heading in a multipolar direction. This is a very lengthy transition period in which the main line of international relations is a struggle between a unipolar system and a multipolar system.

The Cold War ended 22 years ago, and when we look back on those 22 years, the struggle between a unipolar system and a multipolar system is plain to see. We all remember when the US started the Iraq War on March 20, 2003, under the pretext of combating terrorism and Iraq having weapons of mass destruction (WMDs). The US was determined to fight Iraq, but many countries in the world did not approve; France and Germany were resolutely against it, China and Russia also did not condone an attack.

Facts later proved the US's pretext for fighting Iraq to be untenable. Its pretext was that Iraq had weapons of mass destruction. However, after the US military fought its way into Iraq, it searched high and low and yet could not find these WMDs. A WMD inspection and disposal team was put together by the UN, whose chairman, Hans Blix (a former Swedish foreign minister), is a friend of mine. He was resolutely opposed to the war in Iraq, believing that Iraq's WMDs could be dealt with entirely by UN inspection teams. But the US would just not have it, it had to go to war.

The US bypassed the UN Security Council to fight Iraq, whose authorization would have made an invasion of Iraq legal, and lack of authorization would have made it illegal. The reason the US avoided the Security Council was that many of its member states were against the war. Before and after the US launched the war, the UN secretary-general at that time Kofi Annan said that launching the war in Iraq without the authorization of the Security Council was illegal. At the end of October 2013, I met Mr. Kofi Annan in Brussels. He is also a friend of mine and we have known each other for many years. We talked of his speech he made at the time on the Iraq War, he told me: "After I made the speech, the Americans were not happy and started to make things difficult for me."

So why did the US want war with Iraq? We all remember how elated the US elite circles were after the breakup of the Soviet Union, believing history to have come to an end, and that the US was to be the only superpower that could control the world forever more.

However, it is a trend in history that the world tends towards a multipolar system. Before and after the Cold War ended, a group of countries began to rise up including those in Western Europe, Russia, China, Japan and so on. In addition, a group of newly emerging great powers also began to ascend, particularly India, Brazil, South Africa and so on, whose rise was unstoppable. But in 2001, the GDP of the US accounted for 31 % of the whole world, another high point it had stepped on to since the end of World War II. The US is the world's only superpower. Its economic power is huge; its military power unrivalled; its science, technology and innovation capabilities are number one in the world; and this determined the US's strong desire to set up a unipolar world. We all remember that President Bush's national security advisor Ms. Condoleezza Rice made a famous speech after entering the twenty-first century, criticizing a multipolar world, believing it to be a world that leads to conflict and confrontation, one that is unstable; a unipolar world, she said, is the best kind, the most stable kind. This was of course something that many countries at the time disapproved of. After the end of the Cold War, the contest between a unipolar and multipolar world has been the main line of international relations.

Out of the Cold War and into the twenty-first century, the US launched two wars, one in Iraq and one in Afghanistan. Not only did these two wars bring disaster to the people of Iraq and Afghanistan, they were also seriously damaging to US national power, with Americans themselves believing that around 6 trillion dollars had been spent on the wars. In October of 2013, the US government shut down for 16 days because the debt ceiling of 16.7 trillion US dollars had already been reached; a further raising of the debt ceiling would require the approval of Congress. The Republican Party used this as an opportunity to make things difficult for President Obama, wanting him to make big concessions on his healthcare reform policy. As the world's only superpower ran out of money, President Obama's much anticipated tour of Asia was forced to be cancelled. If the US had not fought these two wars, it would probably have had a much easier time.

The financial crisis of 2008 showed that current global problems would be difficult to solve by relying only on the American-led G-7, and so emerged the G-20

summit. The first three G-20 summits were held very successfully, preventing the financial crisis from sliding into a great depression.

That there is a G-20 is in and of itself a sign that the world is becoming multipolar. In economy and finance, where the US hopes to maintain a unipolar world, it is already becoming more difficult for it to call the shots.

However, the US's leading position in military, science and technology is something that other countries have not been able to catch up with so far. On October 23, 2013, Angela Merkel, the German chancellor, made a phone call to President Obama, criticizing the US for tapping her mobile phone, which is said to have gone on for 10 years. Chancellor Merkel was furious and made the issue public, believing America's actions to have invaded her privacy and that of many European citizens, which was unacceptable.

This was not the only case. Brazilian President Dima Rousseff angrily postponed her visit to the US. In fact, the US was not only tapping the phones of the leaders of Germany and Brazil, the phones of perhaps most of the world's leaders were also being tapped. Was this a simple case of wiretapping? Why would Chancellor Merkel and President Rousseff have been so angry? This kind of incident would probably never have happened in the Cold War. Why is it that after the end of the Cold War, the US would want to wiretap the phones of the leaders of its friends and even its allies? I think that the essence of this issue still reflects the US wanting to use its technological superiority to pursue its desire for a unipolar world. The US wiretapping incident has induced the anger of the whole world. The Americans' explanation for this has been feeble, that it was combatting terrorism. Germany has made a strong refutation of this, pointing out that they see no relationship between wiretapping Chancellor Merkel's phone and combatting terrorism.

The wiretapping incident is one that has caught people's attention internationally over the past year and this is a reflection of the struggle between a unipolar world and a multipolar one. The world is now in a period of transition from a unipolar world to a multipolar one. The struggle between the unipolar and multipolar world is the main line of this transitional period, which will probably continue on, albeit with some changes in its form.

## **The Two Main Trends**

In the twentieth century, after the US had finished fighting the Vietnam War, changes gradually occurred to the main theme of the times, with the era of war and violent revolution entering an era of peace and development. This is perhaps the biggest change to have occurred in international relations. Much of the twentieth century was spent in war and revolution, with humankind experiencing two world wars and multiple revolutions, of which the costs were grave. The traumatized people pushed the main theme of the times from war and revolution to peace and development. Following the change in the main theme of the times, two main trends appeared in the world.



The first trend is that of peaceful development and mutually beneficial cooperation. There are two forces pushing this trend onwards. One is the interdependency brought about by globalization: human beings have never been so dependent on each other as they are now.

The second force is the common challenges that humanity faces, which have never been so serious, such as global warming, terrorism, natural disasters, drug smuggling and so on. No matter how strong a country is, it has no way of facing these serious challenges alone. Humankind has to join together before it can go on surviving. In contrast with the first trend, there still exists a trend of Cold War, opposition, conflict and resentment.

Owing to the fact that today's world developed from the old world, there are two forces that have pushed the second trend. The first is inertia in thought: The world has changed, but people's thinking is still stuck in the past, in the Cold War era; their thinking is behind reality, and this is something that happens often. The second force is vested interests: They are anxious to see the world in disorder, they wish to see a new war break out in the world, for opposition and conflict to break out, because the more chaotic the world becomes, and the more conflicts there are, the easier it will be for them to reap the profits.

What needs to be pointed out in particular is that following the changes in the main theme of the times, the rules of the game have changed from a zero-sum game to a positive-sum game. Zero-sum games have ruled over the world for a few thousand years, forming strong inertia. People are constantly living in inertia of thought, an inertia that has unwittingly influenced the thoughts and behaviors of people.

Owing to the above reasons, when looking at the world today, all types of events can dazzle you as there are too many things to look at. But when you look closely, it is all about the contest of two main trends. The first trend, peaceful development and mutually beneficial cooperation, represents brightness and the future of humankind. The second trend represents darkness and the past. The confrontation of these two forces will determine the fate of the twenty-first century for humanity. In the case of China, and the majority of countries, I think all of them support the peaceful development and mutually beneficial cooperation trend. Our rise benefits from this trend and our development has once again expanded this trend.

Something comforting for people was that in 2013, the first trend made some progress. A temporary agreement was reached with the Iran nuclear issue after arduous negotiation. This was something that was hard won, and despite being the first step, it still gave some hope to solving the Iran nuclear issue in the future. There is no end in sight for the Syrian civil war. Centering on the chemical weapons issue, the US once threatened the use of military force on the Assad government. Subsequently, following the joint efforts of various parties, Syria's Assad government agreed to destroy all of the chemical weapons it possessed, avoiding US involvement and the escalation of conflict, making the people of the Middle East and of the whole world breathe a sigh of relief.

Everyone came to realize that the Syrian civil war issue could only be solved peacefully. In January 2014, the second Geneva Convention is to be held for the Syria issue. Churchill once said: "To jaw-jaw is always better than war-war." Though

the prospects in terms of solving the Syrian issue with negotiations remain complicated and confusing, the fact that discussions are being held is something that can be regarded as progress.

In 2013, despite the trends of Cold War, conflict, confrontation and resentment still stubbornly making appearances, the trend of peaceful development and mutually beneficial cooperation has made some progress, and this is something that we can be comforted by.

## Three Centers

Looking at the global situation today, there are three centers that can be clearly seen. The 2008 financial crisis first broke out in the US, then gradually made its way to Europe, and today the center of the crisis is still in Europe. Europeans are now still fighting bitterly with the crisis and its consequences.

The second center is global partial war, with the center of confrontation, chaos and conflict in the Middle East and North Africa. This region is the most troublesome on earth, with the Syrian war being a concentrated expression of this. This region has drawn in the whole world, especially the attention of great powers in terms of their diplomacy. In the foreseeable future, the situation of the Middle East and North Africa, as the centers of global chaos, will continue on, which is most unfortunate. War and continued turmoil have given the people of this region grave suffering. The international community will also spend a large amount of manpower, material resources and money on this region to alleviate the crises.

The third center is the center of global economic growth, which shall be in Asia, particularly in East Asia. It was predicted by the International Monetary Fund that in 2013, global economic growth will be 3 %, with the US at 1.6 %, Europe at -0.4 %, Japan at 2 %, and the emerging Asian economies at 6.3 %. Projected global growth for 2014 is 3.5 %, with the US at 2.6 %, Europe at 1 %, Japan at 1.2 %, and the emerging Asian economies at 6.5 %.

The above data show that the center of global economic growth is still Asia, especially East Asia and South Asia. The 2008 financial crisis has already been going on for 5 years, and if the world is going to step out of the shadow of economic recession, it needs to rely on growth. Asia's economic growth is towering over global economic growth by three percentage points. Not only does Asia need Asia's economic growth, the whole world needs it too.

Needless to say, there are still many troubles in Asia, with Asian countries centering on fights over territory and sovereignty issues, and this is especially so for China and Japan in their contest over the Diaoyu Islands. Nevertheless, observing the situation in Asia in the global context, the following two conclusions may be drawn: One is that Asia will retain continued economic growth, as the preservation of Asia's status as a center of economic growth is something that not only Asia needs, it is something the whole world needs too; the second conclusion is that the main countries and international communities in the world today do not want to make the

Asian region chaotic, and thus break off the momentum of Asia's economic growth because this would not suit their fundamental interests.

I believe that when we observe Asia in a global context, we can see more clearly and will thus cherish Asia's status as the world's economic growth center even more. In human history, Asia led the world for more than a millennium. Up until 1820, Asia's economic aggregate made up 56 % of that in the world. Of course, we have fallen behind in recent history, but we are now catching up, and because of this, the development opportunities that Asia has today are perhaps the best it has had in a few hundred years. We Asians have every reason to grab on to this opportunity tightly, to use it well and push Asia's rise. At the same time, we should also handle the differences we have between us properly and we should not let these differences hinder our cooperative development or Asia's rise.

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Beijing, China  
January 2014

Jianmin Wu

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**Part I**  
**General Report**

# Chapter 1

## Competition and Cooperation Between Great Powers Over the Bay of Bengal

Rong Wang

**Abstract** Since the twenty-first century, with the group rise of emerging economies such as China and India and the implementation of America's "Asia-Pacific Rebalancing" strategy, the Indian Ocean and the Western Pacific region has become a strategic region more than ever in relations between powers and status changes. The Bay of Bengal, never outstanding in strategic structure of powers, began to see competition and cooperation between great powers, especially the United States, China, India, Japan and other countries which have represented noticeable rivalries and competitions here in recent years. So in the future, whether this backward, diversified and fragile but potential region will be in chaos and failure or in stability and success is closely related to the development and changes in relationship between the regional countries and the great powers. In 2013, great powers began to make their efforts to promote opening and stability in this region. Although there are open and secret struggles and a considerable distance from open cooperation, there are some signs of hope to establish the new relations between big powers in the region, thus raising confidence in preventing the regional countries from falling into failure and chaos.

**Keywords** Bay of Bengal • Great-power relations • Competition and cooperation

The Indian Ocean area north of the equator is surrounded by three bays, i.e., Gulf of Aden, the Persian Gulf and the Bay of Bengal. When we look into the history, we may find that many events on the Indian Ocean have a close relationship with these three bays. In the twenty-first century, most of the major events affecting the global marine economy, politics and security happened in the three bays. Of course, with the security problem caused by pirates to Indian Ocean sea lanes under the control of the global cooperation mechanism, the problem of Aden Gulf is no longer

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a special global attention; at the same time, with a favorable turn in Iranian nuclear crisis at the end of 2013 after the Iraq war, the fog of war over the Persian Gulf seemed to fade away. As the United States moved its strategic focus to the west, many countries are playing more roles in security in this bay region, so in a short period of time, there may be no tensions at daggers drawn. The Bay of Bengal, once less conspicuous and relatively calm, is increasingly showing a major strategic role in the Indian Ocean and is having more influence on the global strategy of great powers. In 2013, foreign powers such as the United States, Japan and China paid their high attention on this region and their heads of state and heads of government unusually took turns to visit this region; in particular, the sharp shift in western countries' policy to Myanmar was prominent. The complexity, variability and vulnerability in politics and economy in the Bay of Bengal will bring about greater uncertainty in the future strategic structure in this region. The Bay of Bengal will perhaps become a new political, economic and security focus in the Indian Ocean region, and thus will have a significant impact on global politics, economy and security.

## **1.1 The Bay of Bengal Influenced by Political and Economic Structure**

In the twenty-first century, the international political structure of “one superpower and multi-great powers” formed after the cold war and the lonely superpower status of the United States remain unchanged, but the power structure of “one superpower” and “multi-great powers” is undergoing rapid transitions. Especially with the rapid development in the emerging economies such as China and India, the relations between global powers have shifted from the traditional bilateral balance to the complex bilateral and multilateral struggle for regional influence with geo-politics and geo-economy as orientation, thus promoting the changes in power relationship and status in the strategic vision of each other, obviously increasing strategic competition tendency.

The world is stepping towards multi-polarization and such trend is unstoppable. A multi-polar world is inevitably full of competitions, because all the countries are struggling to maintain their strategic positions in the international system (Waltz 1993, pp. 44–79). The basic rule of competition among traditional great powers is to enhance their competitive strength on the one hand and on the other hand, to do anything possible to prevent or weaken the strength of their competitors so as to win the competition (Strategic Studies Institute, US 2013, p. 57). Therefore, under the strategic competition over influence, competitors can be regarded as partners or cooperators only in exceptional circumstances, and even though there is possibility to boost the strategic cooperation, it will only be confined to be in certain sections, difficult to conduct a comprehensive cooperation. As a result, strategic competitors treat their opponent as an enemy, which inevitably leads to vicious



competition and even conflict, besides, the ceaseless upgrade in cognition on mutual treating makes the strategic mutual trust between countries vulnerable, even brings about “structural instability”, thus resulting in regional security crisis.

However, the world that constantly moves towards multi-polarization is creating a new international system, so a new type of partnership between big powers will gradually replace the traditional one. A multi-polar world is the embodiment of the changes in nature of state relations generated inevitably in the globalization process. The problems that human beings are facing are no longer regional but more global, and such problems whether in climate change, environmental damage, natural disaster, energy and food security, poverty and disease, or drugs, piracy, terrorism, nuclear proliferation and security, the global financial and economic crisis, the international trade and monetary order, network utilization and safety, cannot be dealt with and resolved by one or two powers alone any more. In fact, the United States is also very clear that in today’s world, it is incapable to cope with any of the above questions independently. To make any progress, there must be cooperation on a global scale, especially among the major powers. In the past years, many global problems that occurred in the Indian Ocean region, the process to cope with these problems has demonstrated a fact that even these problems are solved in the region scale, many major powers are required to negotiate and make efforts before reaching effective results. Therefore, the powers often break through the difference in ideology, political system and cultural tradition to seek common interests in various fields to meet global challenges. In the Indian Ocean region, such international cooperation in combating terrorism and piracy, tackling climate change, operating marine disaster rescue and controlling nuclear proliferation embodies the new type of cooperative relations between big powers. Although this new type of state relations is under arduous exploration with dissatisfactory performance besides severely suffering impacts imposed by various international and local forces, it really shows the direction in which the positive energy of human civilization accumulates. Thereby, the traditional concept of competition between powers polarizes the consciousness of “opponent” and “enemy”, so it over stresses the competition in the world multi-polarization process, however, in fact, “polarization” will not only intensify competition but also create opportunities for cooperation.

The multi-polarization of international system is the background for us to understand the current and future situations in the Bay of Bengal, but what are the main features of the international system changes today?<sup>1</sup>As for the concept of the international system, the realism (especially neo-realism), liberalism (especially neo-liberalism), constructivism and even the British School all set forth their views on the anarchism in the international system. The neo-realism focuses on the configuration and changes of the power in the international system, while the

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<sup>1</sup>As for the international system concept, related researches include *International System and China’s Diplomacy*, authored by Qin Yaqing, World Affairs Press, 2009; *International System and China’s Responsibility in Changing*, authored by Liang Shoude, Chen Yue and Li Yihu, World Affairs Press, 2011.

neo-liberalism focuses on the analysis of the function and changes of the institutions of the international system, the constructivism mainly concerns the positions and changes of the concept and identification of the international system, and the English School made a classical distinction in the international system and the international community (Yang Jiemian 2006). On the whole, the international system structure refers to the distribution of material force (military force, economic force, power and interests, etc.) among major countries (Ye Zicheng 2012, p. 5). The system is composed of the structure and interactive units, wherein the structure is used as a component to form the whole system, so that the system can be regarded as a whole (Kenneth Waltz (US) 2008, p. 84). The structure at a system level in the international system is called the international structure, so – at its most fundamental – the transformation of the international system can be understood as the new development, changes and trend in the structure of the international system, i.e. the international structure.<sup>2</sup> In recent years, changes in the international system mainly come from the following two aspects with possibilities to have two effects on the structure changes of international relations in the Bay of Bengal:

First, the group rise of emerging market countries has caused changes in the international system. In 2012, GDP of both emerging economies and low income countries exceeded 50 % of the world for the first time, and this change has led and will continue to lead profound changes in the global political and security structures (Wang 2013). Among the emerging market countries, apart from the BRICS countries that have generally maintained a sustained growth, the “next 11” emerging economies (N-11) including Pakistan, Egypt, Indonesia, Iran, South Korea, Philippines, Mexico, Bangladesh, Nigeria, Turkey and Vietnam possess a generally positive growth potential. According to the World Bank statistics, the America’s share of world GDP in 2012 was about 20 %, lower than 31.8 % in 2001, almost equal to that of BRICS countries; at the same time, American share in global exports fell from 12.3 % in 2011 to 8.1 % in 2000 and the proportion of imports in the world also decreased from 19.2 % to 12.3 %. According to forecast by the International Monetary Fund, the total GDP of BRICS countries in 2013 will exceed that of the United States and the proportion will reach 23.7 % in 2016. In order to realize the common geopolitical and geo-economic interests among BRICS countries so as to increase their value, five BRICS countries made a decision to prepare for the establishment of joint development bank in the third BRICS Leaders Meeting held in Durban, March 2013.

Among the BRICS countries, the development of China and India is most striking. On the basis of continuously increasing their national power, China and India have built and are building a series of ports and transport routes along the south boundary of Eurasia, including the Bay of Bengal. Therefore, some scholars think the predominance Western countries have remained in the Indian Ocean region for 500 years may slowly come to an end against the background of uncertainty of the future navy forces, troubles in economy and the resulting effects on the military spending

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<sup>2</sup>Ye Jiang: *Discussion on the Diffusion and Transfer of Power in the Current International System and its Influence on the International Structure*, <http://www.aisixiang.com/data/68478-3.html>

in the US (Kaplan 2013a, p. 3). With the expectation of the unstoppable world multi-polarization trend in the future, during the “grey stage” when the old order is gradually broken and a new one has not yet been established, the international structure will be in a “turbulent period” caused by strategic competition and the corresponding international relations will be in an “adjustment period” full of opportunities for cooperation.

Although there are still many disputes over how much uncertainty in the international strategic structure will emerge in the future in the Indian Ocean region including the Bay of Bengal, the group rise of the emerging economies, especially the special geopolitical and economic interests created in the Indian Ocean region including the Bay of Bengal will surely make this region receive more attention on security and development. Then, authorities affected by major powers will be accordingly reconstructed. The United States will still play an important role in quite a long period of time by maintaining its status of the leading voice and the strongest impact in the region on world affairs, but with the rise of Bengal countries themselves and major countries both in and out of this region enhancing their multilateral roles, the emerging economies such as China and India, as two important force that cannot be ignored, continue to push the region in the direction of multi-polar competition and cooperation, and will grow into the true powers in the transformation of the international system, maintaining the region’s economic growth and social progress, security and stability.

Second, the Asia-Pacific rebalancing strategy put forward by the United States has boosted the transitions in the international system. In order to maintain the leadership in the world and protect its future interests in the Asia-Pacific region, the United States has effectively promoted the Rebalancing strategy in the world mainly by withdrawing from the Middle East progressively and investing its main strategic resources into strengthening its existence in the Pacific and Indian Oceans other than anti-terrorism so as to increase its military force in the Asia-Pacific region. In fact, the Asia-Pacific rebalancing strategy of the United States is implemented as a preventive control to prevent future dispersion or shift of power, however, the strategy has made itself as the main force to drive the transformation of the international system.

What happens along with the change in the international system is the power dispersion and shift, precisely the last thing that the United States wants to see. Undoubtedly, the United States wants to maintain and lead a uni-polar world, but the increasing input in making and keeping rules of the international system has made it feel powerless more than ever, therefore, to maintain its leading position in the world and retain its geographically strategic advantages, changes must be made in the strategic layout and implementation. Since November 2011 when the American President Obama proposed the Asia-Pacific “rebalancing” strategy officially in the APEC informal summit, US officials have continuously stressed its leading position in the Asia-Pacific region in many important occasions.

The first step to adjust its Asia-Pacific strategy is to control the Southeast Asia that holds vital sea-lanes connecting the Pacific and Indian Oceans by reallocating its strategic resources. The United States continues to consolidate the relations with its allies and quasi allies including Philippines, Singapore and Thailand, adjust its

policy toward the Southeast Asia including Myanmar, Kampuchea and Laos that it had contradictions and once conflicts with. In particular, it has lifted most sanctions on Myanmar. The United States promote close military and political ties with the Southeast Asian countries by offering aid and investment and inviting to participate in military exercises; in economy, the United States implements “Trans -Pacific Partnership Agreement” (TPP) negotiations to incorporate Indonesia, Vietnam, Malaysia and Brunei and other ASEAN members so as to share the economic growth in Asia; in military, the United States has deployed more naval forces in the Pacific Ocean region. On December 16, 2013, the Bureau of Public Affairs of the United States Department of State published a briefing of “The Asia-Pacific Rebalance: Expanding the United States engagement,”, emphasizing the United States investment in the east Asia-Pacific region has risen by 35 % since Mr. Obama took office, up to 622 billion dollars as of 2012. The United States will continue to strengthen the positive and lasting involvement in this region to better safeguard its own benefits through the rebalancing strategy, including efforts to create and maintain the United States employment; keep the United States safer and more secure; help expand the ranks of democracy and prosperity.<sup>3</sup>

There is no doubt that due to the rapid development of China and India in the past 20 years, the structure of international relations in the West Pacific Ocean and Indian Ocean regions has changed, challenging the traditional power and dominant position of the United States in these regions and pushing the United States to implement the global rebalancing strategy. At the same time, economic power and political influence of China and India in this region has hardly been kept down, so the United States is bound to face this new force when to implement its rebalancing strategy and will strengthen the rebalancing with China and India. On March 11, 2013, the United States national security adviser Thomas Donilon emphasized at the Asia Society that the “rebalancing” strategy of Obama government was of vital significance. But at the same time he also said in his speech that the United States welcomed the rise of a peaceful and prosperous China and would establish a more constructive relationship with China.<sup>4</sup> The meeting held by President Xi Jinping and President Obama in June 2013 at Annenberg Retreat opened an era when the two heads of state started to build personal relationships, enhance mutual communication and understanding on domestic, bilateral and global issues, and set the tone for improving the relationship between the two countries and establishing new relations between big powers (Han Lei (PaulHaenle) (2014, pp. 36–37)).

The “Asia-Pacific rebalancing” strategy of the United States involves reallocation of its strategic resources in the global scope as well as “rebalancing” the “imbalanced” Asia-Pacific structure caused by its long-term ignorance upon reallocating its main strategic resource from the Middle East to the Asia-Pacific region. The United States “rebalancing strategy” has caused many countries to change their policies and

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<sup>3</sup>The Asia-Pacific Rebalance: Expanding the United States engagement, <http://www.state.gov/r/pa/pl/2013/218776.htm>

<sup>4</sup>Talk of US National Security Advisor Thomas Donilon on America’s Asia-Pacific Policy, <http://blog.huanqiu.com>, March 18, 2013, <http://blog.huanqiu.com/316056/2013-03-18/2703857/>

implement “dynamic” balanced strategies, especially they want to enjoy the United States “safe haven” and at the same time share “bonus” of China’s economic growth, so they are seeking for a balance in real interests and conflicts through trade-offs.

Therefore, the United States “rebalancing” is actually the power rebalancing of the United States, China and India in the Asia-Pacific region and it is also a readjustment of the strategic structure among the Asia-Pacific countries. From this point of view, we will find the focus area of the regional power rebalancing includes the Western Pacific region and the Bay of Bengal that circulate China. Compare with South and East China Sea in the Western Pacific Ocean, the Bengal Bay bears larger strategic space to the United States, China and India, in this region, any regional or global issues affecting common interests will pose more challenging competition and more flexible cooperation for these three powers. Perhaps, this region will provide an opportunity for the United States, China and India to explore new mechanism to maintain the energy and maritime security, confront environment and climate challenges, promote religious and national reconciliation, curb terrorism and drug trafficking, drive economic growth and eliminate poverty so as to achieve the reconstruction and development of a new type of relations in the process of change in the international system.

In short, the Bay of Bengal, never outstanding in strategic structure of powers, began to see competition and cooperation between great powers, especially the United States, China, India, Japan and other countries have represented noticeable rivalries and competitions here in recent years. So we’ll have to wait and see whether this backward, diversified and fragile but potential region will be in chaos and failure or in stability and success in the future. But there is no denying that great powers began to make their efforts to promote opening and stability in this region in 2013. Although there are open and secret struggles and a considerable distance from earnest cooperation, regional substantive China-India and US-India cooperation have been carried out on the regional issues of common concern, indicating some signs of hope to establish the new relations between big powers in and out of the region, thus raising confidence in preventing the regional countries from falling into failure and chaos.

## **1.2 Reform in Myanmar and Concerns of Powers**

Myanmar is a very important country in the Bengal Bay region, and it plays an increasingly critical and strategically significant role in the development and security of the Indian Ocean region. In recent years, along with the transformation from military regime to democracy, Myanmar is full of demands on the bud for reform, so accordingly, its foreign policy also has changed. Now Myanmar is “wisely deal with” international relations and “skillfully balancing” international investors so as to make more friends while making efforts to open to the world. One outstanding reflection is that Myanmar’s top commanders have begun making more frequent visits abroad, hoping Western nations to lift sanctions on the country and besides seeking cooperation with the United States, Japan, China, India and other global or regional powers. A significant achievement is that

Myanmar has got a record-breaking foreign investment totaling more than \$20 billion during the fiscal year 2010–2011 after implementation of the reform, compared with that a total of \$16 billion in the past 20 years (Xue Hongtao 2011).

### ***1.2.1 Reform in Myanmar***

In the national election in November 2010, the former Prime Minister Thein Sein was elected from the parliament as the first Myanmar president of the new government, announcing the return of multi-party parliamentary democracy. On April 1, 2012, the new government of Myanmar held a parliamentary by-election with a total of 150 candidates from 17 political parties and 7 independent candidates running for 37 seats in the House of Representatives, 6 seats in House of Nationalities and 2 state seats. In the by-election for 45 parliament seats, the National League for Democracy (NLD) won 43 seats, and Aung San Suu Kyi, leader of NLD, was elected to the parliament members. The fact that Aung San Suu Kyi won the election symbolizes that the process of democratization in political affairs in Myanmar has taken a big step forward. In the meantime, Myanmar took a series of measures to promote democratic reform, including amnesty of political prisoners; announcing the lifting of VOA, BBC, Radio Free Asia as well as the website of Democratic Voice of Myanmar, loosening media scrutiny, legalizing labor unions, allowing peaceful demonstrations, peace negotiations with the ethnic armed groups and so on. These initiatives continue to win the western recognition, now the western countries led by the United States have announced a loosening of financial and investment sanctions on Myanmar, which will in turn further boost democratic reform in Myanmar, because Myanmar expects the western countries to lift all sanctions eventually.

It is noteworthy that Myanmar heads into election year in 2015, and the constitutional amendment will have a direct impact on the general election for it is an important matter in Myanmar's political life. In July 2013, Myanmar's Assembly of the Union formed a joint committee on constitutional evaluation attended by 109 parliament members so as to make necessary changes in the constitution of Myanmar passed by state voters in 2008, which is an important step for Myanmar's constitutional amendment.<sup>5</sup> The Union Solidarity and Development Party in Myanmar (USDP) announced that it would make suggestions for revision to 73 constitution terms including president qualifications after the second central executive committee meeting held from December 28–30 in 2013, leaving hope and suspense for Aung San Suu Kyi to run for presidency in 2015 election.<sup>6</sup>

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<sup>5</sup>*Myanmar's Parliament Forms a Constitution Assessment Committee and Takes the First Step toward Constitutional Amendment*, <http://gb.cri.cn/42071/2013/07/25/6071s4195419.htm>

<sup>6</sup>*Myanmar's Consideration over Constitutional Amendment Starts a Big Drama in the Political Stage*, *Guangming Daily*, January 3, 2014.

However, Myanmar's domestic problems still have not been fundamentally solved. At the end of World War II, Myanmar's national hero General Aung San clearly realized that how important it was for this new country to reach national reconciliation and avoid conflict in his struggling for Myanmar's independence. So he bravely exclude all kinds of obstacles and signed three principles with ethnic leaders in February 1947 at Panglong, including establishing a decentralized system of government, admitting high level autonomy of ethnic minorities living in upland areas, and acknowledging their independent rights after years (Kaplan (US) 2013b, p. 291). Five months later, General Aung San was assassinated, and the UK left Myanmar in January 1948, then Myanmar was formally independent, however, efforts for national reconciliation were in a dilemma and hard to push forward. Thereafter, ethnic conflicts and continuous wars became Myanmar's long-term problems at home. Besides, because the ethnic conflicts in Myanmar are intertwined with military regime, economic backwardness and poverty and religious conflicts along the border area, they have become a thorny problem that any political leader and political system must face. Today's Myanmar carries such heavy burdens and is faced with the situation that it must be open, so it is a significant challenge to develop in more and larger fierce global competitions for both Myanmar itself and those powers with eyes on Myanmar.

### *1.2.2 The United States Concerns*

In 1988 when Myanmar's military government put down student demonstrations by force, the United States started to impose sanctions on Myanmar with policies mainly including prohibiting American citizens or enterprises from most economic activities in Myanmar and keeping diplomatic ties with Myanmar at the lowest level. As Myanmar started the democratic reform, on November 3, 2009, the United States Assistant Secretary for East Asian and Pacific Affairs Kurt Campbell paid a visit to Myanmar, which was the first US official visit to Myanmar in the past 14 years. During the visit, Campbell reiterated on many occasions that the American government expected to "improve relations with Myanmar". An assessment published by the United States in November 2009 concluded: the United States took a dual-track policy on Myanmar, imposing further sanctions against Myanmar on the one hand and, on the other hand, increasing diplomatic ties at higher levels.

On September 26, 2012, American Secretary of State Hilary Clinton declared to lift restrictions blocking import from Myanmar when she met Thein Sein as a nod to the rapid reform in Myanmar. It's worth mentioning that on November 19, 2012, Obama made a "historic" "groundbreaking" visit to Myanmar and met with President Thein Sein and the opposition leader Aung San Suu Kyi respectively. From May 20–23 in 2013, Myanmar's President Thein Sein visited the United States at the invitation of US President Barack Obama, the first visit made by the President of Myanmar to the United States the last half-century. During the visit of Thein Sein,



the United States and Myanmar signed a series of framework agreements meant to facilitate trade and investment.

On February 22, 2013, the United States Treasury declared the lifting of American sanctions on four banks in Myanmar – Myanmar Economic Bank, Myanmar Investment and Commercial Bank, Asia Green Development Bank and Ayeyarwady Bank and allowed these banks to enter the United States financial market, which is a new move to loosen the sanctions on Myanmar. Immediately following, from February 24–28 the same year, Myanmar received a visit of the largest US enterprise delegation in the history led by Assistant Secretary for economic and commercial affairs Jose Fernandes and including 50 American enterprise executives. The delegation covered a number of major companies including Yum Brands (owner of KFC and Pizza Hut), General Motors, ConocoPhillips and Caterpillar.<sup>7</sup> According to official statistics, as of the end of March 2013, the United States has invested \$243 million in 15 projects in Myanmar, accounting for 0.6 % of Myanmar foreign investment. During the 2011–2012 fiscal year, the bilateral trade volume between the United States and Myanmar was about \$290 million, including \$29.57 million exported to the United States and \$264 million imported from the United States. The investment of the United States in Myanmar not only lags far behind that of China, Thailand, Japan and other Asian countries, but even far behind Netherlands, Norway and other European countries.<sup>8</sup>

On October 9, 2013, the United States Secretary of State John Kerry said the United States would strengthen the contact with Myanmar in 2014 when Myanmar took over the rotating leadership seat at ASEAN during the ASEAN Summit when he attended the summit on behalf of President Obama, and also said that one of the top priorities of the Obama government was to develop partnership with all ASEAN countries for the relationship in security, economy and humanities with ASEAN countries was an important part of the United States “Asia rebalancing strategy”.<sup>9</sup>

Towards the United States policy change, the government of Myanmar responds actively. Myanmar, a country was isolated from the international community at one time, seems to have a feeling like “a long drought meeting sweet dew”, pinning hopes on strengthening relations with the United States to remove sanctions on it for many years so as to get out of the isolated situation in the international relations. And Myanmar was invited as an observer on February 11, 2013, to participate in the 11-day massive combined military exercise “Cobra Gold 2013” in Chiang Mai, Thailand organized by the United States which attended by 13,000 military personnel from seven countries including the United States, Thailand, Japan, South Korea, Indonesia, Malaysia and Philippines. For the exercise, Australia, France, Britain, India and other countries were invited to participate in the planning, while

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<sup>7</sup> *Analysis Saying US-Myanmar Relations Warning Up to Balance China's Influence*, *People's Daily*, February 27, 2013.

<sup>8</sup> *US-Myanmar Relations Warning Up*, *People's Daily*, February 27, 2013.

<sup>9</sup> *US will Strengthen the Engagement with Myanmar*, *Evening Post*, October 10, 2013, the [http://newspaper.jfdaily.com/xwwb/html/2013-10/10/content\\_6519.htm](http://newspaper.jfdaily.com/xwwb/html/2013-10/10/content_6519.htm)



China, Brunei, Chile, Germany, Laos, New Zealand, Russia, the United Arab Emirates and other countries participated as observers. Wherein, that Myanmar was invited to attend was widely seen as a strong signal that the western countries were to improve the relationship with Myanmar.

However, the United States still seems unlikely to lift all the sanctions against Myanmar. On September 30, 2013, the United States State Council said in a statement that the United States would continue to adopt a “dual track” policy on Myanmar, that means to continue impose sanctions while keeping principled engagement. Meanwhile, Kugelmann, an expert on South Asia from the United States Wilson International Center, points out that the United States should be careful to pry Myanmar, neither damaging Myanmar-China relationship nor affecting US-China relations, moreover, the United States needs to take into account the issues on human rights and religions to be improved while encouraging and praising Myanmar. Given this, the Obama government did not rush to the lifting of sanctions against Myanmar when he was in diplomatic engagement with Myanmar.<sup>10</sup> Anyway, the United States is extending an olive branch to Myanmar step by step due to multiple strategic considerations, after all, Myanmar holds the strategic position in Southeast Asia and South Asia, which is not only a fulcrum for building the “rebalancing” strategy but also a breakthrough for the United States to deepen its cooperation with ASEAN. To improve relations with Myanmar is conducive to the participation of the United States in Asia-Pacific affairs, which is an important part of the United States “Asia-Pacific rebalancing” strategy.

### ***1.2.3 China-Myanmar Relations Stable with Changes***

Since Myanmar started the democratic reform and gradually opened to the world, there have been changes subtle but must be given concerns in China-Myanmar relations. For now though, there are no big fluctuations in the foreign policy of Myanmar and China to each other, the state-to-state relations especially people-to-people relations between the two countries have changed a lot. There exist new opportunities for cooperation, but also lurk more risks. For China, Myanmar is an important partner for China to maintain security in the southwest perimeter and a big supporter of China in ASEAN and regional affairs; the two countries share broad prospects in trade, investment, economic and technical cooperation. Therefore, against the new political and economic structure, how to deal with China-Myanmar relations properly is an important test for China’s peripheral diplomacy and global strategy.

In recent years, China-Myanmar bilateral economic and trade cooperation has been extended from the original only trade and economic assistance to the project

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<sup>10</sup> *US Expert: US Improving Relations with Myanmar will not Undermine China-US Relations*, <http://news.ifeng.com>, May 22, 2013, [http://news.ifeng.com/world/detail\\_2013\\_05/22/25573271\\_0.shtml](http://news.ifeng.com/world/detail_2013_05/22/25573271_0.shtml)

contract, investment and multilateral cooperation.<sup>11</sup> On September 30, 2013, the main line in Lufeng – Guangxi Guigang section of China-Myanmar gas pipeline was completed, marking the whole completion of the main lines of China-Myanmar gas pipeline, one of China’s four largest energy import channels, and the new gas pipeline connecting China and Myanmar was put into operation on October 20 the same year. The section of China-Myanmar oil-and-gas pipeline project in Myanmar was started on June 3, 2010, while the section in China was started on September 10, 2010. The crude oil pipeline section in China is 1,631 km long and natural gas pipeline section in China is 1,727 km. The pipeline, 7,676 km long in total, starts from the east coast of the Indian Ocean in the west, runs across Myanmar and enters the territory of China in Ruili before being transported to Yunnan, Guizhou, Guangxi and Chongqing in the southwest of China, capable of transmitting gas up to 12 billion cubic meters.<sup>12</sup> The project of China-Myanmar gas pipeline totally cost \$2.5 billion with annual oil transmission capacity up to 22 million tons. The pipeline will help China become less reliant on the Strait of Malacca for energy transport in addition to shortening the distance for transporting oil from the Middle East and Africa to China and saving the cost. At the same time, China will reduce coal consumption of 3,000 tons every year, thereby reducing the dependence on coal.

Upon invitation by the Chinese President Xi Jinping, Myanmar President Thein Sein started his state visit to China from April 5–7, 2013 and attended the annual meeting of Boao Forum for Asia 2013, which accelerated the process of energy cooperation between the two countries. On September 2, 2013 in Nanning, Guangxi, Chinese Premier Li Keqiang met Myanmar President Thein Sein who was there to attend the tenth session of the China-ASEAN Expo. Then, on October 9, Li Keqiang once again met Thein Sein at the East Asia Summit held in Bandar Seri Begawan of Brunei and stressed that under the new circumstances, China would work with Myanmar to grasp the general direction of bilateral relations and enhance pragmatic cooperation in all areas, so as to inject new momentum into bilateral good-neighborly friendship.

China has made investment in Myanmar for many years, besides investment in infrastructure, oil pipelines and tanker berths, Chinese companies also have provided a large number of advanced technologies and equipment for Myanmar, and have contracted to build cement plants, engine plants, textile plants and other projects. It should be said that long-term investment cooperation is conducive to the management of China-Myanmar relations. However, along with the United States, Japan and India frequently offering the “olive branch”, in the conditions that the enterprises from these three countries are enthusiastic to seize the Myanmar market, China’s investment space in Myanmar will be inevitably squeezed. In order to get

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<sup>11</sup> *Li Keqiang Met Respectively with Burmese President Thein Sein, Malaysian Prime Minister Najib Razak, Australian Prime Minister Tony Abbott and the US Secretary of State Kerrey*, [http://news.xinhuanet.com/2013-10/10/c\\_117643212.htm](http://news.xinhuanet.com/2013-10/10/c_117643212.htm)

<sup>12</sup> *The Main Line of China-Myanmar Gas Pipeline Project is Completed Wholly*, Yunnan Daily, October 1, 2013.

the lifting of Western sanctions, though Myanmar will not be completely allied with the west in consideration of China-Myanmar traditional relationship and realistic interests, it will at least implement the “balanced diplomatic strategy” with great elasticity. On September 30, 2011, Myanmar stopped the large dam to be built by China on Irrawaddy River in northern Myanmar at a cost of \$3.6 billion, which is a clear example.

Obviously, China and Myanmar are seeking to change their traditional foreign policy with efforts to find a way that adapts to the new open structure to achieve their own national interests and solve their domestic problems without devastating the traditional friendly relations. Against this background, the two countries are carefully handling the conflicts and discords that have manifested, while downplaying their respective policy adjustments. If Myanmar will continue to adhere to the opening to the outside world so as to really integrate into the international community, and if it will continue to adhere to the domestic reform still need to be verified in the process after the election in 2015. But no matter what changes happen in the process, China, as a close neighbor of Myanmar, is an important external force that affects the domestic and foreign policies of Myanmar. Therefore, in spite of the influence of other countries and strong independency in Myanmar’s foreign policy, the long-term trend of China-Myanmar relations to a large extent depends on the strategic orientation and the disposition of China.

#### ***1.2.4 Japan-Myanmar Relations Rapidly Warming Up***

After the World War II, among Asian countries, Japan and Myanmar has maintained close and lasting relationship over years, so Myanmar has formed a profound public support for Japan-Myanmar friendship besides gaining great economic benefits.

The inflection point in Japan-Myanmar bilateral relations appeared in 1988 when the relationship between Myanmar and western nations were deteriorating after Myanmar’s military government came to power, and Japan had to keep up with the pace of the western countries led by the United States to slow down and terminate the assistance to Myanmar, cooling down the relations between Myanmar and Japan. At the end of 2011 when the United States-Myanmar relations were thawed, Japan immediately adjusted its policy on Myanmar. One of the prominent manifestations is to make a huge move into Myanmar market by rapidly increasing loans for Myanmar and promote Japanese enterprises to increase investment in Myanmar so as to recover and further strengthen Japan-Myanmar relations.

On April 21, 2012, Myanmar President Thein Sein attended the summit of Japan and countries in the Great Mekong Area, which is the first visit made by the President of Myanmar in the past 28 years, and the meeting was considered to “open a new chapter in Myanmar-Japan relations”. The meeting adopted “Tokyo Strategy 2012 for Mekong-Japan Cooperation”. In addition, Japan and Myanmar signed a joint

statement that Japan would free Myanmar from debts – totaling 303.5 billion yen (\$3.12 billion).<sup>13</sup> At the same time, invited by the Japanese government, Aung San Suu Kyi arrived in Japan on April 13, 2013 and started her 7-day visit, which is the second time for Aung San Suu Kyi to visit Japan after 27 years. During the visit, Aung San Suu Kyi expressed her intention to take part in Myanmar general election in 2015 in addition to calling for Japan to increase financial support, investment and other economic cooperation in Myanmar and further support Myanmar's democratic process.

From May 24–26, 2013, Japanese Prime Minister Shinzo Abe visited Myanmar, which is the first visit since 1977 when Japanese Prime Minister Takeo Fukuda visited the country, declaring not only to cancel all debts of Myanmar in a total of 500 billion yen (about RMB33 billion), also to provide huge economic assistance, including an investment of \$14.9 billion to help solve the power problems in Yangon and increasing investment in Myanmar's infrastructure by 200 billion yen. Moreover, Japan will lend 50 billion yen to Myanmar to cooperate in the development of Thilawa Special Economic Zone, which is the first time for Japan to provide yen loans after 26 years. At the same time, Shinzo Abe said Japan would provide assistance in both hardware and software for Myanmar, mainly involving thermal power generation, high-speed communication networks, water supply and drainage lines, harbors, roads and other infrastructures on the hardware side, while on the software side, mainly involving the democratic legal system building and training of related legal experts and talents.<sup>14</sup> At Japan-ASEAN special summit on December 15, 2013 in Tokyo of Japan, Shinzo Abe declared to grant a loan of 63 billion yen (\$610 million) to Myanmar for improving and reconstructing Myanmar's railway system.<sup>15</sup> According to Japan's Kyodo News Agency, Japanese diplomatic source said on September 25, 2013 that the Japanese government finalized a resource policy that was to work with Myanmar to develop rare earth and other natural minerals. And according to *New Light of Myanmar*, two Japanese companies has signed an agreement with Ministry of Electric Power of Myanmar on the construction of Yeywa hydropower project, which is located in the upstream of Yeywa hydropower station to be completed with a total installed capacity of 790,000 kW.

Since the United States Secretary of State Hilary's "ice breaking journey" triggered the "gold rush" in 2011, besides Japan and India, those who have rushed to visit Myanmar include Australian Foreign Minister, British Foreign Secretary, German Foreign Minister, Canadian Foreign Minister and so on, and ASEAN countries also are scrambling to adjust their policies on Myanmar. On January 10 and 11 in 2014, the 62nd meeting of ASEAN Investment Coordinating Committee was held in Naypyidaw of Myanmar with about 50 officials from ASEAN countries present to discuss and revise the ASEAN Comprehensive Investment Agreement (ACIA).

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<sup>13</sup> *Japan Will Restart yen Loans to Myanmar*, [http://news.xinhuanet.com/world/2012-04/21/c\\_111821237.htm](http://news.xinhuanet.com/world/2012-04/21/c_111821237.htm)

<sup>14</sup> *Abe Strives to Build Special Japan-Myanmar Relationship to Contain China*, *China Youth Daily*, May 28, 2013.

<sup>15</sup> *Japan-ASEAN Special Summit Ends*, <http://news.hexun.com/2013-12-15/160603120.html>

ACIA was reached with an aim to promote regional investment, deregulate, and encourage capital flow in the ASEAN countries.<sup>16</sup> To embrace the future large-scale investment, Myanmar Investment and Company Bureau disclosed that it would set up another three branches, including Mandalay branch scheduled to open in April 2014 with Taung-Gyi and Moulmein branches opened by the end of 2014.

### 1.3 New Features of India to Develop Big Power Relations

In the early 1990s, India started to implement the economic reform while making efforts to improve its relations with South Asia and Africa countries. In the twenty-first century, with the rise of India, its strategic target has expanded from the pursuit of economic interests to extending its strategic space at the same time. Therefore, India actively develops diversified diplomacy with hope to balance the relations among major powers and continuously improve its international status. In addition to the expectation to achieve its “dream of great power” through efforts to enhance the international influence, India is endowed with an extraordinary advantage by nature in the geopolitics, which is the best condition for India to be able to perform easily on the international diplomatic stage. Of course, India is facing challenges when to conduct foreign relations with major powers at any time.

#### 1.3.1 *India and China Have Strengthened Cooperative Willingness but with Mutual Suspicion*

More and more facts seem to suggest such an understanding that China and India, as representatives of emerging market countries, share far greater common interests than divergence, and the mutually beneficial cooperation has great potential, especially strengthening cooperation in infrastructure, trade, investment and other areas will not only be of strategic significance to the development of both sides, but also will play a positive role in the regional development and safety and even the construction of the global order. However, there are also some mainstream viewpoints that regard each other as a “long-term threat and competitor” in both countries.

Over the years, there has been a very popular view among think tanks and scholars of both countries that the border security is a fundamental issue in China-India relations, especially the fact that India is difficult to walk out of the fierce conflict between the two countries in 1962 will have a fragile and sensitive negative impact on the development of China-India relations. The border armed conflict did not escalate into full-scale war under China leaders’ very rational restraint or did not made

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<sup>16</sup>AICC Will Hold the 62th Meeting in Myanmar, <http://china.huanqiu.com/News/mofcom/2014-01/4735869.html>

any changes in conditions of the disputed border, however; besides, after the war, the leaders of the two countries have never stopped their efforts to achieve reconciliation through negotiations and made some progress, the small-scale border conflict indicates that the differences and contradictions of the two countries in their historical tradition and realistic development path are quite deep. Therefore, it has become a “scar” that cannot be touched both in the government and the people be reinforced into the national habit of thinking in collision of ideology and economic interests. In April 2013, Indian media reported that about 50 Chinese soldiers were “encamped” beyond the “line of actual control”. The event caused quite a storm. Nevertheless, the disputes are still in the controllable range. So, to talk about the border security issues without making any decision so as to maintain the status quo and gradually find solutions is a rational institutional arrangement, and it is also a realistic choice between China and India due to failure to achieve agreements on many strategic issues and difficulties in finding same fundamental interests. In fact, the border security is not the fundamental problem in the relationship between China and India but the ultimate expression of the long-term contradictions and conflicts between the two countries (Raja Mohan 2013, p. 17). Both China and India have many common historical splendors and glories, experienced many common suffering and disasters, and also hold many common social goals and economic interests, however, because of the huge difference between these two ancient civilizations in the choice and understanding of themselves and the world, in the past thousands of years of the civilization development, there were few occasions for the two neighboring countries to develop side by side. After the independence, the two countries started to come closer in the road of jointly building the modern powers, but the long-term isolated misunderstanding has deepened prejudices and contradictions in the conflict of realistic interests. If these prejudices and contradictions cannot be really understood and eased, the border problem will continue to exist.

In addition to the boundary issues left over by history, the tremendous ideological differences and lack of communication on foreign policies between the two countries also result in failure to reach a long-term consensus on goals of promoting economic and trade cooperation and policy choice, and failure to put forward a clear direction for the solutions of issues. Many scholars and government officials in India attribute India’s long-standing trade deficit with China to Chinese trade barriers and blame China. That is a rash conclusion at least with a lack of research on China-India trade structure and cost, which will also deepen the misunderstanding between China and India. As a matter of fact, the great trade potential between China and India needs the joint efforts of both sides to explore for a long time before corresponding to each other with a high degree, so that great common interests can be achieved. If the two simply change the foreign trade policies instead of making more efforts to adjust the industrial structure so as to improve the trade structure and reduce the trade cost, there will be a pyrrhic victory. For example, India is the world’s third largest exporter of iron ore and China is its biggest export market with 80 % of its iron ore exported to China, accounting for 70 % above of the trade with China. In 2010, the government of India increased iron ore export tax from 5 % ~ 15 % to 20 %, as a result, its iron ore export declined, while at the same time,

China imported iron ore from other suppliers such as Australia, thereby increasing India's trade deficit with China. India's anti-dumping policy applied to reduce the deficit is impacting the normal bilateral economic and trade relations, and impede China's exports to India. At present, there are still many problems in bilateral trade and investment, such as due to security concerns, mobile phone production from China is prohibited in India; weak infrastructure also impedes trade; India's manufacturing industry is difficult to antagonize China in the short term; India is gradually introducing restrictions on imported Chinese products, and make China frequently suffer from anti-dumping policy over years after the United States.

Whether from the perspective of the world or the Asian region, China and India are the fast-growing emerging markets. In recent years, China and India's economy is in a declining trend. In 2013, Chinese economic growth rate is 7.7 %, and the economic growth in India is even less optimistic. According to the International Monetary Fund (IMF) report, due to continuous inflation, unchanged twin deficits, lag of infrastructure and investment declining, India's economic growth in 2013 will fall to its lowest in 10 years, which, for China, provides both opportunity and challenge. For opportunity, it refers to that Chinese enterprises can "go out" to strengthen cooperation with India in the field of infrastructure, including investment in railways, electric power, communication and others, and at the same time can "introduce" Indian enterprises to China so as to carry out collaboration and interaction in the pharmaceutical, software and other fields. The challenge is that the bilateral trade continues to decline from \$66.5 billion in 2012 with increase in India's deficit with China, which is also a factor that has effects on the bilateral relations and cannot be ignored.

As India's Minister of Commerce, the famous economist Jay Ram Ramesh said, China and India should combine the advantages of the "world factory" and "world office" to make their own contributions to the construction of the new order of international economy for they have too much to learn from each other (Ramesh 2005, pp. 3–18). In June 2003, India's Prime Minister Vajpayee made a speech at Peking University and said with indirect reference to Deng Xiaoping's words: "The 21st century can only be the Asian Century if India and China join the hands and work together."<sup>17</sup>

It is just to see the future development prospects, the two sides are making efforts to improve bilateral dialogue mechanism including the communication mechanism of leaders on both sides and dialogue mechanism for maritime security so as to timely and effectively take measures to resolve the crisis or avoid escalation of the conflict, although the process is relatively slow. Both China and India are more pragmatic and tolerant to accept each other's existence and involvement in their "traditional backyard" and "sphere of influence". Cooperation between China, India and Japan on joint escort missions in the Gulf of Aden, as well as coordination and cooperation between China and India at the East Asia Summit indicates that a decrease in zero-sum thinking in handling the bilateral relations with an increase in

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<sup>17</sup> *Speech of Indian Prime Minister Vajpayee at Peking University*, [http://www.pku.edu.cn/news/xiao\\_kan/newpaper/994/1-2.htm](http://www.pku.edu.cn/news/xiao_kan/newpaper/994/1-2.htm)

the concept of win-win cooperation (Lan Jianxue 2013, p. 98). On March 27, 2013, President Xi Jinping met Indian Prime Minister Singer in Durban of South Africa and said India and China are the two largest developing countries, so to promote social and economic development is the same historical mission and the world needs the common development of China and India. According to Singer, India is ready to make joint efforts with China and show the world that India and China are partners other than competitors.<sup>18</sup> On May 19, 2013, Li Keqiang took India as his first stop of his first foreign trip after he took office as the premier of the state, which fully embodies the new government of China attaches great importance to the China-India relations. Immediately following, Premier Singer made a 3-day visit to China from October 22–24 the same year at the invitation of Premier Li Keqiang, with topics covering border defense and trade cooperation. The exchange of visits between the prime minister of India and the premier of China within the same calendar year was the first since 1954.

Therefore, the two countries are required to restrain competitions and strengthen cooperation from a strategic height. More economic cooperation between China and India is conducive to promoting the developing countries to obtain the initiative in the development of regional economy, and further affects the economic development prospects in the Asia-Pacific region, so as to realize the “balance of power” between developing and developed countries.

### ***1.3.2 The United States and India Deepen Military Cooperation, but with Frictions***

The United States global strategy is to maintain its unchallenged leadership in the world and maintain the world order centering on the United States. The realization of this goal requires ensuring its dominant position in the Asia-Pacific region at first and the ability to lead the Indian Ocean affairs. In addition to worrying about China and seeing China as a threat, the larger threat Washington worries about is the stronger cooperation between China and India, two representatives of emerging economies, for such cooperation may accelerate the declination its power especially the power in the Indian Oceans and the Western Pacific Oceans. Therefore, different from the “engagement+containment” policy on China, the United States takes India with rising strength and prominent geographical advantages as an important part of “Asia-Pacific rebalancing” strategy, and an important strategic partner to balance Chinese influence in the Asia-Pacific region, hoping to achieve the purpose of balancing China by “prying+using” India with the best expectation to get benefits from struggles between China and India.

The United States desires to maintain closer military cooperation with India, especially military trade cooperation. According to a statement issued by the United

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<sup>18</sup> Xi Jinping Pointed Out the World Needs the Common Development of China and India When He Met Indian Prime Minister Singer, <http://politics.people.com.cn/n/2013/0328/c70731-20950034.html>



States State Council, the United States military exports to India has reached \$8 billion, and Washington is committed to raising the defense cooperation to “a new level”.<sup>19</sup> The American military equipment is continuously flowing into India, even including technology information on Patriot Anti-Tactical Missile System, F-35 stealth fighter developed by the Lockheed Martin and other top weapons. In addition, India is coming closer to the United States in military, hoping to push forward its “dream of great power” with the help from the United States. India’s air force has bought a large quantity of C-130J and C-17 aircrafts, AH-64 armed helicopters, and introduced American standard logistics system from the United States, virtually reducing much technical trouble for the United States military aircrafts in stationing in India.<sup>20</sup>

In 2013, besides fruitful achievements were made by the United States and India in military cooperation, frequent exchanges were also conducted between the leaders of the two countries. On June 23, 2013, the United States Secretary of State Kerrey got to India for his 3-day visit to India for the first time. During the visit, Kerrey held the fourth round of India-US strategic dialogue with India’s foreign minister Salman Khurshid on India-US cooperation in the fields of space, science and technology, enterprises, national defense, education, agriculture and others. Kerrey also reiterated that the United States would continue to support India to play a constructive role in the Asia-Pacific affairs as in the past, saying that the United States shares the same specific position with India in keeping peace and stability of Asia and Pacific-Indian Ocean regions; the United States is happy to see the important role that India plays in the regional and international affairs, and the United States and India will have more cooperation in such aspects.<sup>21</sup> On July 22, 2013, the United States vice president Biden made a –day visit to India. Besides meeting India’s senior leaders and expressing that the United States would support India to play a greater role in regional and international affairs as in the past, Biden gave a keynote speech in India’s financial hub of Mumbai, urging India to further open its economy, introduce more foreign investment and improve the protection of intellectual property rights.<sup>22</sup>

As for India, India’s finance minister Palaniappan Chidambaram visited the United States on July 9, 2013 with the main purpose is to get more investment from the United States. On September 27, 2013, Indian Premier Singer visited the United States. At the meeting, Obama called Singer “a great friend” and praised his efforts to strengthen the United States-India relations. Both sides agreed to strengthen cooperation in issues of Afghanistan, market access and immigration, etc.<sup>23</sup>

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<sup>19</sup> *The US and India Are Committed to Strengthening the Cooperation in Defense*, Reference News, May 21, 2013.

<sup>20</sup> *Indian Media Reported that the US Considers Equipping Troops in India with a Fancy to the Important Geographical Position*, [http://news.china.com.cn/live/2013-08/23/content\\_21881875.htm](http://news.china.com.cn/live/2013-08/23/content_21881875.htm)

<sup>21</sup> *India and US Held the Fourth Round of Strategic Dialogue and the Two Sides Reached Consensus in Many Fields*, [http://intl.ce.cn/qjss/201306/25/t20130625\\_24511170.shtml](http://intl.ce.cn/qjss/201306/25/t20130625_24511170.shtml)

<sup>22</sup> *Biden Visited India and Urged It to Open Up Further, Hard to Hide Deep Differences*”, <http://world.huanqiu.com/exclusive/2013-07/4169276.html>

<sup>23</sup> *The US Media: Indian Prime Minister Singer’s Visit to the United States Hardly Improves US-India Relations*, [http://news.xinhuanet.com/yzyd/world/20130929/c\\_117562416.htm](http://news.xinhuanet.com/yzyd/world/20130929/c_117562416.htm)

Although the two countries continue to emphasize that they are “indispensable partners” to each other with bilateral trade exceeding \$90 billion, and are striving to explore new areas for cooperation, there are still many frictions in relationship between the United States and India. In addition to the differences in US-India civilian nuclear agreement, misunderstanding in the economic relations between the two countries is always there, which also is the main factor that affects US-India relations. In June 2013, 170 US lawmakers made a complaint to President Obama, saying India’s export policy caused influence on employment in many sectors of America. Then, the United States vice president Biden visited India in July, pointing out that India was hesitant to open the market to the United States enterprises. Therefore, India finally opened some fields for direct foreign investment.<sup>24</sup>

On December 12, 2013, Khobragade, India’s deputy consul general in New York, was arrested for allegedly underpaying her nanny and committing visa fraud to get her into the United States. The 39-year-old diplomat was taken to the police station and underwent a strip search there before being “locked in a dark room”. This event triggered strong dissatisfaction among Indian high officials and people, and led to diplomatic tensions between the two countries. To show acts of revenge, the Indian government broke up the concrete roadblocks on the road in front of the United States embassy in India on December 17, and the next day on December 18, India’s foreign minister Salman Khurshid said India must help Khobragade “restore dignity”.<sup>25</sup> The move that India took to help Khobragade “restore dignity” was to appoint her as Indian Ambassador to UN. Indian people demonstrated outside the United States consulate located in Hyderabad for a few days, and some people also ransacked American company branches in India. However, “dignity” was not restored. On January 10, 2014, Khobragade the United States was found guilty of visa fraud. For Khobragade enjoyed diplomatic immunity, the United States asked her to leave the country immediately at last. India was quick to respond and expelled an American diplomat in India against the move of the United States.

At the same time, successive exposure of scandals that the United States has monitored India also clouds the United States-India bilateral relations, adding a bit of distrust to the United States-India strategic partnership. The Hindu reported that the monitoring target that the National Security Agency set mostly covers Indian politics, national strategic and commercial interests. According to the secret papers received, among the countries under surveillance and monitoring by the NSA, India is in the fifth position, monitored heavily together with Iran and Iraq. The NSA takes at least two ways to monitor India, one is a data mining system called “Boundless Informant” which collects network information on India through Google and Microsoft. According to the disclosure, only in March 2013, the NSA acquired about 6.3 billion pieces of information from the national security agency

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<sup>24</sup> *Foreign Media Said Singer Visited US Wanting Mend US-India Economic Relationship, But Hard to Eradicate Frictions*, <http://www.chinanews.com/gj/2013/09-29/5335079.shtml>

<sup>25</sup> *Arrestment of India’s Female Diplomat in the US Caused US-India Diplomatic Storms*, <http://www.chinanews.com/gj/2013/12-18/5631326.shtml>

from India's web site, and collected 6.2 billion copies of the information from the communication network in India over the same period.<sup>26</sup>

A succession of frictions and conflicts between the United States and India reflect that India is always in the weak side in India-US relations, so the reason why the United States "pals around" India to encourage it to play a role in regional affairs only is originated from India's position in the United States global strategy, however, India is never willing be used as a pawn by the United States to contain China in the Indian Ocean region (Raja Mohan 2013, p. 8).

### ***1.3.3 Military and Economic Interactive Cooperation Boosts India-Myanmar Relations***

Both Myanmar and India are located in the Bay of Bengal and their geopolitical value is on the rise. India and Myanmar have been pursuing an independent foreign policy for a long time, and endowed with significant strategic advantages, the two countries are aware of the importance of diversified foreign cooperation and balanced relations with big powers.

Myanmar shares a border of 1,331 km long with India and kept a close relationship with India in the history when it existed as a province of British India for more than half a century. After Myanmar's military government came to power in 1988, Myanmar-India relationship was once cooling down. In 1990s, the two countries gradually adjusted their foreign policies and broke the deadlock of India-Myanmar relationship. In particular, the visit of vice chairman of Myanmar's State Peace and Development Council, Vice Snr Gen Maung Aye to India in November 2000 was widely considered to be the "ice breaking trip". Later in November 2003, India's vice president Bhairon Singh Shekhawat visited Myanmar, which is the first time India's leaders visited Myanmar in the past 16 years. Particularly worth mentioning is that Myanmar's President Thein Sein made a much-publicized visit to India with 13 ministers from October 12–15, 2011. Thein Sein and Singh, representing the two governments respectively, issued a *Joint Statement* containing 44 items. In the statement, Myanmar made a formal commitment to strengthen cooperation with India in water conservancy and hydropower, oil and natural gas and other energy development. At last, Myanmar also vowed to support India to become a permanent member of the United Nations Security Council, which is the first time that Myanmar expressed its high-profile support for India's aspiration during the foreign trip. When India is struggling to shore up Myanmar, Myanmar actively caters to India. During Indian Prime Minister Singh's visit to Myanmar in May 2012, the most concern to the outside world is that the Export Import Bank of India promised to lend \$500 million to Myanmar to help Myanmar develop irrigation engineering

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<sup>26</sup> *Surveillance Scandals Cloud US-India Relations and Experts said Their "Honeymoon Period" Ended*, [http://news.xinhuanet.com/world/2013-09/27/c\\_125457762.htm](http://news.xinhuanet.com/world/2013-09/27/c_125457762.htm)

technology. Early in 2010, India once lent Myanmar \$300 million. Along with the offer of \$500 million this time, India provided loans totaling \$800 million for Myanmar. The previous loan of \$300 million was invested in Myanmar's railway transportation, electric power transmission, oil refining and the development of optical fiber communication. According to the relevant memorandum between India and Myanmar, the present loan of \$500 million will be earmarked for the construction of water conservancy works.<sup>27</sup>

For the sake of economic and security strategy, India put forward "Look East Policy", and Myanmar is "not only an important partner of India for energy security" but also the "East Gate" of India's "Look East Policy". Therefore, Myanmar in recent years has been the first place that Indian officials choose to visit. As for Myanmar, it is under the sanctions pressure from the United States in diplomatic and economic sections, and on the other side, India actively gets close to it, so it's natural for Myanmar to actively meet and adhere to the "good-neighborly priority" foreign policy.

Since then, political relations and military relations between Myanmar and India have improved significantly with military acquisitions increasing and military visits growing. On November and December 2012, India's foreign minister Salman Khurshid and India's Air Force Chief of Staff General Brown visited Myanmar respectively. On January 21, 2013, Indian Defense Minister Arackaparambil Kurian Antony visited Myanmar, discussing the bilateral defense cooperation affairs with content including improving border management and strengthening the construction of Myanmar army's ability.<sup>28</sup> On July 29, 2013, during the meeting, the Indian Navy Commander in Chief reached an agreement with his Myanmar counterpart on India's helping Myanmar build coastal patrol boats and training Myanmar navy officers and soldiers in India military institutions by using this opportunity so as to improve India-Myanmar relations.<sup>29</sup> A month after the event, Myanmar army crossed the India-Myanmar border, trying to build a camp in India's Manipur. But in contrast with media's outrage, India officials paid little "attention" to the matter, saying it was only "small misunderstanding", which does show India's sincerity to improve the bilateral relations, after all, Myanmar is an important part of India's "Look East" strategy. Soon later, from September 10–15 in 2013, Indian and Myanmar navy forces held the first joint military exercise at sea and further strengthened the bilateral defense cooperation. After Myanmar started its democratic reform, it is gradually opening up to the world, and its military cooperation with India can be said to be deeper and broader than ever before.

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<sup>27</sup> *Indian Prime Minister's Visit to Myanmar for the First Time in 25 Years Raises Concern*, <http://news.hexun.com/2012-05-29/141876424.html>

<sup>28</sup> *Indian Defense Minister Visits Myanmar to Promote Bilateral Military Cooperation*, <http://military.china.com/news2/569/20130123/17648397.html>

<sup>29</sup> *India Promotes Defense Cooperation with Myanmar and Helps It Train Army*, <http://www.chinanews.com/mil/2013/07-31/5104291.shtml>

At the same time, during the past 2 years, Myanmar and India have strengthened their economic and trade cooperation. Myanmar is not only abundant with rare resources but also rich in oil and gas resources. India has successively invested heavily in the construction of ports, railways, oil and natural gas pipelines in Myanmar. In 2010, the amount of bilateral trade between India and Myanmar was about \$1.2 billion. India has invested to develop offshore oil and natural gas in Myanmar and plans to lay pipelines or build liquefied gas terminals so as to transport Myanmar's natural gas to India. India has also provided credit to Myanmar for improving transformation of Yangon-Mandalay railway and upgrading the level of border highways. In June 2013, India's Oil Minister Veerappa Moily said India's 3 state-run oil companies, i.e. ONGC Videsh Ltd., a subsidiary of ONGC for overseas operation, Indian Oil and Indian Oil Exploration Company, would bid for Myanmar's 8 oil blocks.<sup>30</sup> Meanwhile, India carried a series of economic activities including establishing an agricultural research institute in Myanmar's capital city of Naypyidaw and providing assistance of machinery and other equipment worth of \$10 million for Myanmar; pushing YAMAHA motorcycles made in India to enter Myanmar market; helping "activate" 300 Myanmar clothing factories by providing credit and technical assistance and building factories with assembly and sales of Tata motors to boost India-Myanmar relations rapidly.

For the rapid warming relations between Myanmar and India, experts for international and strategic studies say that India's attaching importance to the strategic position of Myanmar is a part of its national strategy; India basically takes the "Look East" policy forward and Myanmar is the "East Gate" of this strategy. Meanwhile, Myanmar knows its location advantages and desires to seek the best interests of the country.

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## Chapter 2

# The Strategic Landscape of South Asia and Indian Ocean Region

Hailin Ye

**Abstract** At present, the extraterritorial connection and the influence of South Asia and Indian Ocean region are strengthened and meanwhile the international significance of the change of regional power structure is also enhanced. However, no matter whether to consider the military situation or the economic environment, or no matter whether to consider the current status analysis or the future expectation, the strategic value of South Asia and Indian Ocean region still cannot be so important to decide the trend of the international system. At the same time, the extraterritorial big powers do not regard the South Asia and Indian Ocean region as the core region for achieving their global strategies, but probably describe the South Asia and Indian Ocean region as the “probable important region in future”. Therefore, the policy of China for South Asia and Indian Ocean region shall be focused on the long-term development in order to patiently and realistically achieve the benefit maximization through gradually and hierarchically promoted policy and strategy.

**Keywords** South Asia • Indian Ocean region • Strategic value • Strategic landscape

In recent years, South Asia and Indian Ocean region becomes one of the hot topics in the research on the international relationships of China and even the whole world and the world economy. However, the research on South Asia and Indian Ocean region is lack of mainstream framework and normal form; meanwhile, the academic researches and the strategic analysis have not formed a dominative viewpoint.

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Moreover, scholars have do not reached a consensus upon the research object which should has been the most basic part of the regional research, and they even dispute on whether to regard South Asia and Indian Ocean region as a whole for the research.

Specifically, whether South Asia and Indian Ocean region as the geographical contiguous area has political and economic integrity? Whether such integrity (if any) is important enough for academic and strategic analysis? Whether the influence of the recent situation changes and the long-term trend of South Asia and Indian Ocean region on the global economic and political system and the relevant countries is marginal or significantly meaningful? All the above issues are being discussed. In a certain sense, people mainly focus on the divergence of these issues other than cognitive difference upon the political, economic and international relation change within South Asia and the Indian Ocean region. In other words, what happened to South Asia and Indian Ocean region is not the primary issue people care about, but the significance and the influence of such change can attract more attention of scholars and the strategic researchers. It is seemed to be reversed, but it can be explained. To a large extent, it's such significant cognitive difference of people upon the global political economy influence of South Asia and Indian Ocean region that causes different scholars and experts to conduct selective case analysis and data collection for the political economy change of the above regions.

Due to the limitation of the professional background and the academic ability of the author, this article does not attempt to construct the framework and review the methodology for the research on South Asia and the Indian Ocean region, but intends to firstly discuss about the position of South Asia and Indian Ocean region in the global politics from the aspect of the strategic analysis and then answer the question: whether South Asia and Indian Ocean region is important for the international system? Why they are important? The strategic researches basically discuss about the political, economic and international relation changes of South Asia and Indian Ocean region in recent years, especially since 2013, in order to answer the two questions: what happened to these regions? And what's the significance of such changes? Finally, so as to return back to the Chinese perspective, the article discusses about the policy choice of China for South Asia and Indian Ocean region.

Defining the national interest and discovering the national interest demand are the optimum realization approach and also the core of any strategic analysis and research. Frankly speaking, in recent years, the policy researchers of China tend to regard the realization of "win-win" as the optimum external policy of China and arbitrarily consider the realization of the regional mutual beneficial cooperation as the realization of maximization of the Chinese benefit. As for the external publicity, such expression is ok, but as for the policy review, such expression is logically unfeasible for the following reasons. Firstly, such thinking make people to ignore the cost-discussion link for the realization of regional cooperation, and strictly speaking, it is not in accordance with the general form of strategic and policy research. Secondly, whether equating the Chinese benefit to "win-win" of regional cooperation is in accordance with the reality of the present international system can also be discussed. In fact, the discussion of the two questions is more necessary for analyzing the relation between China and South Asia and Indian Ocean region.



## 2.1 Position of Indian Ocean and South Asia in the International System

During the Cold War, U.S. cared naught for the internal and external policies of Albanian Enver Hoxha regime but “much concerned” Cuba’s Fidel Castro. In fact, even though the international influence of Castro was greater than that of Hoxha, the difference between the two still could not be above one “magnitude”. U.S. paid much attention to the Castro regime and applied great diplomatic, economic and military resources so as to overturn Castro regime, obviously because Cuba is close to U.S. and was compared to the “backyard” of US, thus causing U.S. to have to pay much attention to this country. However, as for Albania, even if the Soviet Union deployed the same powerful nuclear weapon at Tirana, it still could not substantially threaten U.S.

Before 90s of twentieth century, although it could not summarily regard that the whole South Asian Sub-Continent and even the whole Indian Ocean coast region were equal to Albania in the global strategic landscape according to the opinion of US, the subordinate position of this region in the international system was undoubted. The U.S. and the Soviet Union both did not regard South Asia and Indian Ocean region as the focus region of strategic confrontation. Even during the invasion war of the Soviet army in Afghanistan, South Asia was not regarded as a geopolitical whole, U.S. and the Soviet Union set up the mutually conflicting Afghan policies, which could not be deemed as the systematic South Asian strategies, however. Due to the capability limit of the Soviet Union and the clear cognition of U.S. upon the limited strength of the Soviet Union, the Indian Ocean region far away from the confrontation between U.S. and the Soviet Union was greatly ignored by the Cold War pattern – even though the significance of the seaway over the Indian Ocean region in the normal running of the global economic system was undoubted since 70s of twentieth century.

From the end of the Cold War to the India and Pakistan’s nuclear tests in 1998, U.S. as the super power still did not have much interest in South Asia. The emerging Taliban in Afghanistan could not attract the attention of US, and the India and Pakistan nuclear competition was regarded by Washington as the “inevitable event” like death and tax payment. The attitude of other nuclear countries was similar to that of US, and the major big powers in the international system believed that all things happened in South Asia had little relation to them, so South Asia and even the Indian Ocean region were approximately like a “closed” system, with limited influence on the global order. The great adjustment of the international system during the Cold War did not substantially influence the order of South Asia and Indian Ocean region, and the confrontation between India and Pakistan was not the result of the Cold War and was not changed along with the end of the Cold War.

The relative isolation status of South Asia and even the Indian Ocean was seemingly changed after twenty-first century. On the one hand, the war lasting for over 10 years between U.S. and Afghan Taliban forced the greatest military power in the world to chronically perform the asymmetric fight to the tribes located in the poor

valleys in Afghanistan; on the other hand, India dramatically achieved the long-term high-speed growth, thus finding the Indian mode which could balance the Chinese growth mode and was also in accordance with the western value system for the western countries. Additionally, along with the continuous improvement of the industrialization level of the Western Pacific region, the significance of the seaway over the Indian Ocean was highlighted again. Although the *Monsoon* of Robert Kaplan could not be deemed as a sufficiently rigorous academic composition, it still could stand for the opinions of a substantial part of western policy researchers and the medias – the Indian Ocean would become the world center for twenty-first century and even for a substantial long period.

The prima facie evidence is always not difficult to find. Firstly, the South Asia and Indian Ocean region is the center of the anti-terrorism war in the world, and even the global anti-terrorism dominated by U.S. is about to come to the end in 2014, the wide areas from Afghanistan to the East African coast of the Indian Ocean are still the main battlefield for U.S. unmanned aerial vehicles to frequently fight against al-Qaida. Secondly, the seaway over the Indian Ocean plays an important role in delivering resources and commodities, so the security of this shipping line increasingly influences the sustainability of the globalization process. Thirdly, more and more observers are paying high attention to the sound prospect of the Indian economy, they not only want to share the benefits obtained from the Indian economic growth, but also expect India with ever-increasing economic growth to continuously play the role of “Balancer of China”. Actually, the enhancement of the international position of India is more or less the realistic result of such psychological expectation.

The above reasons exist in the real world, the authenticity and the objectivity thereof cannot be denied. However, if we want to use these reasons to prove that South Asia and Indian Ocean region has occupied or will occupy the core position of the global political pattern and economic pattern, we still must answer these basic questions: how important are these elements? Whether they can really influence the global order? Whether they can force various big powers to set their strategies for South Asia and Indian Ocean region?

Firstly, the so called strategic significance of Indian Ocean coast region as the frontal zone for global anti-terrorism is doubtful. Actually, the reason why the wide areas from Afghanistan to Kenya become one of the main areas of U.S. anti-terrorism but not the unique area mainly lies in that Al Qaida is relatively active in these areas. However, the intensified conflict is not because of the importance of the Indian Ocean region, but is because of the function of this region as the extension living zone of the Arabians of the Middle East and North Africa. The core goal of Al Qaida is to return back to Arabian Peninsula and establish the Shariah order there, and such goal is not changed even after Osama bin Laden was destroyed. The deterioration of the security situation of the Indian Ocean rim region is the external result intensified by the extremism religious activities of the Middle East. In order to solve the extremism and extremism activities in the Indian Ocean rim region, it is

necessary to firstly solve the order reconstruction issue of the Arabian Peninsula; or else, these issues are put disorderly for solution.

Secondly, this point is often talked that, the gradually rising importance of the seaway over the Indian Ocean, and safeguarding the security of the seaway over the Indian Ocean will undoubtedly become the key appeal of the main ocean countries. Therefore, the war of fighting for the maritime supremacy of the Indian Ocean will become the important geopolitical subject in twenty-first century. However, considering either from economic logic or from historical experience, such judgment is insufficient and cursory.

The seaway over the Indian Ocean is an important global public product, so safeguarding the security of this seaway is in accordance with the benefits of all countries, and oppositely, blockading this seaway will physically break off the globalization process and accordingly harm the benefits of all countries. Obviously, this point has become one of the basic consensuses in the globalization era. Although the seaway over the Indian Ocean undoubtedly assumes a substantial part of the ocean connection task in the world, the control power over the seaway has not been the reason for the war between the big powers since the industrial revolution. The break-off of the seaway especially during the two world wars is the result of the war but not the reason. In other words, except the outbreak of world war, generally, no country wants to blockade the seaways of other maritime big powers, because such blockage has a slow effect and other countries with a complete set of industrial systems can always find other products and even the alternative sources for replacing the basic energies so as to continue the war. Once the outbreak of the world war, the global trade is broken off and the economic significance of the seaway never exists.

Therefore, the strategic value of the security of the seaway over the Indian Ocean is actually a paradox, and in a peaceful period, the security of the seaway over the Indian Ocean and any other seaway as the necessary public product for the globalization will never become the object threatening the strategies of the maritime big powers. During war period, all these issues will give place to the navy for destroying the navy of the opposite side.<sup>1</sup>

More importantly, such statement ignores the two critical elements since the latter half of twentieth century, wherein one is the invention and diffusion of the nuclear weapon and the other one is the emerging and maturity of the globalization system, such as global energy market.

Since entering the nuclear weapon era, blockading the seaway of another military big power, as in the Cuban missile crisis, is fundamentally not a pure navy issue but

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<sup>1</sup>Of course, it also can be argued that during the Second World War, the attack of German submarines to the shipping lines over the Arctic Ocean and the Atlantic Ocean was a pattern of operation for the control power over the seaway, but we shall not overestimate the strategic value of the submarine battle, and after all, the Soviet Union and the western allied countries won the victory in the anti-Fascist war not because of the Arctic Ocean and the Atlantic Ocean. In conclusion, the fight with regard to the seaway is an important part of a war, but it is not the decisive part.

the strategic decision action with the nuclear war as the successive scheme. It is not for the purpose of enabling the seaway to be more dangerous but for the purpose of enabling the seaway to have more strategic significance and accordingly enabling the seaway to be safer. The reason lies in that the nuclear weapon is a better choice for a big power to destroy the opposite side, so the “hunger-cure” naval blockade will ultimately lead the situation to the application of nuclear deterrent and even nuclear weapon. As a periodical strategy almost surely leading to the nuclear crisis, blockading the seaways of other big powers is not recommendable in twenty-first century.<sup>2</sup>

Even adopting the relativity concept and eliminating the risk of nuclear crisis and even the military conflicts, assumed that a certain big power believed that blockading the seaway of another country would enable the latter to pay a greater price and it could persist till the opposite side compromised, we also need to notice that blockading the seaway of a country will actually break off the shipping lines for all the ships accessing the ports of this country, no matter which country the ships belong to. This is basically impossible under the current international system.

Additionally, we also need to notice that the greatest mass transport of the seaway over the Indian Ocean is the energy sources from the Middle East regions, namely petroleum and natural gas. The pricing of petroleum is completely in accordance with the international mechanism, so blockading the petroleum channel of one or several external big powers will impose great impact on the price of the international energy market and the consideration itself becomes the insurance measure for the security of the seaway. Europe and Asia as the largest natural gas consumers have the measures for connecting the natural gas sources thereto, so they are immune to the security of the seaway. On the basis of the above factors, blockading the energy transport of a big power is only theoretically feasible.

As for the threat of the piracy activities in the range from north Arabian Sea to East African coast to the seaway over the Indian Ocean, it is always a special issue and only occasionally exaggerated to the strategic level due to various reasons. The influence of the piracy activities on the international maritime transport can be always digested through the commercial insurance. At present, the navies of various countries active around the north Indian Ocean are actually assigned to show the attitude and position of the international society upon the piracy rather than destroying the pirates. Although some countries may purposefully “take advantage of” the pirates issues to expand their navy power to the Indian Ocean, the scale thereof is limited and whether such opportunistic measure can evolve into the so called “great game of Indian Ocean order” is doubtful.

Thirdly, as for the so called conclusion that South Asia and Indian Ocean region will become the new global economic center, it does make sense from the aspect of the population growth trend. India, Pakistan, Arabian Peninsula and even Africa are the most concentrated regions for population growth, billions of youths will become

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<sup>2</sup>Of course, it seems to easily suppose the naval blockade of a middle or small country without navy power, but it is obviously not a global topic.

the main labor force in above regions in 10–15 years. However, the key point lies in that the population growth is not necessarily and causally related to the labor force growth and the industrial competition improvement. In fact, several elements that decide the global economic growth – capital flow direction, innovation ability, rule-making authority, etc. are still controlled by the countries in Europe and US, the ability of large-scale manufacturing is concentrated in the Far East region, and the Indian Ocean region only possesses the energy material storage and large amount of untrained primary labor force as well as the *theoretically* existing huge market. Whether the three elements can guarantee the long-term rapid economic growth for the Indian Ocean region is still doubtful, and meanwhile the opinion of supporting this region to become the global economic center basically belongs to the overly optimistic expectation, standing for a good wish which ignores the serious internal structural conflict of the dominant country and even the whole region.

In conclusion, no matter whether to consider from the aspect of the military situation or from the aspect of the economic environment, or no matter whether to consider from the aspect of the current situation analysis or from the aspect of the future expectation, the strategic value of South Asia and Indian Ocean region still cannot be so important to determine the trend of the international system, and the change thereof only has limited impact on the global order, with low ability of radiating outwards. Meanwhile, the extraterritorial big powers still do not regard the South Asia and Indian Ocean region as the core zone for their global strategies. As the conclusion, this region may be described as the “probable important region in future”.

## **2.2 Evolution and Development of Regional Pattern of South Asia and Indian Ocean Region in Recent Years**

Although the significance of the global strategy of South Asia and Indian Ocean region shall be not excessively exaggerated, the Indian Ocean rim region having more than 200,000,000 populations and covering the main seaways in the world still can attract the attention of many people. In recent years, the main big powers in the world gradually pay more and more attentions to South Asia and Indian Ocean region, not completely because of the subjective conception on the significance of this region in future. Considering the “long-term” investment and the competitive preventive strategic factor, namely worrying that the opposite side obtains the strategic advantages and meanwhile presenting the recognition and respect of the reality and prospect of the economic development strength growth of this region, the big powers pay attention to the South Asia and Indian Ocean region, and especially China, U.S. and Japan pay attention to Africa.

Meanwhile, the regional pattern of South Asia and Indian Ocean region is independently and continuously strengthened and the expansion ability is also continuously increased. The emerging of India is gradually accepted by more and more countries.

The cooperation in South Asian region is lack of motivation and the cooperation in Indian Ocean rim region is also only a conception, but the expansion and substantiation of the “BRICS” group as well as various versions of trans-regional cooperation mechanism show that the extraterritorial connection and the influence of South Asia and Indian Ocean are all strengthened, and the international significance of the regional pattern change is also improved.

### ***2.2.1 Extraterritorial Big Powers Successively Strengthen the Contact to This Region and Intend to Widely Deploy Strategy There***

Many years ago, U.S. had obviously announced to pay attention to South Asian affairs. During the first term of Obama, Hillary Clinton, the Secretary of State at that time, predominantly put forwards “US-India Relation Version 3.0”. Although this widely announced “strategy” had limited efficiency, the successive policies with regard to the South Asia were moving to the more practical direction. Obama’s government successively executed “Afghanistan Strategy”, “New Silk Road Plan”, etc. and continuously deepened the diplomatic relations to India. The South Asia and Indian Ocean strategy of U.S. is obviously layered in order to break through the traditional alternative India and Pakistan dilemma and further balance the two. Although the “Afghanistan Strategy” promoted by U.S. in the northwest region of the South Asian Sub-Continent is renamed, the essence thereof is never changed, namely evacuating from Afghanistan as soon as possible. Afghanistan has no strategic value for US, so there is no need for U.S. to assign a large amount of military force there. Obama does not care about the person who will fill up the “vacuum” left by U.S. army or solve the suspended problems. Under the control of such mentality, U.S. gradually regards Afghanistan and Pakistan as the burden and accordingly applies the conservative policy. At the main part and the east part of the South Asian Sub-Continent, U.S. mainly expects to strengthen the relation with India and encourage India to fully play its role. During the tenure of Hillary Clinton, due to the ideological factor, the status of Myanmar was improved once, but the whole Indo-China Peninsula was not the preferable diplomacy direction of US, and this was more obviously presented during the second term of Obama. In conclusion, the policy of U.S. on South Asian region can be summarized as India priority, defensive maintenance, cost saving and risk avoidance. As for the Indian Ocean region, U.S. obviously pays more attention to Africa. In 2013, President Obama visited Africa and participated in the funeral of Nelson Mandela, the previous Leader of South Africa. In US-Africa Summit held in 2014, he posed to involve in the African affairs. However, the prospect of this policy still remains to be evaluated. It is no doubt that U.S. will strengthen the influence thereof in South Asia and Indian Ocean region, however, whether U.S. will make effort to exclude the influence of other countries in this region can be further discussed. Furthermore, the policy of U.S. is mainly on the basis of cost consideration, so speeding a lot of diplomatic and

economic resources in “contesting with” other countries for South Asia and Indian Ocean region is only a theoretical possibility, without the support from actual cases.

Relative to US, China obviously showed the positive posture upon the issues regarding South Asia and Indian Ocean region in 2013. Since the establishment of Chinese new government, the head of the state firstly visited Russia and then directly flew to Africa, while the head of the government historically selected to visit South Asian region for the first time, and the prime ministers of China and India also completed the annual mutual visit. Meanwhile, China put forwards two small multilateral cooperation strategies in sub-region, namely “China-Pakistan Economic Corridor” strategy and “Bangladesh-China-India-Myanmar Economic Circle” strategy which were widely publicized, with strong trend of expanding its influence towards the South Asian Sub-Continent. In case of historically reviewing the interaction between China and South Asia and Indian Ocean region, year 2013 undoubtedly became the key year for changing the past conservative policy. But to examine comprehensively and globally the external strategy of China in 2013, it is obvious that the positive diplomatic policy of China for South Asia and Indian Ocean region is not the result of the ranking enhancement of South Asia and Indian Ocean region in the Chinese international strategy, but the result of the overall transformation of diplomatic thought of China. In other words, the aggressive posture of China upon the issues regarding South Asia and Indian Ocean region is because China implements more active diplomatic policy but not because China pays more attention to South Asia. Of course, the opposite views also exist. The evidence used for judging which kind of judgment is more practical shall not be the diplomatic statement but shall be the diplomatic action after 2014.

As another main extraterritorial big power, Japan also paid more attention to South Asia after the establishment of Abe regime, highly and deeply bypassing the diplomatic activities of Japan to other sub-regions. In 2013, Japanese Emperor and Prime Minister both visited South Asia and Indian Ocean region. On the one hand, Japan greatly expects the countries in the Indian Ocean region, especially the African countries, to support Japan to expand the international influence, and this region is not historically related to Japan after all, so there are not unbridgeable political divergences and territorial disputes; on the other hand, Japan also expects to expansively participate in the economic development and even the defense construction of Africa, Myanmar and India. Therein, it undoubtedly contains some part against China, but whether all the actions of Japan can be regarded as the competition with China? Objectively speaking, from people to the government and scholars, Japan and China both tend to deem the behaviors as the aggressive intention, because they both have the egocentric defect when interpreting the other side. However, in fact, the mutually exclusive competitiveness of Japan and China beyond the Northeast Asia is also in doubt.

In conclusion, the extraterritorial big powers all strengthen the contact with this region in recent years and push forwards various versions of trans-regional cooperation plans, but it seems to have insufficient evidence to determine these activities as the intensified competition of these extraterritorial big powers in South Asia and Indian Ocean region.

### ***2.2.2 The Order in South Asia and Indian Ocean Region Needs to Be Improved, the Independence and the Influence of This Region Thereof Are More or Less Strengthened, but They Are Unbalanced and Lack of Overall Structure***

1. The regional structure is more unbalanced and the dominance of India has been determined

Lacking of dominant country in South Asia and Indian Ocean region for a long time, the basic pattern of South Asian region during the Cold War was India- Pakistan confrontation and Pakistan kept the weak strategic equipollence with India by virtue of the military which was equal to India. After the Cold War, India made continuous progress in economic reform, so the comprehensive strength gap between the two countries was more and more obvious. Although both countries have entered the nuclear weapon era, without era gap between the two military countries in this region, the strategic equipollence between the two countries obviously never exists and India is far head of Pakistan in the aspects of economic level and scale, international weight and common military force, and Pakistan can only depend on the geographical factors to strengthen medium and short range guided missiles and nuclear weapons so as to prevent it from completely being at the unfavorable position. Meanwhile, limited by the north-west security issue for a long time, Pakistan is under a more difficult situation and has lost the ability of counterbalancing India within South Asian region.

2. The radiating ability of this region is strengthened, but this region is still lack of integrity

South Asia and Indian Ocean region exists for a long time as the exceptional part of the international system, and in recent years, due to the improved strength and the deepened regional cooperation of some countries in this region, South Asia and Indian Ocean region is continuously and closely connected to the international system, thus gradually presenting the extraterritorial significance of South Asia and Indian Ocean region. The extraterritorial big powers gradually raise their expectations on the important member countries in this region, the surrounding countries and even the world big powers increasing pay high attention to the "Look East" policy of India, and the Afghan issue still attracts the attention of the world. Additionally, the rapid growth of the Muslim population in South Asian region and the deepening of the islamization enable this region to keep pace with the religion activities of the Middle East region, and the extraterritorial economic force is increasingly attracted by the prospect of the regional economic growth.

Even so, South Asia and Indian Ocean region is still faced with some serious structural problems, obviously with insufficient regional integrity. Firstly, the integration process of South Asian region is always around the low level;



Indian Ocean coast region belongs to different political and economic blocks, the mutual connection and the mutual correlation are much less than the extraterritorial contact. In fact, not only the extraterritorial big powers do not have integrative strategy or policy for South Asia and Indian Ocean region, only with local and sub-regional strategy, but also the countries in South Asia and Indian Ocean region do not seriously attempt to establish the integrative strategy for this region.

3. This region still has obvious security conflict and the risk of getting out of control exists in part of the region

Afghan issue has come to an end, but it only refers to that the military action of the North Atlantic Treaty Organization in Afghanistan will be ended and does not mean that the Afghan issue and even the security issue of the border land of Afghanistan and Pakistan can be settled in a short term. Far from it, the withdrawal of the North Atlantic Treaty Organization in 2014 will bring about more uncertain factors to the Afghan issue, break off the Afghan peace process and even probably cause Afghanistan to evolve into all-around civil war. More seriously, the international community not only has not yet showed its unshaken will upon Afghan issue and not yet undertaken the responsibility of maintaining the security and stability of Afghanistan and solving the security worry of Pakistan, but also has not yet practically prepared for it. The international effort for settling the Afghan issue including the Istanbul Process is gradually becoming the “idle talk meeting”. After 2014, it is possible that Afghan will become the base camp of the extremism and the source place of the regional turmoil. Different from the invasion of the Soviet Union into Afghan, Pakistan cannot play the role as the regional barrier, on the contrary, it will probably become the battlefield of the intensified conflict between the extremism and the secularism force, thus influencing the progress and result of the global Islamic renaissance.

### **2.3 Diplomatic Policy of China for South Asia and Indian Ocean Region: Appeal and Strategy**

In 2013, China interactively and frequently contacted the countries in South Asia and Indian Ocean region. Undoubtedly, it can be argued that the enhancement of the diplomatic initiative of China towards the Indian Ocean rim region is the result of the overall diplomatic thought transformation. However, for South Asia and Indian Ocean region, the “power up” of China has also brought about obvious reality and mentality shock. For China, although South Asia and Indian Ocean region is not the primary strategic direction, namely, not only the main source of the strategic benefit, but also not the great contribution deserving the concentrated force to respond, the South Asia and Indian Ocean region still has following strategic values.

### ***2.3.1 The Chinese Establishment in This Region Will Be Supporting for Its More Favorable International System Construction***

There are various structural major divergences between China and India, but they have many consensuses in the aspect of adjusting the international political and economic orders and China even regards the African countries at the Indian Ocean coastal region and other South African countries as the important partners for achieving “the democratization of the international relations”. Economically, China also thinks highly of the potential of the African market and the Indian market and eagerly expects the two regions with huge populations, especially the former, to develop as the main “going-out” destination of Chinese enterprises, thus providing the market support for the sustainable growth of China’s economy.

### ***2.3.2 Key Region for the Construction and Backup of Chinese Strategy Channel***

It is known that China greatly depends on the seaway over the Indian Ocean in order to continuously participate in the globalization process. Notably, China does not intend to completely rely on its own hard power, especially the military force to ensure the security of the seaway, because such strategy has high cost but limited benefit for China. Therefore, China mainly considers making use of the piracy issues over the Indian Ocean to achieve the breakthrough of the Chinese navy and improve the international status as well as establish the big power image. Actually, such strategy is not the measure of using soft power to seek for hard power and is exactly opposite. For the construction of the strategic channel, China mainly takes the advantage of the public order to ensure the security of the seaway and meanwhile positively construct the supplementary reserve channel, for example, the almost completed China-Myanmar oil and gas pipeline and China-Pakistan energy corridor in the conception stage. China clearly knows that these pipelines cannot replace the function of the seaway, but they can form effective hedging in order to prevent other countries from blackmailing China on the pretext of the security of the seaway.

### ***2.3.3 Extension Zone for the Borderland Development and Stability Maintenance of China***

Separatism, extremism and terrorism inordinately exist in China’s western region. Although the “Three Evils” exist for a long time due to some domestic factors, both Sinkiang and Tibet have innumerable links with the foreign force support.

China also needs to obtain the support and coordination from Pakistan and Afghanistan to fight against the “Eastern Turkistan” force, and shall not ignore the influence of India and Nepal to confront the “Tibet independence” group. Among the diplomatic affairs of China to South Asia and Indian Ocean region, especially to the South Asian region, the anti-terrorism and the anti-“ethnic separatism” are always the avoidable and inevitable important parts.

All the above strategies are considerably important, but they all belong to the long-term topics and cannot become the core contents of the foreign strategies of China in a short term, namely without urgency.<sup>3</sup> On the basis of the above strategic intention, the policy of China for South Asia and Indian Ocean region shall be focused on the long-term development in order to patiently and realistically achieve the benefit maximization through gradually and hierarchically promoted policy and strategy.

Firstly, China shall make effort to maintain the relation with India in order to prevent China from being involved in the conflict with India when responding to the threat from the southeast ocean region. However, if the intensified conflict between China and India is broken out due to the ineffective control on the issues regarding territorial dispute, etc., even China tactically wins victory by virtue of its hard power, China will still not able to force India to accept the result of such conflict as China’s expectation. And conflicts like this will disperse the power of China and make China more vulnerable to the marine risks. Of course, this doesn’t mean that China shall take the conciliatory policy to India in order to coerce India through interest compromise. If China tolerates the provocation of India, then China not only cannot obtain the returns, but also weakens its influence in South Asia and Indian Ocean region, thus making its benefits nibbled. Considering the attitude and strategy towards India, China actually needs to solve the problem about how to respond to the main strategic opponent at the secondary direction in order to prevent the secondary issue from being transformed as the primary issue and meanwhile prevent itself from being caught into the awkward situation of unavailable stability.

Secondly, in order to achieve the stability of the relation with India, the diplomatic strategy of China for South Asian region shall aim at continuously regarding Pakistan as the primary cooperation partner, strengthening the support to Pakistan, preventing Pakistan from being further weakened and preventing the geographical relations in South Asian region from being completely unbalanced. Meanwhile, China shall remove the definite opinion of the international society that China shall balance the relation with India and Pakistan, and shall publically promise to support

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<sup>3</sup>“Without urgency” does not mean that the borderland stability maintenance is not urgent. Undoubtedly, the borderland stability maintenance and the anti-terrorism work are important and urgent, but the diplomatic work regarding the borderland stability maintenance task shall not be placed at the core position in China-Pakistan relation and China-India relation, and meanwhile the goal cannot be accomplished in 1 day. For Pakistan, “without urgency” is mainly because of the ability; for India, “without urgency” is mainly because of the will. Both the ability and the will cannot be changed in a short term.

the security appeal of Pakistan, not only for the purpose of enabling Pakistan to have firm confidence in China as an ally, but also for the purpose of setting a good example for the countries with expectations on China in this region or in a wider range, thus laying the foundation for constructing the strategic cooperation framework dominated by China.

Finally, when considering the issues with regard to South Asia and Indian Ocean region, China shall persist in the wide multilateral participation in the remote perimeter zones, namely African region and the Middle East, unleash the ability of the regional cooperation mechanism and expand non-exclusive influence via the market force, thus abandoning the confrontation thought, namely the so called “scrambling war”. However, China shall more positively and actively attempt to promote the “small multilateral” cooperation in the near perimeter zones and determine the preferred partners according to their closeness to China, but no need to establish the “negative list” for the few hostile parties as the cooperation between China and Southeast Asian countries. Additionally, China shall set a good example at the remote perimeter zones and establish the differential cooperation attitudes in the near perimeter zones so as to consolidate the basic cooperation partners and meanwhile develop the potential partners.

**Part II**  
**Sub-report: Multilateral Relations and**  
**Regional Economic Cooperation**

# Chapter 3

## Strategic Competition and Multilateral Relations in Indo-Pacific Region

Cuiping Zhu

**Abstract** Currently, the concept of Indo-Pacific has emerged and has been paid much attention to, deriving from the strategic considerations for contend of power and influence in Indo-Pacific region between the world and regional powers including the United States, Australia and India. Under such realistic settings, it is extraordinarily indispensable and pressing to discuss how to release the demand and growth potential by virtue of regional economic integration, to achieve mutual benefit and reduce conflicts in mutual cooperation. “Asia-pacific rebalancing” in the changing world pattern has intensified strategic competition in this area, while asymmetry of interdependence reflected in economic relations between major countries of East Indian Ocean and West Pacific increases the chance of potential conflict. From the angle of establishing regional security, under the premise of geopolitics unable to be enhanced due to structural obstacles, economic integration conflicts can be resolved through win-win cooperation so as to promote the prosperity and stability in the region.

**Keywords** Indo-Pacific • Economic integration • Regional security

As the boost of globalization and economic integration, an increasing tendency is that any country including America would impossibly alone play a leading role in maintaining order of the world or any region, neither could it be possible to offer solely public goods with system or mechanism included. Throughout the globe, during a considerable period, it is scarcely likely to break out military conflicts between various countries especially great powers of the world or any region, and the conflicts would more likely transfer to the economic sphere. Judging from the current situation, although the world economy would not continue to struggle in the critical crisis, decelerating trend of growth remains to be rather apparent. Under such realistic settings, it is extraordinarily indispensable and pressing to discuss

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how to develop multilateral relations, to release the demand and growth potential by virtue of regional economic integration,<sup>1</sup> and to achieve mutual benefit and reduce conflicts in mutual cooperation. Supposed we are to interpret the multilateral relations between Indo-Pacific regions as well as prospects for economic integration, the following four aspects need to be discussed: firstly, what impact of the changing world has generated on regional security and developmental pattern? Secondly, what the strategy the main stakeholders maintained in Indo-Pacific regions? Thirdly, what kind of relationship has formulated in terms of major countries in the Indian Ocean and the Pacific Ocean? Fourthly, what would be the prospect of economic integration in Indo-Pacific regions?

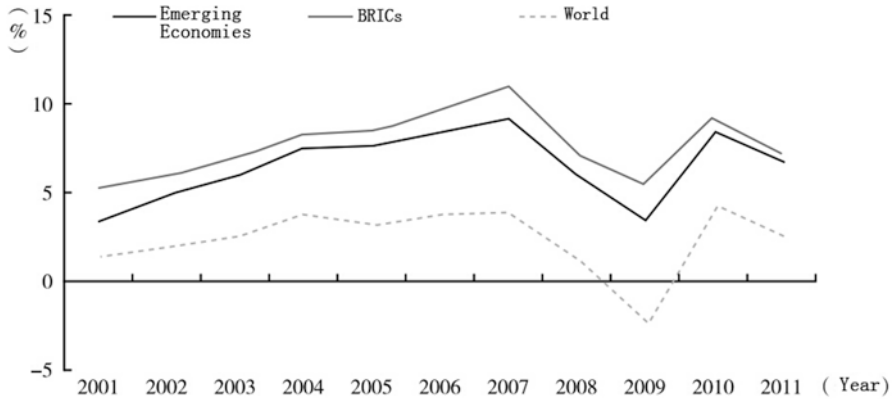
### 3.1 Impacts of Changing World on Regional Security and Development

The world is undergoing huge changes, which mainly from globalization. On the one hand, globalization has brought the shift of economic center, enhancing interdependence between countries; on the other hand, it leads to change of international structure with apparent tendency of regional order reconstruction. It can be said that the development of globalization is a significant momentum of changing era, transforming the world from mutual assured destruction to mutual economic dependence, thus many countries have formed the situation of interdependence (Wu Jianmin 2012, p. 32). Although globalization has deepened the interdependence between countries, it neither makes conflict even war unimaginable, nor makes cooperation inevitable (Zhu 2013). Although the interdependence in areas of politics, economy or even security among countries throughout the world is unprecedented, this variation denotes that effect of external environment on every country has exceeded any time ever before, with which there are increasingly kinds of uncertainty and risk factors, which has already triggered and would continue to cause profound changes in politics, economics, and security pattern of the globe. At the same time, sorts of challenges human being are faced with are also unprecedented including climate change, piracy, terrorism and so on. Opportunities and challenges of global economic coexist, and will certainly create what Brzezinski describes as “global political awakening” (Brzezinski and Scowcroft (America) 2009, p. 1). Any economic system is impossible to be maintained if there is no political base. Challenges faced by those people who have belief in globalization is that the economic growth and political imagination goes well with each other (Kissinger (America) 2009, p. 210).

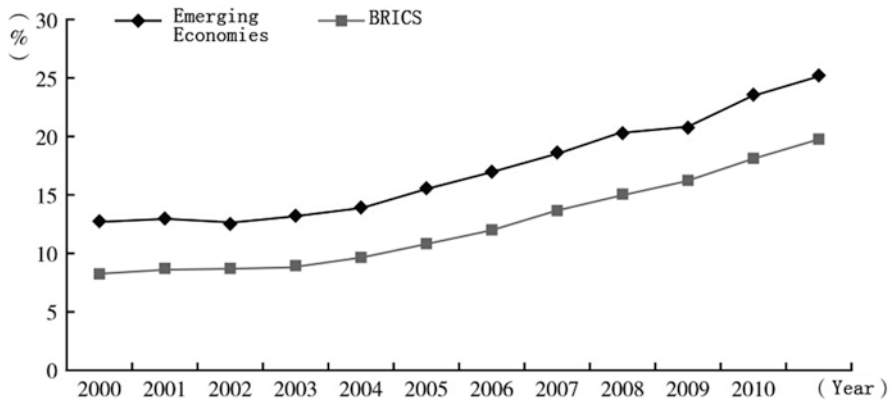
At present, rising group of the emerging industrialized countries including China, Russia, India, Brazil, South Africa has manifested the irreversible trend, and eco-

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<sup>1</sup>The so-called economic integration between countries is a process of gradually removing trade barriers and restrictions factors of production flow, integrating step by step the goods, services and markets of means of production into one.



**Fig. 3.1** Economic growth of new emerging economy and “BRICS” (Note: emerging economy group includes ten countries of Argentina, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa and Turkey. Data source: Calculated from data of the World Bank WDI database)



**Fig. 3.2** Emerging economies and the proportion of the economic output in total of the bricks countries to the world (Note: Emerging economies include ten countries of Argentina, Brazil, China, India, Indonesia, Mexico, Russia, Turkey, Saudi Arabia, and South Africa. Data source: Calculated from data of the World Bank WDI database)

economic growth rate of emerging economies especially “Bricks Countries” has far beyond the world’s average rate of economic growth (see Fig. 3.1). By 2011, emerging economies accounting for the proportion of the world economy has been more than a quarter, in which “BRICS Countries” has raised to one fifth of the world economy (see Fig. 3.2). An obvious fact is that, since 2006, growth rate of emerging developing countries has been far higher than that of developed countries, and by the end of 2012, total GDP value of emerging economies around the world and low-income countries has been more than 50 % of global GDP for the first time.



**Table 3.1** The economy forecast in the future of both developed and emerging economies (Unit: Trillions)

Year	Group of seven	Developed economies	BRICS	New emerging economies
2005	27.3	32.4	4.2	8.9
2015	33.0	39.6	10.2	19.0
2030	43.0	51.6	28.2	46.8
2050	64.3	77.0	90.0	138.0

Data Source: “The World is New-a Century of Rise and Struggle of Emerging Market” written by Anthony Van Brother Tamil., translated by Jiang Yongjun, Oriental Press, 2007, p. 5

Note: BRICS includes Brazil, Russia, India, China, and South Africa

With a population of one billion in developed economies, a population of 6 billion in emerging economies and low-income countries, demand structure of 6 billion people is changing that of the whole world, which is the great transitions in the world, also unprecedented great changes in the economic progress of human beings.<sup>2</sup>

Fast development of emerging economy groups, especially the rapid rise of “Bricks”, has been changing the international order and structure of power. Studies have predicted that in the next 30 or 40 years, in the global economy, emerging economies will have equal shares with developed economies, and a huge shift of the economic focus from developed economies to emerging economies of the globe would occur (see Table 3.1) (Xun Xiujun 2012, p. 76). As the shift of economic center, attentions of the world will divert to Indo-Pacific region, and the west-centered International political and economic order will inevitably diverting at the balance between east and west. The world is moving towards an international order of no hegemony and of relatively balanced power (Zhang Jianxin 2013, p. 4). In the near future, Indo-Pacific region would be the center of international system, Indo-pacific Ocean will also become the battle field for all countries to struggle for power and that of power influence.

What becomes increasingly clear now is that in the absence of international order, our interdependence conflicts with each other, major powers colliding with each other in seeking their own needs, splitting instead of unifying one another in front of common threats, thus leading to growing frustration (Jones et al. 2009, p. 269). The changing world brings about both opportunities and challenges, and relations and economic behavior choice of great powers will decide whether this sort of change will promote the cooperation or further increase the conflict. Anyway, it would be reciprocal demands of all countries to achieve prosperity of economy in Indo-Pacific regions and to maintain security and stability of that area. In the international environment of interdependence, realizing the mutual requirements needs further openness and mutually beneficial cooperation. In reality, every country experiences the changing world and interdependence brought by the variation. But

<sup>2</sup>Zhuming: “Changes in the World”, “International Economic Review” sixth issue in 2012, pp. 9–15.

either to suspect mutually and construct threats by treating others as rivals or even “enemies” thus heightening strategic competition to get involved in “prisoner’s dilemma”, or to consult mutual cooperation for elevation of power in the field of common interests and common threats, is not merely the key to deciding sustainable development for each economy, but also to deciding the order of nation, regions or even the world.

## 3.2 Concept of Indo-Pacific and Strategic Considerations of Major Stakeholders

As the rise of emerging markets especially China and India, political and economic center of the globe continually moves to the Asia-Pacific region, attention of the world and regional powers gradually and inevitably turning from Atlantic ocean-Pacific region to Indian Ocean-Pacific region, thus concept of the Indo-Pacific emerges swiftly. Struggle for Indo-Pacific marine rights and interests of countries throughout the globe would be more intensified in the future, and content such as economic interests and marine resources would be added on the basis of struggle for the military strategic target and strait channel. Development of military power and military activities at sea manifests the “sea controlling the land” tendency.<sup>3</sup> Strategic competition of power and influence in Indo-Pacific region will be increasingly intensified, resulting in “strategic paranoia”, which will inevitably affect the stability and development of bilateral and multilateral relations, and finally affect cooperation in the economic field, thus making political factors be the stumbling block in economic cooperation.

Indo-Pacific was originally a geographical concept. Its debut as a new geopolitical politics concept derives from rise of emerging market economics such as China and India, from the huge potential of trade, investment and energy supply in this region, and from globally strategic considerations of America sustaining the hegemony of the world and influence in Indo-Pacific region. After announcing the strategic shift, the United States has used “Indo - Pacific” concept instead of the “Asia-pacific region” on many occasions of official speech frequently, thus “Indo - Pacific” concept gradually attracted the attention of major powers especially the earnest attention of United States, Australia and India. At present, “Indo - Pacific” concept talked by governments of America and policy makers mainly refers to vast sea from the western Pacific to the western Indian Ocean and their coastal shelf, or exactly speaking, the massive area from east longitude 140°–60°, south of the southern Indian Ocean, north to the coastal countries.<sup>4</sup> The Indian scholar maintains that Indo-Pacific contains the vast region from the eastward of Indian Ocean to

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<sup>3</sup>Hongyuan Shi (2012), quoted from “*World Marine Politics and the China’s Developmental Strategy of Oceans*” written by Liu Zhongming.

<sup>4</sup>Dan McDaniel, India, China and the United States in the Indo-Pacific Region: Coalition, Co-existence or Clash? October 2012, p. 2. Max weber WeiZongYou in India too areas of the United States the strategic adjustment and the geopolitical strategy effect, “*world economics and politics*” 10th, 2013, p. 141. And quoted from Wei Zongyou’s (2013, p. 141).

South Asia, Southeast Asia and the Pacific from a general angle (Rumley et al. 2012, pp. 1–20). From the perspective of geopolitics integration, Indo-Pacific contains the breadth of the Indian Ocean and western Pacific waters, in the gigantic waters of which Beijing and New Delhi will play a great role (Raja Mohan 2013, p. 212). While other scholars hold that in the “Indo-Pacific” concept, three countries of United States along the east coast of the Pacific, India located in Indian Ocean and Australia between the Indian and Pacific oceans will play an important strategic role (Jin Canrong 2013). At present, analysts and policymakers in Australia, India and the United States increasingly apply “Indo-Pacific” concept to analyze geopolitical strategy of Asia instead of the traditional integrated build-up strategy of East Asia (Bisley 2012). Some scholars even deem that the world has entered the era of “Indo-Pacific” (Medcalf 2011, pp. 1–13). In fact, a great maritime power must be an economic power opening to the outside world. The birth and development of sea power is based on the development of maritime trade and prosperity. Making profits from exchange of needed goods, stimulating demands and meeting requirements in order to promote production in exchange of commodities, which is the economic footing pursued by sea power based on maritime trade, also a pattern of wealth growth spurred by exchange and demand (Dr. Chen 2012, pp. 60–61). In 2013, the United States steadily pushes forward the Asia-Pacific rebalancing strategy, whose focus would divert to the vast waters from the Pacific ocean to the Indian Ocean; with the rapid promotion of “Look East Policy”, India’s ocean strategy would extend from the Indian Ocean to the Pacific Ocean; Australia situated in Indo-pacific oceans would naturally expect to play a “axis power” in that region; to seek a peaceful and stable surrounding environment, China would also evolve in affairs of Indo-Pacific Oceans regions. Indo-Pacific concept will quickly emerge, boosting the competition of world and regional powers for their influence in Indo-Pacific regions.

### ***3.2.1 The United States: The Strategic Considerations at Global Level***

As in the book of Waller Stan *Decline of American Powers*, there may be few people who believe the idea that “America has started to decline”. But in fact, since the 1970s, America’s global hegemony has been on the decline.<sup>5</sup> What is more obvious is that starting from the 1990s, group rise of emerging markets such as China and India will surely become the most influential event internationally after the cold war. Hot words like “emerging economies”, “BRICKS”, “NEXT-11” and “MINT” have correspondingly appeared. Predictions made by Madison, Goldman Sachs and so forth on the world economic structure change in the future claimed that Asia would be the center of world politics and economy in some 20 years. By 2030, China and India’s economy will have been nearly twice as much as the United

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<sup>5</sup>Wallerstein (2003), quoted from Xu Xiujun (2012, p. 75).

States, China's own economic scale will be more than the United States the United States, and India will also closing the gap in a rapid manner. Some people predict that it will happen by 2020; while others think that China would surpass America in the latest of 2035, followed by India surpassing America in 2040 (Dobson (American) 2010, p. 163). Those predictions make United States feel the unprecedented threat and pressure, and it seems that in such a historical moment the current world has gone to the end, replaced by one without physical threats of the cold war (Brzezinski and Scroft 2009, p. 2). With the trend of world multi-polarization, the "prospects" of future political balance of power and decentralized authority has become the primary source of "perceived threat" of America. In particular, the relative change of China's international status will no doubt change the cooperation value with trade partner, and the absence of observed value under the condition of asymmetric information has further amplified the "China threat" and focus on China on this basis. These changes greatly weaken America's sense of obligations, making the United States experience the unprecedented "challenges" to its world hegemony. Therefore, America has to cautiously deal with different political groups emerged in Asia, being consistent with long-term perspectives. America has to stay in Asia, not being arrogant. It ought to play a significant role in tackling a variety of threats, and to avoid being the focus of each conflict at the same time (Kissinger (America) 2009, p. 139).

As the only superpower of the world, America's global strategy is to maintain its hegemony not subject to challenge, and the United States = centered world order. To achieve the goal, the first thing to do is to ensure its dominant position in the Asia Pacific region, able to keep the leading rule in the Indo-Pacific affairs in the future. The area stretching from the Indian subcontinent to the west coast of America, arches across the Pacific Ocean and the Indian Ocean, becoming more and more closely linked together due to the traffic transportation and strategic factors. The region has some important U.S. allies, also important emerging powers such as China, India and Indonesia.<sup>6</sup> Since 2010, Obama and senior officials of the United States state department and defense department have repeatedly applied the concept "Indo-Pacific" in their speech, contents involved include: to enhance cooperation with the Indian navy and to make the Indian navy for custodians of Indo-Pacific Ocean channel (including the south China sea, Malacca and the Pacific of wider range) ; promote policy coordination of the United States and Indian in marine safety matters of east Asia; to construct northwest coast of Australia into force projection point towards western Pacific and the eastern Indian Ocean in the United States' "Indo-pacific region" link (Chen Yali 2012, pp. 68–69). In January 2012, in defense strategy report of Sustaining US Global Leadership: Priorities for the twenty-first century Defense, the United States emphasized once again the significance of the Indian Ocean to American global strategy: the economic and security interests of the United States is closely linked to developments of the area from the western Pacific and east Asia to the Indian Ocean and South Asia, which has posed

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<sup>6</sup>"Hilary: America's Pacific Era", China Network, on 14th October, 2011, [http://www.china.com.cn/international/TXT/2011-10/14/content\\_HTM23622321](http://www.china.com.cn/international/TXT/2011-10/14/content_HTM23622321)

increasingly severe challenges to America, also with considerable opportunities.<sup>7</sup> As a result, America adjusts its strategic focus in a high-profile manner, superficially transferring from the Atlantic to the Pacific, actually seeking for footing between the Indian Ocean and the Pacific, a return of sea power strategy after buffering (Zhu 2012, p. 1). There is no doubt that India is the unique power in the Indian Ocean region, and “Indo - Pacific” concept facilitates India into global strategic considerations of the United States.<sup>8</sup>

### 3.2.2 *India: “Look East Policy” Logical Extension Considerations*

Since 1991, India has conducted the domestic economic system reform, while implementing “look east policy” in areas of Southeast Asia, East Asia and Pacific, attempted at advancing towards strategic goals of taking over South Asia- being the leading power in twenty-first century.<sup>9</sup> There is no denying that, in the South Asia, India is second to none in aspects of population size, territory, economic aggregate and overall national strength; India is the so-called super power in South Asia, the core country of affecting relations among South Asian countries and strategic pattern of South Asia.

Since the twenty-first century, along with the rise of India, its strategic goal also extends from seeking economic interests to expanding strategic space. India’s defense ministry declared in 2001: “India’s security has beyond the limit of geographical border. West of the Persian gulf to east of Malacca and then to south of the equator are all secure areas in India because of its size, location, trade, and the wide exclusive economic zone.”<sup>10</sup> On 4th September, 2003, foreign minister Singh in India made speech in the second session of the Association of South-East Asian Nations (ASEAN) in India business summit: “India’s Look East policy has entered the second phase. The first stage is mainly focused on trade and investment with ASEAN countries; the second stage is to transfer from pure economy to economy and security issues including protecting sea lanes and coordinating counter-terrorism with joint efforts” (Chakraborti 2007, p. 160). On June 23, 2004, India has historically publicly issued strategic guiding document in the new period of in the service of economic development needs – “The Indian Navy Theory” The core thought of the documents is to establish a reliable maritime nuclear deterrent force by focusing on the development of strategic nuclear submarines and aircraft carriers, to build a modern “Blue-water Navy” of balanced power, reasonable structure and of consid-

<sup>7</sup>American Department of Defense, Sustaining US Global Leadership: Priorities for the twenty-first Century Defense, Jan 2012, p. 2.

<sup>8</sup>“*Media in the United States: India should play a leading role in Asia Pacific*”, China Newts, on 22th July, 2011, <http://fmm4.cn/1115749SHTML>

<sup>9</sup>Hu Zhiyong (2006, p 102), quoted from Shi Xuewei (2011, p. 67).

<sup>10</sup>“*The India’s National Security Strategy*”, Baidu Library, <http://wenku.baidu.com/view/52b6d601e87101f69e3195ff.HTML>

erable deterrence. On the basis of controlling the Indian Ocean, strategic thinking of “leaving for the west, heading east, heading down south” ought to be conducted, extending strategic interests of India to vast sea areas, from west of Persian Gulf, east to the south China sea and south to south of the equator, achieving the transformation of projecting power from coastal and regional defense to pelagic offensiveness.<sup>11</sup>

For India, concept of “the Indo-Pacific”, compared with that of “Asia Pacific”, can more highlight significant role of India, thus India would naturally accept it with pleasure and actively cater to it. At present, naval force of India has gradually entered into the Pacific Ocean, and future strategic focus of India will extend from the Gulf of Aden in two “choke points” in the Indian Ocean to the straits of Malacca (Raja Mohan 2012, p. 4). India’s strategic extension of “Look East” policy has generated effects of both sides. On the one hand, multilateral relations with neighboring countries and the Asia-Pacific region shall be enhanced by strengthening the economic and trade cooperation with Southeast Asia, with the aim of institutionalization of multilateral cooperation; on the other hand, India’s influence will be elevated by extending its navy’s footprint to the Pacific. While the primary target of India’s “Look East Policy” in the first phrase is to enhance economic ties with countries of relatively developed economy in southeast Asia, so as to achieve mutually beneficial and win-win economic interests; the primary goal in the second phrase is to go out of South Asia and the Indian Ocean, to conduct substantial pragmatic partnership with Asia-Pacific countries in political and security aspects by carrying out the Balanced Diplomatic Strategy, thus enhancing constantly the strategic interests space, elevating India’s influence in Asia-Pacific to improve its international status, and to guard against “threat” of China.

### ***3.2.3 Australia: The Strategic Considerations at Regional Level***

As for Australia, the concept of “Indo-Pacific” hotly discussed in recent 2 years has been not entirely new, and scholars in Australia had applied this idea in discussion of non-colonization in the early 1950s. Until 1960s and 1970s, this concept had been presented and discussed in two meetings held by AIIA and ANU, emphasizing that special geographical location decides the significance of the Indian and Pacific oceans to maintain national security in Australia. 30 years later, in 2005, Michael Richardson of Southeast Asia research institute had employed the concept of “Indo-the Pacific” once again in a paper in East Asia Summit (EAS) attended by India (Tyler and Shearman 2013), Australia and New Zealand. It is worth mentioning that as further supplement of “White paper on Australia in the Asian Century” published in October 2012 and “National Security Strategy in Australia”, “2013

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<sup>11</sup> Bai Yanxing “Detailed Warfare Theory of Indian Navy”, VIP information, <http://www.cqvip.com>

Defense White Paper” was released in May 2013. White paper has illustrated both international and domestic factors affecting national security and defense layout in Australia, explaining that strategic focus of Australia is the new area connecting the Indian and Pacific oceans. Strategic shift to the Indian Ocean and Pacific Ocean means increasing prosperity, but also uncertainty and risk.<sup>12</sup> Compared with the traditional “Asia Pacific” diplomatic strategy in Australia, this is apparently a renewed term. Located right in the center hub of Indo-Pacific, Australia therefore has perceived its “bridge” role in major power and regional country relations in introducing the concept of Indo-Pacific. At present, the “Indo - Pacific” concept has frequently appeared in discussion in Australia’s defense and foreign policy, although it is still a controversial concept. As pointed out by Melissa Conley Tyler, for Australia, the basic connotation of the concept of Indo-Pacific includes: First, Australia has to assess the significance of concept of Indo-Pacific in handling relations with the United States and China, especially whether to adopt Indo-Pacific concept would be regarded as Australia’s intention to be in close relation with America or be alien to China; secondly, introducing concept of Indo-Pacific into foreign policy, Australia must take into consideration how to deal with relations with major powers in Indo-Pacific; furthermore, Australia needs to enhance relations with other countries including India, Indonesia, Japan, Korea, Vietnam, Thailand, the main countries in Africa, China and the United States, which is involved in security dialogue and regional cooperation; finally, Australia has to establish Indo-Pacific mechanism by investing time and energy, which includes IOR-ARC and EAS (Tyler and Shearman 2013). In fact, there is not much controversy regarding what is the accurate connotation of Indo-Pacific concept, the concept will serve for the interests of whom and what is its implied main risks and opportunities, and it can be said that this concept will be quoted the strategic program in Australia without any criticism. There are two major arguments of supporters of Indo-Pacific strategy: First, expanding marine interests and ambition of India and China’s navy indicate the intensity of potential strategic competition, which inevitably integrating two separate areas of the Indian and Pacific oceans into one; secondly, economic ties, especially the unceasing energy demand of the east Asia from the Middle East, enhancing significance of the Indian Ocean as the energy channel, and combining destiny of coastal countries along two oceans together, so as to expand geopolitical strategy space of relevant countries (Bisley 2012). Overall, Australia scholars believe that “Indo - Pacific” concept is a hot word in discussing security and foreign policy currently in Australia, which is the result commonly driven by external and internal factors. For instance, external factors such as threats caused by rise of China, particularly increasing influence of China navy on India Ocean; Australia is driven to be in a dilemma by competitive relations between China and America, which make Australia has to choose to keep traditional alliance with America or trade relations with China, so as to seek balance in various kinds of interests to avoid to get involved in the muddy water; internal factors including

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<sup>12</sup>The 2013 defense white paper released, [http://www.chinaembassy.gov.au/bjngchinese/130503mediarelease\\_Ch.html](http://www.chinaembassy.gov.au/bjngchinese/130503mediarelease_Ch.html)



Indo-Pacific strategy cannot merely enhance bilateral relationship between Canberra and New Delhi or other strategic partners, but also improve Australia's influence in cooperative alliance of the Indian Ocean and its surrounding regions. Anyway, the unique geographical position of Australia in Indo-Pacific determines the strategic needs of the Australian in this region, but also determines the Australia's significant role in Indo-Pacific region.

### ***3.2.4 China: Geopolitical Economic Interests and the Surrounding Security Concerns***

Since the twenty-first century, America's hegemony has been on the decline gradually, the sense of "feeling threatened" enabling its strategy of "security defense" to elevate unprecedented heights, especially against China. As APEC mechanism has been in the doldrums, ASEAN-centered "10+1" (China-ASEAN), "10+3" (ten countries of ASEAN and China, Japan and South Korea) and "10+6" (economic partnership in the whole east Asia, ASEAN and China, Japan, South Korea, India, Australia and New Zealand) present a promising prospect of development, in which China plays a significant role. In order to cooperate with strategic shift to the east, America's significant economical measure is to seek for the relative competitive advantage at the regional and global level via "The Trans-Pacific Partnership Agreement" (TPP), to earn profits on absolute advantage for a larger share of the market. At the same time, the United States also highlights the Indo-Pacific strategy. Although it cannot be said in an absolute manner that the aim of American global strategy is to confront or contain China, it is quite sure that the United States adopts the rebalancing strategy to maintain its hegemony and influence in Indo-Pacific region, by which the United States not merely creating more intense atmosphere in this region, but also intensifying strategic competition to further promote changing pattern in Asia-Pacific, and increasing complicatedness around China.

Currently, disputes and contradictions in the Asia-Pacific region have been on the rise, although international military confrontation may never occur, fierce competition rarely happens, and China is undoubtedly regarded as the most potential country to challenge American hegemony, its rise fretting even frightening Washington. So perception of "China threat" has been constructed as the "China threat theory", of which basis is that increasing economic and military strength in China requires more rights in regions or globe, thereby break the existing international economic and political order, which would pose threats to existing interests of other countries (Niu Weigan 2013, p. 132). In such background, either America's control of choke points of Indo-Pacific, or India's expectation to play a leading or even positive role in India Ocean after its rise as regional powers, or Australia's expectation of elevating regional influence out of its unique advantageous of geopolitical value, all trigger changes in the balance of power in the Asia-Pacific region to promote competition of world and regional powers' influence in Indo-Pacific. If major powers' intention of strategic extension is unknown or threat is constructed only to hold back threat,



then geopolitical conflict and structural tension would occur (Zhu 2013, p. 5). The current geopolitical situation of China can be summarized as “east is urgent and west is significant”. In the east, artificial blockade needs to be broken as soon as possible to enable China’s access to abyssal region of the Pacific Ocean, and bottleneck factors of policy implementation of “integrating overall situation of both domestic and international” should be removed soon. While in the west, stable political environment is needed to guarantee safety and smoothness for China’s energy channels from west Asia (Zhang Wenmu 2013, p. 39). While unable to promote geopolitics because of structural obstacles, through cooperation at the geoeconomics level, dialogue between related countries can be carried out, which would enhance cooperation at the geopolitics level from other aspects (Wang Junshen 2012, p. 70).

Classical realism in international relations theory is that the country’s foreign policy is codetermined by domestic and international factors. That is to say, the strategy of a country is influenced both by all kinds of political powers in China and by choices made by other countries (Yuan Zhengqing and Zhaoyang 2013, p. 282). The shift of world geopolitical center forces America “return to the Asia-Pacific” to conduct rebalancing Asia-Pacific strategy; India’s “Look East Policy” expanding from Southeast Asia to the western Pacific or even broader area, and Australia’s effort to make strategic notion of “Indo-Pacific” written into foreign policy – all of them aim to contend influence in the region and the whole world. China depends highly on energy and trade channels in the Indian Ocean, though Chinese government has no intention to scrabble for priority and influence with the United States and India in this area, it is endowed with the right to pursue geo-economic interests and surrounding economic security. Despite China adheres to the non-aligned and independent foreign policy, claiming again and again that it will unswervingly take the path of peaceful development, unswervingly pursue the win-win strategy of opening up and always stick to peripheral policy of “Good, Safe and Rich Neighborliness”, increasing “threatening feelings” of neighboring countries caused by the rapid economic rise in China results in fierce disputes with neighboring countries in territory and seas. A serious challenge before China is how to resolve the suspicion and upset caused by China’s rise. How to integrate regional cooperation mechanisms such as the “BRICS”, “10+1”, “10+3”, Regional Comprehensive Economic Partnership (RCEP) with other regional mechanisms like “Trans-Pacific Strategic Economic Partnership Agreement” (TPP)? After all, different mechanisms represent different interest groups’ interest, and various contradictions and conflicts are inevitable in blending interests in the process. At present, China has obtained certain opportunities at an advantage in building East Asia regional cooperation mechanism. The advancement of the TPP will enable China’s stand in East Asian economic cooperation to change from being active to be passive, which directly affects negotiation progress of China, Japan and South Korea free trade area.

In recent years, economic integration of various levels based on different system and varied areas are generating friction. According to the theory of hegemony, when superpower strength declines, the external competition could make the big powers transfer from free trade to trade protection, thus the world trade liberalization will

be stuck to a certain extent and the trade friction between Sino-America is more affected by the political factors (Zhou Zhe 2013). From this perspective, economic integration in Indo-Pacific region will help upgrading CAFTA and both radiation effect on development and economic cooperation with South Asian country are helpful to promote the RCEP, also another choice to avoid occurrence of conflicts in economic integration in this area resulted from America's domination of TPP. Given the security dilemma and many unstable factors in areas around China, institution-alization operation of power ought to be conducted through multilateral mechanism within the region, which will not merely ensures the realization of strategic target by virtue of join forces, but will also attains legitimacy, recognition and following, and accord with the core of new security concept advocated vigorously by China (Song Dexing 2012, p. 17). In any case, for China, if the Indo-Pacific cooperation mechanism is focus on win-win regional cooperation, then the situation of win-win or multilateral wins can be created and platform can be provided to resolve all kinds of negative factors in bilateral and regional security.

### 3.3 Indo-Pacific Multilateral Economic Relations

According to reports of the Asian Development Bank, the numbers of free trade agreements in Asia had increased three times than before in the past decade, thanks to the development of trade and tourism, that is, from 70 in 2002 to 157 in 2012. Free trade in Asia led by East Asian economies such as Singapore, India, China, Japan, South Korea and so forth grows rapidly with increasing integration of Asian economy. Cooperation in the future will be more complex and challenging, and greater integration will be difficult to achieve. There are reports that influence of upcoming The Trans-Pacific Strategic Economic Partnership Agreement (TPP) and Regional Comprehensive Economic Partnership (RCEP) is unknown, and both may compete with each other or may become part of global trade agreements. Currently, a number of interlocking issues of free trade agreements need to be tackled.<sup>13</sup> In such a background, what would be the future economic relations and development prospects for the Indo-Pacific Ocean economies?

In general, when trade relations or economic relations are symmetrical with each other, income is relatively balanced, the trade conflict will be reduced, making sustainable trade possible, trade and cooperation having positive correlation and trade and conflict having negative correlation; when trade relations or economic relations are dissymmetrical with each other, income is out of balance, thus conflicts are triggered or enhanced, trade and conflict having positive correlation and trade and cooperation having negative correlation. Either a world of peace or of conflict the interdependent world would be? Whether the economic interdependence will further increase cooperation or lead to more frequent conflict? Scholars' view on this

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<sup>13</sup>“Asian's Growing Economic Integration Told by the Asian Development Bank”, “Reference News” on March 7, 2013.

are different, and the main arguments include: (1) economic interdependence can reduce conflict; (2) economic interdependence will lead to more frequent conflicts; (3) economic interdependence could both reduce conflict and increase conflict, depending on the different scenarios and conditions; (4) There is no correlation between the economic interdependence and conflicts. The mainstream of international trade theory is that bilateral trade volume is mainly composed of factors of labors, technology, market structure and the consumption preference and so on, thus the trade balance is not necessarily a good indicator of measuring trade barriers (Tianfeng 2012). The author believes that as to whether asymmetry of interdependent economic relations would lead to clashes, politics is undoubtedly the main factor that cannot be ignored. But in political environment of a certain case, the asymmetry of the interdependent economic relations will increase the likelihood of conflict. Right now, the regional economic friction displays more and more character of politicalization, becoming a “stumbling block” of regional economic security.

Asymmetric interdependence refers to the fact that one depends more than the other, and the one who relies less is unable to make full use of its favorable advantage in economic interdependence, transforms economic clout into political influence by virtue of economic means, thus to achieve its diplomatic goals (Song Guoyou and Gao Qunbo 2012, p. 132). Economic interdependence asymmetry is the main source of economic strife. It can be seen from (Table 3.2) that among the western Pacific countries, China’s import and export markets are highly dependent on the European Union, the United States, Japan and South Korea, and Japan is highly dependent on the European Union and the United States, and South Korea is highly dependent on China, the United States, EU and Japan; while among countries in Southeast Asia around the Indian Ocean and South Asia, only Malaysia is highly dependent on imports and exports of the market in China. In addition, China is the largest import market for Myanmar and Bangladesh, the second largest import and export market of the Indonesia. Obviously, there is asymmetry in the market dependence in western Pacific and the eastern Indian Ocean.

As the world’s first trading nation, China is the largest trading partner among the surrounding countries with serious trading imbalance. Seen from Table 3.3, China and Australia have huge trade deficit of \$487.6 billion, deriving from the import of iron ore and coal resources; there are also the trade deficit between China and Malaysia, Indonesia and Thailand of southeast Asian countries around the Indian Ocean, with Malaysia’s largest deficit of \$3.4251 trillion, with Thailand’s trade deficit of with \$133.5 billion; also there is the trade surplus between China and Singapore and Myanmar, with Singapore’s trade surplus of \$74.3 billion and with Myanmar’s trade surplus of \$31.4 billion; there exist trade surplus between China and all South Asian countries around the Indian Ocean, in which trade surplus between China and India being the largest one of \$271.7 billion, and China’s trade surplus with Bangladesh, Pakistan and Sri Lanka of \$73.6 billion, \$63.2 billion and \$28.4 billion respectively; there is the trade deficit between China and numerous middle eastern countries around the India’s Ocean, in which trade deficit between China and Saudi Arabia being the largest one of \$346.2 billion, and China’s trade deficit with Iran, Oman and Iraq of \$156.2 billion, \$138.8 billion and \$66.1 billion respectively, and

**Table 3.2** Dependence on the import and export market of the western Pacific and part of the country in Indian Ocean in 2011 (Units: %)

Countries	Major importing countries and the percentage of imports of total imports			Major exporting countries and the percentage of exports of total exports		
	The first importer	The second importer	The third importer	The first exporter	The second exporter	The third exporter
China	European Union (12.11)	Japan (11.16)	South Korea (9.33)	The European Union (18.76)	The United States (17.12)	Hong Kong, China, (14.12)
Japan	China (21.5)	The European Union (9.41)	The United States (8.92)	China (19.68)	The United States (15.51)	The European Union (11.65)
South Korea	China (16.48)	Japan (13.03)	The European Union (9.04)	China (24.17)	The United States (10.16)	The European Union (10.14)
Bangladesh	China (19.43)	India (14.39)	The European Union (6.88)	The European Union (54.96)	The United States (19.73)	Canada (4.22)
India	The European Union (12.72)	China (12.2)	The united Arab emirates (7.95)	The European Union (18.11)	The united Arab emirates (12.4)	The United States (10.92)
Indonesia	Singapore (19.01)	China (15.33)	Japan (10.28)	Sri Lanka (16.57)	China (11.27)	The European Union (10.09)
Malaysia	China (13.17)	Singapore (12.79)	Japan (11.38)	China (13.14)	Singapore (12.69)	Sri Lanka (11.51)
The Maldives	The UAE (21.85)	Singapore (21.57)	India (10.1)	The European Union (47.67)	Thailand (18.88)	Sri Lanka (9.7)

(continued)

**Table 3.2** (continued)

Countries	Major importing countries and the percentage of imports of total imports			Major exporting countries and the percentage of exports of total exports		
	The first importer	The second importer	The third importer	The first exporter	The second exporter	The third exporter
Myanmar	China (30.03)	Singapore (25.78)	Thailand (14.29)	Thailand (42.29)	Hong Kong, China, (14.23)	India (13.96)
Pakistan	The United Arab Emirates (15.65)	China (14.85)	Saudi Arabia (10.71)	The European Union (25)	The United States (15.15)	Afghanistan (10.5)
Singapore	The European Union (12.6)	The United States (10.8)	Malaysia (10.7)	Malaysia (12.21)	Hong Kong, China, (11.03)	Indonesia (10.45)
Sri Lanka	India (22.08)	China (10.84)	The European Union (9.82)	The European Union (35.55)	The United States (21.41)	India (5.21)
Thailand	Japan (18.45)	China (13.38)	The European Union (7.81)	China (11.98)	The European Union (10.59)	Sri Lanka (10.52)
East Timor	Indonesia (43.26)	Singapore (22.58)	China (13.84)	Singapore (32.56)	South Korea (26.75)	India (15.67)

Data Sources: UNCTAD

**Table 3.3** China's trade with major countries around the Indian Ocean in 2011 (Units: billions of dollar)

Major countries around the Indian Ocean		Trade		
		Total exports	Total imports	Balance of trade
Oceania	Australia	339.1	826.7	-487.6
The Middle East countries	Bahrain	8.8	3.3	5.5
	Iran	147.6	303.8	-156.2
	Iraq	38.3	104.4	-66.1
	Israel	67.4	30.4	37.0
	Jordan	25.1	2.6	22.5
	Kuwait	21.3	91.8	-70.5
	Oman	9.98	148.8	-138.82
	Qatar	11.99	46.9	-34.91
	Saudi Arabia	148.5	494.7	-346.2
	The United Arab Emirates	2,681	831	1,850
	The republic of Yemen	110	314	-204
South Asian countries	Bangladesh	781	45	736
	India	5,054	2,337	2,717
	The Maldives	97	14	9,686
	Pakistan	844	212	632
	Sri Lanka	299	15	284
East African country	The Comoros	8	69	731
	Djibouti	51	18	50,982
	Egypt	728	152	576
	Kenya	237	60	231
	Madagascar	50	103	397
	Mauritius	497	97	4,873
	Mozambique	70	26	44
	The Seychelles	35	32	3,468
	Somalia	91	6	85
	South Africa	1,336	3,211	-1,875
	Sudan	1,995	954	-7,545
Tanzania	165	49	114	
Eritrea	15	87	14,913	
South Asian countries	Myanmar	482	168	314
	Indonesia	2,922	3,134	-212
	Malaysia	27,886	62,137	-34,251
	Singapore	3,557	2,814	743
	Thailand	2,569	3,904	-1,335
	East Timor	70	17	683

trade surplus between China and UAE (United Arab Emirates ) of \$185 billion. Trade deficit of Saudi Arabia, Iran, Iraq and Oman with China is due to the fact that they are the four biggest energy exporter of Middle East. Trade imbalances, especially the huge trade surplus with the surrounding major countries, are the negative factors that affect China’s bilateral relations with these countries.

Trade Intensity Index (TII) is used to measure the comprehensive Index of the interdependence between the two countries in trade, referring to the ratio of the proportion of a country’s export amounts to a trading partner’s gross export to the proportion of trading partner’s gross imports to the world’s total imports. The calculation formula is:  $T_{ij} = (x_{ij} / X_{it}) / (X_{wj} / X_{wt})$ .

In the formula,  $T_{ij}$  stands for trade intensity index of country I to country J;  $X_{ij}$  is the export amount of country I to country J;  $X_{it}$  is the total exports of country I;  $X_{wj}$  is the total world exports of country J;  $X_{wt}$  stands for the total world imports. Trade intensity index less than 1 indicates two countries are loosely connected in trade, below the intensity degree of trade with the rest of the world; when trade intensity index equals to 1, it denotes they are on the average; when trade intensity index more than 1 indicates two countries are closely connected in trade, over the intensity degree of trade with the rest of the world.

As can be seen from the Fig. 3.3, when trade intensity index of the main countries in the Indian Ocean region is greater than 1, China is critical to these countries despite of the degree of importance. But as can be seen from the Fig. 3.4, except for trade intensity to Malaysia, Thailand and Indonesia, trade intensity of China to other major countries in the Pacific are less than 1. At the same time, there is a significant change is that trade intensity of China with South Africa has risen quickly, which is below 05 before 2005 and more than 1 after 2009.

This dislocated imbalance in trade is the primary reason for the phenomenon of “economic dependence on China, political and security dependence on the United

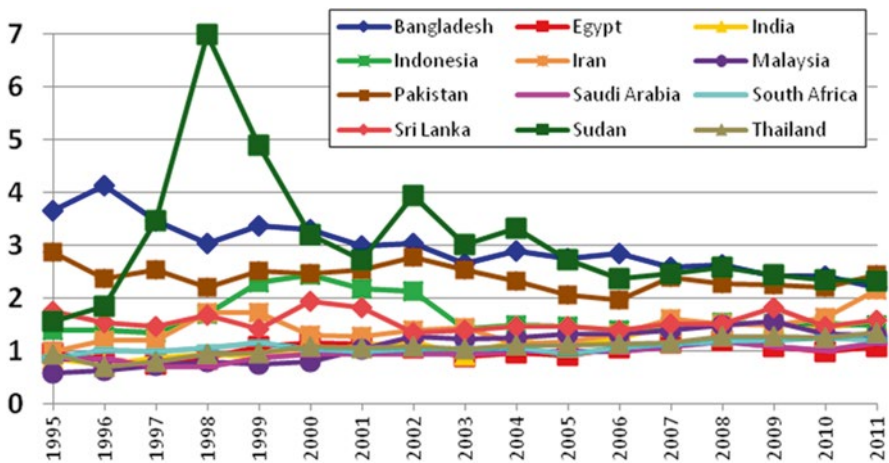


Fig. 3.3 Main countries’ trade intensity towards China in the Indian Ocean region

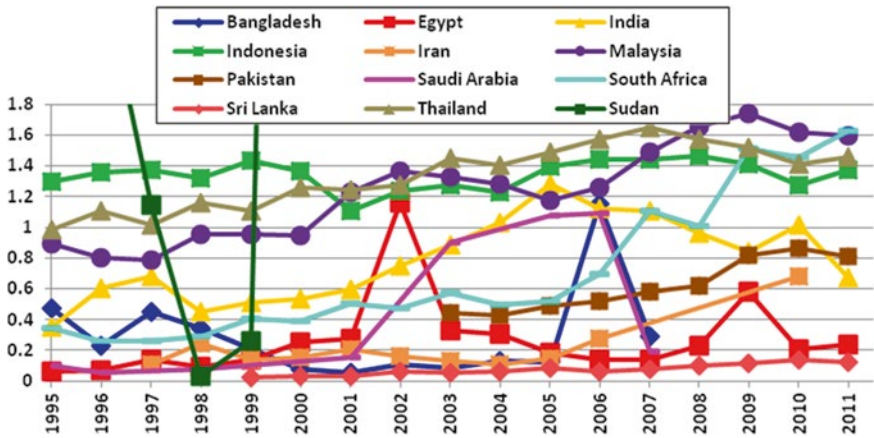


Fig. 3.4 China's trade intensity Index towards main countries in the Indian Ocean region

States” of some surrounding countries (Song Guoyou 2013, p. 36). As a Pacific nation, trade between China and the major economies around Indian Ocean grows faster, while bilateral trade significance of both is rising with increasing trade interdependence. Most of the bilateral trade, especially trade between the Indian Ocean economies and China, still have huge potential. China’s current economic conflict with neighboring countries also rises with the increase of economic dependence. Though political and institutional factors has played an important role in the scope and degree of these conflict, economic factors can never be ignored in the conflict.

In addition, Chinese foreign investment is \$33 billion in 2003, rising to \$4.2478 trillion in 2011. Target countries of direct investment are mostly Asian economies surrounding China. In terms of target countries of direct investment, Asia takes the lead, the second in Europe, the third in Africa (Cun-gang Wang 2012, p. 128). In all foreign investment projects of large scale, there are 28.4 % of pursuing of market share, 28.4 %, and 51.3 % of investing mineral resources, 20.1 % of seeking strategic assets, and only 0.2 % with the purpose of improving the efficiency. If the inspection samples will be limited to foreign investment projects of manufacturing enterprises, the ratio will become 22.2 %, 31.6 %, 45.5 % and 0.7 % respectively (Huang Yiping 2013, p. 27). The conflict of economic interests is embodied by asymmetric market reliance, bilateral trade imbalance, imbalanced structural investment, which however has beyond issue itself of market share, trade and investment. Therefore, development of symmetry interdependence can reduce the likelihood of conflict. It does work not just in trade, so does FDI. Although FDI can benefit the investor and the host country and is a kind of mutual benefit and win-win result, but even the win-win effect may cause conflicts, such as conflict led by the relative income inequality caused by investment activity. At the same time, whether investment has increased the host country’s employment, takes local people’s livelihood into consideration, promotes the local economic and social development or not is the key to evaluating the efficiency and sustainability of the investment.



### 3.4 Economic Integration Prospects for Indo-Pacific

Asia’s rise first and foremost needs integration of both regions of the Indian Ocean and the Pacific, which are connected by the Strait of Malacca. Currently, the Indo-Pacific region has become the focus of country from all over the world, as a result of considerations of the geopolitical and geo-economic significance. But geopolitical strategy’s main goal is to serve the economic geography, in order to further expand the circulation space of capital and goods in this region. In this sense, the Indian Ocean and the Pacific have been strategically closely linked together. Through the above analysis, this paper argues that, from the perspective of economic integration, the potential of western Pacific and the eastern Indian Ocean economy is huge, and the potential is also the key of integration.

However, economy contact inside the Indian Ocean region is still very weak. The Indian Ocean region is far from being called a economy (see Fig. 3.5), and this is also a reason for integration. Economic growth in the Indian Ocean region has been rather fast in recent years, the future development potential is tremendous. According to the forecasts of the World Bank (see Table 3.4), countries around the Indian Ocean with India as the core has become the new engine of future growth. Nevertheless, to achieve this goal needs to be firstly through the cooperation with

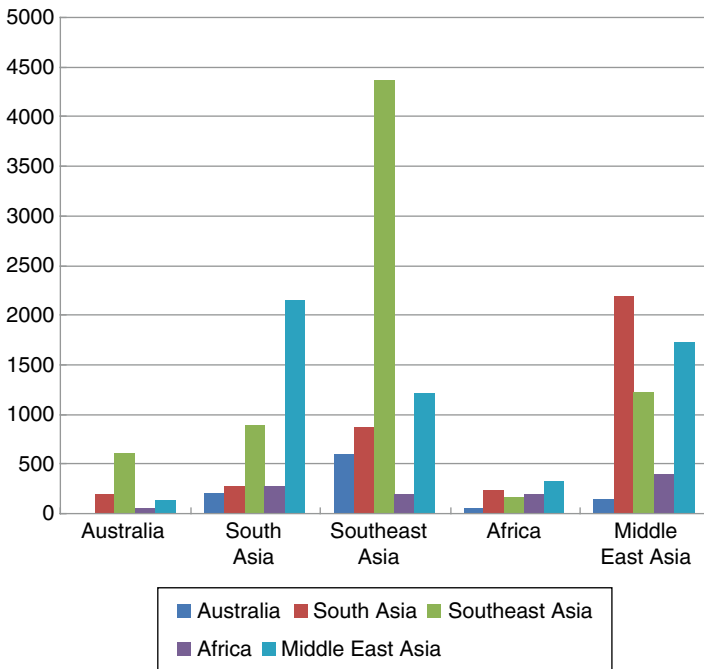
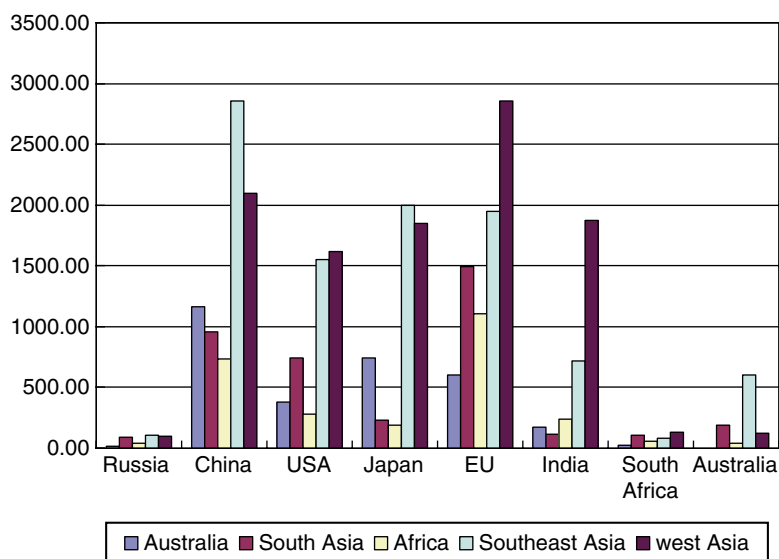


Fig. 3.5 Total trade volumes of five regions in India Ocean in 2011

**Table 3.4** Economic growth prediction of World Bank for countries and regions around the Indian Ocean from 2013 to 2015 (Unit: %)

Area	2013	2014	2015
East Asia and Pacific	7.9	7.6	7.5
China	8.4	8.0	7.9
Indonesia	6.3	6.6	6.6
Thailand	5.0	4.5	4.5
The Middle East and north Africa	3.4	3.9	4.3
Egypt	2.6	3.8	4.7
Iran	0.6	1.6	2.8
South Asia	5.7	6.4	6.7
India	6.1	6.8	7.0
Pakistan	3.8	4.0	4.2
Bangladesh	5.8	6.2	6.5
South Africa	2.7	3.2	3.3

**Fig. 3.6** Trade volumes of major countries and regions to five regions along the India Ocean in 2011

the western Pacific countries, especially China. Seen from Fig. 3.6, among world and regional powers of EU, America and Japan, bilateral trade volume between China and Australia in Indian Ocean and Southeast Asia comes first in 2011, with \$116.577 billion and \$285.598 billion respectively, and bilateral trade volume among other countries of South Asia, Africa and Middle East Asia, EU takes the lead with \$149.367 billion, \$111.012 billion and \$285.861 billion respectively;

China is the second with \$95.965 billion, \$73.248 billion and \$209.914 billion respectively.

Of course, taking the Indian oceans and Pacific oceans region as one, India's importance is self-evident; while to what degree can India play the role depending on development of Sino-Indian relations and future trend. Rapid economic growth of India after its market reform in 1991 is closely related to cooperation with Southeast Asia and the Pacific countries after accelerating "Look East Policy". Two major powers of India in India Ocean and of China in the Pacific grow fast in total trade volume; total volume of trade between India and 38 countries around the Indian Ocean has reached \$311.6 billion, and total volume of trade between China and 38 countries around the Indian Ocean has reached \$781.3 billion (see Fig. 3.7). At the same time, trade value of the two countries with five regions around the Indian Ocean grows rapidly (see Fig. 3.8).

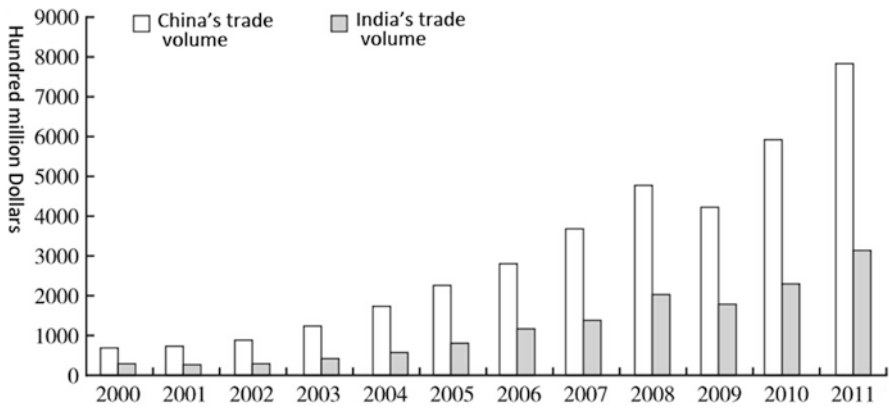


Fig. 3.7 Total trade volumes of China and India with 38 countries around the Indian Ocean

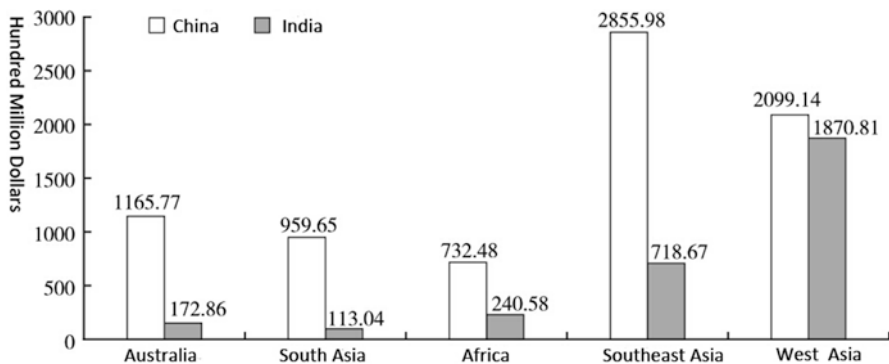


Fig. 3.8 Total trade volumes of China and India with five regions of Indian Ocean in 2011

Indo-Pacific region will become the engine of world economic growth in the future. In the international system, the fundamental dependence of the rise of a country and a region's prosperity both lies in economic strength, and economic strength is derived from the win-win cooperation and peaceful and stable developmental environment. It is for improvement of the economic power and regional influence that why multiple regional mechanism such as the TPP, RCEP, IOR – ARC and the gradually appeared IPP (Indo-Pacific Partnership) etc. exist. So far, all kinds of multilateral mechanisms have not achieved the desired effect, due to the limitations of these mechanism and the difficulties reconciling conflicts between countries. There is feasibility of coexistence of these regional mechanism in the future as well as higher possibility of conflict. Concept of Indo-Pacific does not mean the elevating conflict among countries of Indo-Pacific, however, the competition and cooperation will be structural factors of long-term coexistence. Anyway, the world multi-polarization trend is unstoppable as indicated from the transformation of world pattern. Exerting the influence of the world and regional powers and obtaining the support from small and medium-sized countries, realizing mutual benefit and win-win situation via multilateral mechanism and dialogue will remain to be the theme of future development. The future economic integration will be the dominant of bilateral and multilateral relations. For the countries in the Indo-Pacific Region, if they can seize the opportunity, working together to reach consensus on regional security and cooperative mechanism, etc., promoting symmetric interdependence, then further cooperation and close trade connection between countries will strengthen the correlation of interests between countries, thus minimizing the trade friction. Based on such strategic theme, the overall trend of regional relations is to seek common ground while putting aside differences, to seek mutual benefit and win-win result as well to promote prosperity, which not only enables elevation of economic power of each country, benefiting people all over the Asia Pacific region, which will plays a significant role to achieve stability of the global economic order.

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# Chapter 4

## Myanmar's Foreign Policy and Multilateral Relations in the Democracy Process

Li Zhu

**Abstract** On March 30, 2011, Thein Sein was officially announced to become Myanmar's President, thus predicting that the national state system of Myanmar started to transform from military regime to democracy. In this transformation period, President Thein Sein faced severe challenges. At the time of accelerating the promotion of the domestic democratization, the Myanmar Government positively sought for improving international relationships, especially strengthening the foreign interaction with the western countries, in order to achieve the multilaterally balanced foreign policies and further gradually eliminate the blockades and sanctions on Myanmar. Generally, the positive foreign policy of Myanmar Government acquired obvious efficiency, and the democratization reform and the foreign relation improvement of Myanmar favorably and positively interacted with each other.

**Keywords** Democratization • Foreign relation • Foreign policy

### 4.1 Foreign Policy of Myanmar

#### 4.1.1 *Foreign Policy Construction of Myanmar Since its Independence*

Since the independence declared on January 4, 1948, Myanmar had established the parliamentary democracy as the state system and accordingly determined the foreign policy based on the principle of “neutrality” and “nonalignment”, namely not depending on any big power or any benefit group of the big power. During the independence period of Myanmar, the international political system was divided into two large allies, namely east allies and west allies (namely socialism allies and capitalism allies). As an emerging country just breaking away from the colonial rule,

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Myanmar had a lot of things to do, but it still faced the domestic insurrection and was caught in the ethnic conflicts at the beginning of the establishment thereof, and meanwhile different national groups started to reject the rule of Myanmar soon after its independence. The significance of the “neutralism” foreign policy of Myanmar lied in that this country was not completely influenced and intervened by external factors and was entirely independent of external influence, and meanwhile the “non-alignment” foreign policy was adopted to prevent Myanmar from being caught in the conflicts between the east allies and the west allies so as to well handle the internal national tradition. Considering the domestic situation of Myanmar and the international situation at that time, the independence and nonalignment foreign policy was in accordance with the national interest of Myanmar. In the aspect of the geographical relationship, neighboring to two large population countries – China and India, Myanmar also hoped to take the nonalignment foreign policy in order to keep a normal foreign relation with the two large countries and balance the geographical relationship.<sup>1</sup> Meanwhile, at the beginning of the independence, the most important work for Myanmar Government was to reconstruct the state economy and society, so the Myanmar Government announced to accept the international assistance without any attached condition from the two large allies – east allies and west allies.

During the political power period of Thein Sein (1948–1962), Myanmar basically established the foreign policy, which was based on the national interest and of which the core was the principle of neutralism and nonalignment, in order to prevent the national interest from being damaged by various external forces and meanwhile create a good external environment for Myanmar to construct the emerging country. Thein Sein emphasized that the present neutralism policy of Myanmar had three features, namely, not aligning with any other country; keeping a friendly relation with all countries; devoting itself to promoting the world peace so as to eliminate the estrangement of the two groups (Chi-shad Liang 1990). Obviously, Thein Sein comprehensively implemented the independence and nonalignment policy in the foreign relation.

Myanmar was also one of common pioneers of “the Five Principles of Peaceful Coexistence”. In 1954, Chinese Prime Minister – Zhou Enlai put forwards “the Five Principles of Peaceful Coexistence” when visiting India and Myanmar, namely “mutual respect on sovereignty and territorial integrity, mutual nonaggression, mutual noninterference in internal affairs, equality and mutual benefit, peaceful coexistence”. On June 28, 1954, Chinese Prime Minister – Zhou Enlai and Indian Prime Minister – Nehru made a statement in New Delhi to reiterate that the two countries would persist in the Five Principles of Peaceful Coexistence. On June 29, 1954, China and Myanmar signed the agreement of “the Five Principles of Peaceful Coexistence” in Rangoon, and “the Five Principles of Peaceful Coexistence” became the foundation of the foreign policy of Myanmar afterwards. On the basis of this principle, Myanmar positively participated in the activities of the United Nations, wherein such activities included supporting disarmament, opposing

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<sup>1</sup> Foreign Policy of the Union of Myanmar, <http://www.mofa.gov.mm/foreignpolicy>



armament race, supporting national liberation movement and de-colonization, opposing imperialism aggression, colonialism and racial discrimination as well as racial segregation, supporting world peace and opposing aggression war.

### ***4.1.2 Development of Myanmar's Foreign Policy***

After Ne Win was in power of Myanmar in 1962, he terminated the representative democracy of Myanmar, established the Myanmar Socialist Programme Party (BSPP) and abolished the constitution. In 1974, Ne Win established the new constitution on the basis of "the Myanmar Socialist Road". Ne Win not only worried the permeation of the west capitalism into Myanmar, but also worried the reform carried out by the communist party countries on Myanmar, so he adopted the neutralism and positivism foreign policy and isolated the country from international exchange and meanwhile quitted from nonaligned movement. In 1971, Myanmar started to change the "neutralism and nonalignment" foreign policy into "neutralism and positivism" foreign policy and actively participated in the international affairs. In the aspect of the foreign policy, Myanmar continued to persist in the neutral attitude, without aligning with the east allies and the west allies in the aspect of the international affairs. Meanwhile, Myanmar positively participated in the international peace process and the activities of opposing war, imperialism and colonialism and achieving the mutually beneficial bilateral and multilateral cooperation in order to keep a friendly relationship with all countries, especially keeping a friendly foreign relationship with the neighboring countries. In the aspect of regional economy and social affairs, Myanmar persisted in regional negotiation and mutual beneficial cooperation, etc.

During the political power period of Ne Win (1962–1988), Ne Win implemented the strict political control in the country and the citizens did not have the freedom of election and speech, thus making the social and economic development in Myanmar under a standstill status, causing the food shortage and the currency inflation, resulting in the domestic economic crisis and afterwards making the economic crisis evolve into political conflict. In 1998, the soldiers led by the Chief of Staff of Myanmar army – Su Mao, held the power of the Myanmar regime, the Military Government abolished the constitution established in 1974 and suppressed the democratic movement, so the western countries led by U.S. strictly implemented the economic blockades and sanctions on Myanmar. In 1988, the National Law and Order Recovery Committee made a statement that Myanmar would continue to persist in the neutralism and positivism foreign policy. Facing the strict sanctions and blockages of the western countries, the new military regime of Myanmar was substantially and completely caught in the isolation status, and accordingly the positivism foreign policy of Myanmar actually became a mere formality. During the political power period of the new military regime (1998–2010), the Myanmar Government urgently needed to destroy the diplomatic dilemma and break away from the isolated international political structure, so the new military regime adopted

the flexible neutralism, positivism and foreign policy in order to make effort to improve the relationship with the east and west countries, especially focusing on strengthening the foreign relationship with China, India and South Asian countries, and the geopolitical relation became the diplomatic focus in that period. In 1997, Myanmar joined the Association of South East Asian Nations (ASEAN) and started to change the relatively closed foreign policy and positively blend in the regional integrative development.

At the end of the cold war, the Soviet Union and the east allies were collapsed, the world's economic and political pattern suffered from major change, and the western interest group led by U.S. became the global overlord. Meanwhile, the economic globalization tide swept across the world, the Chinese economy and the emerging economies were rapidly developed, the sub-regional cooperation was continuously strengthened, and the integrative development of ASEAN was rapidly promoted. Under the new international political and economic background, Myanmar positively promoted the domestic political restructuring. Along with the change of the domestic and international environments, Myanmar also faced many new problems and challenges.

## **4.2 Myanmar's Multilateral Diplomacy Since Thein Sein's New Deal**

After the new military regime was in power in 1988, the Military Government implemented a stricter political control in this country, and many western countries also implemented strict economic sanctions and blockades on Myanmar. At the later period, the Military Government also implemented a series of economic reforms which only had little effect, but the domestic economic development of Myanmar got into troubles and the unstable society caused the Saffron Revolution in 2007, thus finally promoting the progress of democratization of Myanmar and contributing to the government election in 2010.

### ***4.2.1 President Thein Sein's Positive Foreign Policy***

The President of Myanmar – Thein Sein elected by the people in 2010 took the office on March 30, 2011. It can be probably said that Thein Sein was appointed at a critical and difficult moment, because the domestic long-term political and economic problems have made the Military Government in danger and meanwhile the long-term blockades and sanctions of the western countries enabled the Myanmar Government to move forwards difficultly under such dangerous condition. If the Myanmar Government could not timely change the domestic and external trouble dilemma, this country would have difficulties in achieving rapid development. However, Thein Sein not only faced to the internal and external complicated

conditions, but also domestically faced the three main problems, namely, political reform, economic development and ethnic conflicts. Firstly, the long-term political volatility and the economic sanction of the western countries, Myanmar was almost caught in a standstill and recession status, thus becoming one of the most underdeveloped countries in the world. For example, the financial situation of the fiscal year 1995/1996 officially issued by Myanmar Government was the best result of the economic growth thereof, with the GDP growth rate of 9.8 %, but due to the query on the exchange rate thereof, the Asian Development Bank and the World Bank both believed that the actual GDP growth was greatly lower than the official data, because the export and FDI thereof only occupied 1.5 % and 2.4 % of GDP, far below those of Bangladesh, namely 18 % and 12 %, and also far below those of Vietnam, namely 32 % and 28 %. Meanwhile, the currency inflation rate thereof was increased year by year, and compared to 1986, the CPI thereof was increased by 735.51 % in 1996, with the annual mean growth rate over 20 % (Tin Maung Maung Than and Mya Than 1997, pp. 205–230), and this country suffered from financial deficit every year. Such severe domestic economic development situation became the severe challenge of Thein Sein Government for stabilizing the regime thereof, and therefore, how to accelerate the economic development and improve people's livelihood was the primary task of stabilizing the new government. Secondly, the democratization was unstable and the intensified pressure was imposed on the process of the democratization. In 1988, the Military Government of Myanmar suppressed the democratic movement and afterwards triggered the democratization reform in this country, and the long-term economic recession even became the blasting fuse of the new democratic movement, and the accusation from the international society that the Military Government suppressed on the democracy and human rights for a long time even more deteriorated the international relationship of Myanmar. From the student movement in 1988 to the Saffron Revolution, the democratic movement was never stopped in Myanmar, and accordingly promoting the democratization became the key point of changing the predicament of Myanmar. Therefore, it seemed to be difficult for Thein Sein Government naturally with military government style to promote the democracy in Myanmar, because this Government not only faced the pressure from the Solidarity and Development Party, but also faced the worries of the public in this country and the international society. Thirdly, it was also difficult to settle the national conflict which troubled Myanmar to unify the democratic construction. Myanmar as the multinational country with 135 nations has faced the troublesome national problem all along, because over ten large minorities established the ethnic armed groups at the beginning of the establishment of this country. According to the statistics, before the split of the Communist Party of Myanmar in 1989, there were more than 30 local armed groups organized by the minorities (Smith 1999). In 2006, the Myanmar Government reached an agreement with the national and democratic allied forces and Shan State Army, etc., totally 17 ethnic armed groups (Li Chenyang and Chen Yin 2006). However, in order to completely end the turmoil and really achieve the nation reconciliation, Thein Sein Government also faced many challenges, such as modifying and perfecting the constitution issued in 2008.

In the aspect of the external environment, Thein Sein Government faced the long-term economic blockages and sanctions of the western countries and the isolation constraint of the international relationship which were brought by the suppression of the previous Military Government on democracy and human rights. Therefore, the primary task of Thein Sein Government was to break the long-term isolated international relationship so as to create a good external development environment for Myanmar. Driven by the internal and external pressure, Thein Sein Government focused on the domestic political reform and the democracy process in order to take the advantage of the internal reform to promote the fast change of the domestic and overseas environment through the positive foreign policy. The foreign policy of Thein Sein Government has the following features.

#### **4.2.1.1 Take the Advantage of the Domestic Political Reform and the Accelerated the Democracy Process to Promote the Improvement of International Relationship**

After taking office, Thein Sein focused on accelerating the domestic political reform and the democracy process to comprehensively promote the new foreign policy. Firstly, Thein Sein Government domestically accelerated the democracy process, wherein the measures included resuming the political position of NLD, relaxing the examination system, establishing the national commission on human rights, allowing Aung San Suu Kyi to participate in the congress by-election of 2012, etc. Secondly, Thein Sein Government released the political prisoners and promoted the democratization system construction. Thein Sein Government released more than 200 political prisoners soon after taking office, and at the end of 2013, all the political prisoners were completely released by the Myanmar Government. Thirdly, Thein Sein Government accelerated the national reconciliation. Thein Sein Government successively signed the cease-fire agreement with the main national local armed groups and meanwhile comprehensively promoted the signing of the cease-fire agreement in the country so as to accelerate the construction of the unified nation and state. However, if Myanmar Government could not reach an agreement with the minority armed groups upon the political solution scheme, it would still be difficult for Myanmar to solve the national problem. The rapid promotion of both the domestic reform and the democracy process was accepted by the western countries led by U.S., and in November 2012, the ice-breaking journey of U.S. Secretary of State – Hillary lifted the curtain on resuming the international connection between the western countries and Myanmar, thus breaking the long-term isolated foreign affair pattern. In November 2012, U.S. President – Obama historically visited Myanmar. Afterwards, Myanmar Government positively interacted with various western countries and the western societies started to change their views on Myanmar, thus significantly improving

the foreign relation between Myanmar and the western countries and enabling the western countries to reduce the economic sanctions thereon. Moreover, some countries not only canceled the debt of Myanmar, but also provided certain financial assistance to Myanmar.

#### **4.2.1.2 Adopt the Balanced Foreign Policy to Readjust the Strength Structure of the Big Powers in Myanmar**

In 1996, the largest FDI countries in Myanmar were ASEAN countries and UK, and total investment of Singapore (22.7 %), UK (19.2 %) and Thailand (18.2 %) in Myanmar exceeded 50 %. After the western countries implemented stricter economic sanctions, many western enterprises, such as Heineken Beer, Kodak, British American Tobacco, Apple Inc started to evacuate from Myanmar, thus causing the sharp decrease of the products export and enabling the domestic economy to be in a standstill and recession status. Forced by the economic development pressure, Myanmar Government started to seek for the economic and trade cooperation with China, India and ASEAN countries so as to promote the domestic economic development. Along with the increasingly closed China-Myanmar political relation, the economic and trade cooperation between China and Myanmar was rapidly developed, the bilateral trade between China and Myanmar reached 4,400,000,000 dollars and the investment of China in Myanmar even reached 13,000,000,000 dollars in 2010, thus making China become the most important country for the economic and trade cooperation in Myanmar and significantly enhancing the political and economic influence of China in Myanmar. However, the enhanced influence of China in Myanmar also brought about various queries on the relation between China and Myanmar, especially the external power continuously expanded the strategic intent of China in Myanmar.

As a country always pursuing the neutralism and nonalignment foreign policy, Myanmar and the foreign countries did not expect China to have super-strong political and economic influence, so Thein Sein focused on implementing the balanced foreign policy and establishing the multilateral foreign relation as well as meeting the requirements of various international interests. It is said that if Myanmar implemented the balanced foreign policy between the eastern and western countries, it could obtain too many benefits.<sup>2</sup> The balanced foreign policy for big powers was the continuation of the foreign policy of Myanmar and was also the amendment of Thein Sein Government on the isolated foreign policy at the period of Military Government. Balancing the strength of the big powers in Myanmar not only changed the unique strongest influence of U.S. in Myanmar, but also significantly enhanced the international political status and the influence of Myanmar. However, the

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<sup>2</sup> David Pilling: *Myanmar Will Become the "West Coast" of China*, <http://www.ftchinese.com>

improvement of U.S.-Myanmar relation also started the scrambling war in Myanmar, and U.S. and European countries successively strengthened their existence in Myanmar.

#### **4.2.1.3 Take the Advantage of Geostrategic Superiority to Strengthen the International Affair Participation Ability of Myanmar**

In the international affairs, the geostrategic location of a country will exert an important influence on the country. Similarly, the special geostrategic location of Myanmar also has an important impact on its foreign relation. Geographically, Myanmar is located at the intersection and hub of East Asian, South Asian and Southeast Asian countries and is also the most convenient way for the East Asian countries to enter Myanmar, thus to have obvious advantageous geostrategic location. Along with the change of the global geopolitical and geo-economical pattern, the geostrategic superiority of Myanmar was rapidly enhanced. Especially in recent 10 years, China's economy was rapidly developed and the influence thereof on the countries in Asia and the Indian Ocean regions was increasingly strengthened, the cooperation between China and Myanmar became the important part of the cooperation between China and the countries in the Indian Ocean region. Under the influence of "China Threat Theory", the foreign countries generally believed that China had two strategic intents in Myanmar, wherein one was to strengthen the energy security (construct oil and gas pipeline between China and Myanmar) and the other one is to open the new channel for China to enter Indian Ocean region in order to become the real country across the two oceans (Rieffel 2012).

In the strategy of returning U.S. to the Asia-Pacific region, Myanmar was regarded as the most important part, so improving and establishing the new relation between U.S. and Myanmar had significance in following two aspects, namely further strengthening the influence of U.S. in Southeast Asia region, containing China to enter the Indian Ocean region. The famous American Expert regarding Myanmar issues and the Professor of Georgetown University – David I. Steinberg believed that the rapid improvement of the relation between U.S. and Myanmar was the landmark victory of returning U.S. to the Asia-Pacific region.<sup>3</sup> Geopolitically, China and India are always the key point of the geopolitical relation in the foreign policy thereof. However, the return of U.S. to Myanmar has changed the geopolitical pattern – the dominance of China and India, and has gradually formed the three-legged structure – dominance of China, U.S. and India. Furthermore, the formation of the three-legged structure in the foreign relation of Myanmar was extremely favorable for Myanmar, because such three-legged structure has changed the passive situation in the aspect of handling the relations with the big powers, thus forming the mutual restrictive relation among the three countries and enabling Myanmar to have more

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<sup>3</sup>The dialog between the author and Professor David I. Steinberg on October 16, 2013.

initiative and game chips in the aspect of handling the relations with the three countries.

#### **4.2.1.4 Improve the Myanmar's International Influence Through the Positive Offensive Foreign Policy**

Soon after taking office, Thein Sein carried out the positive offensive foreign policy and started the frequent diplomatic visits, thus making this country enter the unprecedented active stage. During the period of two and a half years, President Thein Sein successively visited 21 foreign countries in 18 visits, including 10 Asian countries, 11 European and American countries (including EU countries). Thein Sein mainly focused on visiting the Asian countries and European and American countries, wherein he mainly visited the Asian countries, such as China (visited for four times), India, Japan, Korea, etc. and the ten main developed countries, such as U.S., GB, France, Australia, etc. Considering the visiting frequency and the country distribution, we can know that the Myanmar Government positively devoted to rapidly improving the international relationship and sought for the wider acceptance and support of the international society.

Considering the visiting situation of Thein Sein, we can know that the purpose for his diplomatic visit mainly lied in two aspects, namely further strengthening the foreign relation with the surrounding countries and blending in the regional development organization system so as to enhance the regional political status and influence of Myanmar; and strengthening the diplomatic interaction with the western countries, improving the political mutual trust and eliminating the political estrangement with the European and American countries in order to rapidly cancel the economic sanction to Myanmar. After taking office, Thein Sein focused on the relations with the surrounding countries and firstly visited China on May 26, 2011 and established a comprehensive strategic partnership with China. Afterwards, Thein Sein visited India and the governments of the two countries announced *Joint Declaration*. In 2012, Thein Sein visited the main countries in South Asia and East Asia regions. In 2013, Thein Sein mainly focused on visiting the European and American countries (including participating in ASEAN Summit and Boao Forum for China). Accordingly, it is obviously known that the western countries have been started to overall accept Myanmar (please refer to Table 4.1).

The positive foreign policy of Thein Sein Government was undoubtedly successful. On the one hand, Myanmar completely changed the international political environment thereof and improved the state image thereof, thus enabling the western countries to gradually cancel the economic sanction; on the other hand, the foreign relation improvement and the domestic democracy process formed the favorable interaction with each other, thus further consolidating the reigning position of Thein Sein Government and creating a good external environment for domestic political system reform, the democracy process and the national reconciliation as well as the release of the great domestic and international political pressure brought by the return of Aung San Suu Kyi. During the frequent visit of Thein

**Table 4.1** Visit events of President Thein Sein

SN	Time	Country (Region)		Event
1	May 4–8, 2011	18th ASEAN Summit		Participated in ASEAN Summit on May 5 Participated in the Council of ASEAN Foreign Ministers on May 6
2	May 26–28, 2011	China		The President of China – Hu Jintao met with the Myanmar President Thein Sein, and the two heads reached a consensus upon enhancing the bilateral relation to a comprehensive strategic partnership along with the situation development. The Premier of the State Council – Wen Jiabao and the Chairman of CPPCC – Jia Qingling respectively met President Thein Sein
3	October 12–15, 2011	India		The Indian President Patil, the Prime Minister Singh and the Minister of Foreign Affairs – Natalia Klishina respectively talked with Thein Sein, wherein Thein Sein and Singh respectively on behalf of the governments of the two countries announced the <i>Joint Declaration</i> including 44 items of contents
4	January 29–February 1, 2012	Singapore		Thein Sein met the Prime Minister of Singapore – Lee Hsien Loog and signed the memorandum. According to the Memorandum, Singapore would provide the vocational training with regard to the fields of laws, bank and finance and share the experiences in such fields as trade, tourism, urban planning. Furthermore, the President of Singapore – Tony Tan Keng Yam met Thein Sein in the Office of the President
5	March 20–22, 2012	Three ASEAN countries	Vietnam	The Prime Minister of Vietnam – Nguyen Tan Dung met Thein Sein
			Cambodia	Samdech Hun Sen met Thein Sein
			Laos	Thein Sein visited Laos
6	April 20–24, 2012	Japan		Thein Sein participated in the Summit Conference of Japan and the Countries in Mekong River Basin. Meanwhile, the Joint Declaration was signed between the two countries, and Japan exempted Myanmar from the Japanese debt of totally 303,500,000,000 Yen and announced to re-launch the Japanese loan projects for Myanmar

(continued)



**Table 4.1** (continued)

SN	Time	Country (Region)		Event
7	July 22–24, 2012	Thailand		Thein Sein met the Prime Minister of Thailand – Yingluck Shinawatra, and the two parties signed the Memorandum for the purpose of strengthening the cooperation in the fields of economy, energy and science & technology, and meanwhile agreed to promote Dawei Harbor and Industrial Park Development Plan
8	September 18–22, 2012	The 9th China-ASEAN Expo		Thein Sein attended the 9th China-ASEAN Expo to discuss the economic cooperation and the regional issues. Meanwhile, he would meet the heads of the Korean economic organization to appeal to Korea to strengthen the investment into Myanmar
9	February 25–March 8, 2013	EU	Norway	This was the first travel in Europe Thein Sein after he became the President. The Prime Minister of Norway – Stoltenberg talked with President Thein Sein, and Norway decided to set up the Myanmar Embassy therein
			Finland	Thein Sein signed the agreement with President of Finland – Sauli Niinist in Helsing. Finland would provide the economic assistance of over 6,000,000 Euro to Myanmar in years
			Austria, Belgium, Italy	Thein Sein successively visited Austria, Belgium and Italy
			EU Headquarters	Thein Sein respectively met the Chairman of European Council – Herman Van Rompuy, the Chairman of European Commission – Jose Manuel Barroso, the Senior Representative of European Foreign Affairs and Security Policy – Ashton. President Thein Sein requested EU to relieve the economic sanction to Myanmar as early as possible while the EU leaders requested Myanmar to promote the reforms in the fields of politics, society and economy
10	March 14–17, 2013	New Zealand		Thein Sein talked with the Prime Minister of New Zealand – John Key
11	March 17, 2012	Australia		The Prime Minister of Australia – Gillard indicated that Australia accepted the leading role of Thein Sein in the reforms of Myanmar and would provide the economic assistance of 20,700,000 U.S. dollars in 2 years

(continued)

**Table 4.1** (continued)

SN	Time	Country (Region)	Event
12	April 5–9, 2013	China (Boao Forum for Asia)	<p>On April 5, the President of China – Xi Jinping met the President of Myanmar – Thein Sein in Hainan Province, the two heads deeply communicated with each other for the development of the relation between the two countries and agreed to continuously strengthen the bilateral relation and jointly promote the sound, sustainable and stable development of the comprehensive strategic partnership</p> <p>On April 7, President Thein Sein attended the Boao Forum for Asia and made a speech on the opening ceremony</p>
13	April 24–25, 2013	22nd ASAEN Summit	Thein Sein attended the 22nd ASAEN Summit held in capital of Brunei, namely Bandar Seri Begawan.
14	May 17–22, 2013	U.S.	Thein Sein met the President of U.S. – Obama. The White House declared that the visit of President Thein Sein strengthened the determination of President Obama for giving the support and assistance to the government that firmly carried out the reforms
15	July 15–17, 2013	GB	<p>Thein Sein met the Prime Minister of GB – Cameron. Meanwhile, Cameron indicated that GB would provide the development assistance of about 30,000,000 pounds so as to support the economic development and political transition of Myanmar.</p> <p>When making a speech at one think tank in London, Thein Sein promised that the Myanmar Government would established a special committee to investigate the cases involving political prisoners and release all the political prisoners at the end of 2013</p>
16	July 17, 2013	France	The President of France – Hollande met the President of Myanmar – Thein Sein at the Office of the President and appealed to the Myanmar to continue its political transition. Meanwhile, Thein Sein also talked with the Prime Minister of France – Jean-Marc Ayrault on July 17
17	September 2–4, 2013	10th China-ASEAN Expo	On September 2, the Premier of the State Council – Li Keqiang met the President of Myanmar – Thein Sein in Nanning
18	October 9–10, 2013	23rd ASEAN Summit	Myanmar took the post of the rotating presidency

Sein, the important political members of other countries, such as the President of U.S. – Obama, the Prime Minister of GB – Cameron, the Prime Minister of India – Singh, the Deputy Prime Minister of Japan – Taro Aso, etc., successively visited Myanmar and carried out the multi-layered diplomatic interaction with Myanmar, thus showing the significance of Myanmar for these countries and meanwhile enabling Myanmar to become the diplomatic new star in Asia. Accordingly, the western countries gradually cancelled the economic blockages and sanctions on Myanmar and started to continuously give new economic assistance to Myanmar and accelerate the pace of the enterprises for the investment in Myanmar. So far, the member countries of Paris Club, such as Norway, has already exempted Myanmar from 60 % of the matured debts 9,648,000,000 U.S. dollars; Japan has successively exempted Myanmar from the long-term huge debts of 500,000,000,000 Yen for two times and meanwhile provided Myanmar 91,000,000,000 Yen (about 900,000,000 U.S. dollars) as the official development assistance. Therefore, political status of Myanmar in ASEAN was established and gradually blended into the integrative development process of ASEAN. In 2012, Myanmar successfully held 27th Southeast Asian Games and took the post of rotating presidency of ASEAN for 2014. However, the national armed issues, which were existing for a long time and were not properly solved, and the ethnic conflicts, which frequently appeared, also brought great hidden dangers to Thein Sein Government and widely attracted the attention of the international society.

#### ***4.2.2 Aung San Suu Kyi in the Foreign Contact of Myanmar***

At the time of highly intensified democracy tide in 1988, Aung San Suu Kyi who resided abroad for a long time became the political focus once she came back to Myanmar. On September 27, 1988, Aung San Suu Kyi established the national democratic alliance and took the post of general secretary, and afterwards, the democratic alliance was rapidly expanded and became the largest opposition party in Myanmar. On July 20, 1989, the Military Government implemented the house arrest on Aung San Suu Kyi on the pretext of instigating disturbance, and meanwhile Aung San Suu Kyi refused to obtain the freedom under the condition of deportation. In the election of Myanmar in 1990, Aung San Suu Kyi obtained 82 % of the votes and became the winner of this election, but the result was announced by the Military Government to be cancelled. Afterwards, Aung San Suu Kyi was under the house arrest of the Military Government for up to 15 years, and under the assistance of the international society and all circles, Aung San Suu Kyi was released on November 13, 2010. Then, she adjusted the strategy of opposing the Myanmar Government and meanwhile positively cooperated with the government. Furthermore, the favorable interaction between Aung San Suu Kyi and the new government was the key point for continuously promoting the democracy process of Myanmar in 2011.<sup>4</sup>

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<sup>4</sup>Li Chenyang: *Review on Myanmar's Political Transformation since 2010 and Leader* in August 2012.

Aung San Suu Kyi in her election speech announced that the three major goals of the democratic alliance were rule of law, domestic peace and constitution modification. In April 2012, the democratic alliance led by Aung San Suu Kyi gained a complete victory in the congress by-election of Myanmar, namely winning 43 seats among the total 45 seats and made a pledge and took office on May 2, thus officially boarding to the political stage of Myanmar. Although such congress election victory did not significantly influence the current governmental framework of Myanmar, it still presented democratic victory of Myanmar. Due to the special position of Aung San Suu Kyi in the democratic movement of Myanmar, she greatly influenced not only the democracy process in Myanmar, but also the foreign relation of Myanmar.

Aung San Suu Kyi had special political position and great political influence in Myanmar, and she also played a special role in the foreign contact of Myanmar. To some extent, Aung San Suu Kyi was the present democratic embodiment of Myanmar and had exceptional advantage in the foreign contact between Myanmar and the western countries. Since May 2012, Aung San Suu Kyi successively visited 18 countries including 14 European and American countries and 4 Asian countries (please refer to Table 4.2). In detail, Aung San Suu Kyi mainly focused on visiting European and American countries so as to seek for the wide support from the international society, promote the democracy process and the modification of the constitution, further give greater international pressure to Thein Sein Government, appeal to the international society to eliminate the economic sanction to Myanmar, promote the domestic development and further build the democratization leader image of Myanmar and strengthen the influence of democratic alliance in Myanmar. During the visit of Aung San Suu Kyi, the democratization of Myanmar was always the permanent topic. Although Aung San Suu Kyi did not visit the foreign countries under an official identity, yet her special political identity enabled her to play a special role in the foreign contact with the western countries, and her foreign contact obtained the wide support from the international society upon the democracy process and meanwhile brought greater pressure to Thein Sein Government for the domestic political reform thereof, thus positively promoting the reforms of Myanmar and further strengthening the domestic political influence of democratic alliance.

### **4.3 Foreign Relation Between Myanmar and the Main Big Powers**

#### ***4.3.1 Foreign Relation Between China and Myanmar***

After the independence of Myanmar, China and Myanmar established the foreign relation on June 8, 1950 and the Prime Ministers of the two countries both advocated the Five Principles of Peaceful Coexistence. In October 1960, the Governments of the two countries signed the China–Myanmar boundary treaty and successfully solved the historical boundary issues. Meanwhile, the two countries had a long

**Table 4.2** Visit events of the General Secretary of Myanmar – Aung San Suu Kyi

SN	Time	Visited Country	Event
1	May 29–June 2, 2012	Thailand	Participated in the East Asian Conference of World Economic Forum held in Bangkok, Thailand, met the Prime Minister of Thailand – Yingluck Shinawatra and tried to persuade the Thailand Government and the enterprises therein to strengthen the investment in Myanmar
2	June 13–14, 2012	Switzerland	Participated in the annual meeting of the International Labor Organization and meanwhile made a speech Met the President of Swiss Assembly of the Union
3	June 15–17, 2012	Norway	Met the Prime Minister of Norway – Stoltenberg Officially get her Nobel Peace Prize obtained in 1991 on June 16
4	June 18, 2012	Ireland	Attended the concert arranged by “Amnesty International” and accepted the Ambassador of Conscience Award
5	June 19, 2012	GB	Met the Foreign Secretary of GB – Hague and made a speech in the British Parliament and accordingly expected to obtain he assistance from GB and the international society so as to deepen the reforms of Myanmar
6	June 26–29, 2012	France	Met the President of France – Hollande and indicated that she would devote herself to the state reconciliation. Meanwhile, Hollande also indicated that France would try the best to cooperate with European Union and assist the democratic transformation of Myanmar
7	September 17–October 3, 2012	U.S.	Met U.S. Secretary of State – Hillary and accepted the Gold Medal issued by U.S. Congress and the Global Citizen Prize of 2012 issued by Atlantic Council of U.S. Think Tanks Met the President of U.S. – Obama and appealed to U.S. to terminate the sanction to Myanmar Visited the UN Headquarters in New York and met the Secretary General of the United Nations – Ban Ki-moon
8	November 13–18, 2012	India	Met the Prime Minister and the Deputy Prime Minister, the Director of the Lower House of the Congress and the Foreign Minister of India
9	January 28–February 1, 2013	Korea	Met the designate President of Korea – Park Geun-hye and the present President of Korea – Lee Myung-bak
10	April 13–19, 2013	Japan	The Prime Minister of Japan – Shinzo Abe met Aung San Suu Kyi at the Official Mansions and indicated that the Japanese Government would support the democracy process of Myanmar through economic assistance, etc.

(continued)

**Table 4.2** (continued)

SN	Time	Visited Country	Event
11	September 10–12, 2013	Poland	Met the President of Poland – Bronslaw Komorowski and the Prime Minister of Poland – Tusk
12	September 13–14, 2013	Hungary	Appealed in Budapest, Hungary to modify the current constitution
13	September 15–18, 2013	Czech Republic	
14	September 20–24, 2013	Singapore	Attended the Singapore Summit and made a speech named as <i>Transforming Myanmar</i>
15	October 20, 2013	Belgium	Met the Chairman of European Commission – Jose-Manuel Arroso and appealed to EU to support the modification of Myanmar constitution
16	October 21, 2013	Luxembourg	Foreign Ministers of 28 EU countries had dinner together with Aung San Suu Kyi, namely the leader of the Opposition Party of Myanmar
17	October 22, 2013	France	Got the Sakharov Prize for Freedom of Thought in European Parliament
18	October 22, 2013	GB	Met the Prime Minister of GB – Cameron, the Foreign Secretary – Hague and Prince Charles

historical relation and the people of the two countries had deep friendship. Even in the most difficult period when Myanmar suffered from international sanctions, the Chinese Government still persisted in the friendly policy to Myanmar and opposed the foreign countries to intervene the domestic affairs thereof. After taking office, Thein Sein continued the traditional friendly cooperation between China and Myanmar to strengthen the economic cooperation with China. Correspondingly, Myanmar also understood and firmly supported the issues regarding the South China Sea, human rights, etc.<sup>5</sup> After taking office, the first country visited by Thein Sein was China, indicating that Thein Sein Government expected to further deepen the relation with China so as to promote the reforms and development of Myanmar. On May 26, 2011, President Thein Sein visited China, and on May 27, the President of China – Hu Jintao met President Thein Sein in Beijing, and the two countries jointly announced the *Joint Declaration* for the “comprehensive strategic partnership” between China and Myanmar in order to strengthen the bilateral cooperation, thus indicating a new development stage of the cooperation between China and Myanmar. Afterwards, President Thein Sein visited China for three times and participated in ASEAN Expo and Boao Forum for China. In June 2013, China and Myanmar signed the *Action Plan for Practicing the Comprehensive Strategic Partnership between China and Myanmar* which involved various fields, such as politics, economy, humanity, security, international and regional affairs, etc., thus

<sup>5</sup> *Speech made in the Institute of Myanmar Strategy and International Studies by Yang Houlan from the embassy in Myanmar: [http://www.fmprc.gov.cn/mfa\\_chn/dszlsjt\\_602260/t1116348.shtml](http://www.fmprc.gov.cn/mfa_chn/dszlsjt_602260/t1116348.shtml)*

sketching the route of the relationship development of China and Myanmar in future.

China and Myanmar not only had close geopolitical relation, but also had close geo-economical relation. China gave positive support for the reforms and development of Thein Sein Government and expected to see the democratic and harmoniously developed Myanmar. Since 2002, the economic and trade cooperation between China and Myanmar has entered a rapid development period, and in the 10 years from 2002 to 2012, the bilateral trade volume of China and Myanmar was increased from 860,000,000 U.S. dollars to 6,870,000,000 U.S. dollars, with an increment of 7 times. Till 2013, the investment of China in Myanmar has accumulatively exceeded 14,000,000,000 U.S. dollars, thus enabling China to become the largest investment country of Myanmar. In 2013, China-Myanmar oil and gas pipeline was put into operation. China adopted the practical and mutually beneficial cooperation to promote the development of the relation between China and Myanmar. However, along with the rapid development of China economy, the political and economic strength of China was significantly enhanced, and thus the "China Threat Theory" became the key point for some foreign countries to maliciously attack China. Furthermore, the development of the relation between China and Myanmar was distorted as the intention of controlling Myanmar, so the foreign policy of China to Myanmar and the normal bilateral cooperation were attached with more strategic intentions. Therein, the main views were that China needed the resources of Myanmar and the channel of entering Indian Ocean. On September 30, 2011, Thein Sein Government separately called off the Myitsone Dam invested by Chinese company in Myanmar, and this event was universally regarded as the turning point of the relation between China and Myanmar, thus causing the anti-China emotion to be spread in Myanmar. In detail, there were more and more attacks to China in Myanmar, such as non-transparent Chinese investment projects, social responsibility lack, environmental destruction, plunder of resources in Myanmar, etc., thus impacting various Chinese investment projects, such as China-Myanmar gas and oil pipeline, Letpadaung Copper Mine, etc. Whether Thein Sein Government really changed the policy towards China?

#### **4.3.1.1 Benefit Coherence Point of the Relation Between China and Myanmar**

Over the years, the firm development foundation was laid for the development of the relation between China and Myanmar, and the two countries had many common benefit coherence points on the development of the relation there between. Firstly, China acts as the important neighboring country of Myanmar, and the two countries have wide political and economic cooperation space. According to the long-term foreign policy of Myanmar, well handling the relation with China and India which have geopolitical relation with Myanmar is always the important content of the foreign policy of Myanmar, and along with the increasing international influence of

Myanmar, well handling the relation with China is very necessary for Myanmar to positively participate in the international affairs and also has strategic significance for Myanmar. Aung San Suu Kyi once said that China is the neighboring country of Myanmar while U.S. is far away from us.<sup>6</sup> Secondly, the political and economic reforms of Myanmar are favorable for the sustainable development of China. Due to much mutual complementation between the economies of China and Myanmar, the two economies can achieve the reciprocity and mutual benefit development, and meanwhile the economic development and the wide market of China will inject new vitality to the economy of Myanmar. China expects the friendly neighbor Myanmar to be able to enjoy the effect of the reform development of China and meanwhile expects such effect to become the important power for the social and economic development of Myanmar. Finally, the rapid promotion of the democratic reforms of Myanmar will create a good surrounding environment for the sustainable development of China. The surrounding environment is the foundation for the settlement and the prosperous development of China, and the friendly and stable surrounding environment is the common interests of the development of the two countries. The Ambassador of the embassy in Myanmar – Yang Houlan believed that the features of the relation between China and Myanmar were mutual respect, mutual understanding, mutual trust and mutual support.

#### **4.3.1.2 Correctly Understand the New Relation Between China and Myanmar in the Democracy Process**

The Myitsone Dam event caused the emotional judgment of the Chinese people upon the relation between China and Myanmar, and the Chinese people believed that China suffered from great damage in Myanmar and thus the relation there between was changed. On the basis of comprehensively analyzing the domestic situation change brought by the series of political and economic reforms after Thein Sein took office and meanwhile considering the global political pattern change in that period, the Myitsone Dam event was the international investment dispute politicized in the special historical development stage of Myanmar, and such event generated great influence due to various factors blended therein, such as domestic reforms, democracy process, international benefit balance, the investment behaviors of Chinese enterprises. In fact, the democratization reform of Myanmar not only promoted the domestic regime change, but also promoted the multilateral development of the international relationship of Myanmar, and such democratization reform was needed by the state interest thereof. China is an important neighboring country but not the whole. Ambassador Yang Houlan said that the complicated situation appeared in the transitional period of Myanmar, and the relation between the two countries also faced complicated challenge and meanwhile Myanmar could also have more opportunities.<sup>7</sup> During the process of rapidly promoting the democratic

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<sup>6</sup>David Pilling [U.S.]: *Myanmar Will Become the “West Coast” of China*, <http://www.ftchinese.com>

<sup>7</sup><http://news.ifeng.com/mainland/special/nanhailingtuzhengduan/cotent-3/detail>



reforms in Myanmar, we need to positively adapt to the internal and external environment change brought by the reforms of Myanmar and carefully review the changing Myanmar in order to continuously adjust the relation between the two countries, and we also need to persist in the principle of mutual respect, mutual understanding, mutual trust and mutual support and inherit the win-win cooperation concept, namely “sincerity, honesty, kindness and tolerance”, in order to comprehensively promote the development of the strategic partnership between the two countries.

### ***4.3.2 Foreign Relation Between U.S. and Myanmar***

#### **4.3.2.1 Restart the Relation Between U.S. and Myanmar**

After the independence of Myanmar in 1948, U.S. established the foreign relation with Myanmar. In February 1995, the U.S. Secretary of State – Dulles visited Myanmar, and in spite of the socialism period therein, U.S. and Myanmar still kept the foreign relation with each other. After the government suppressed the democracy in 1988, U.S. degraded the embassy in Myanmar as agency; and meanwhile, U.S., European countries, Japan, etc. implemented the economic sanctions on Myanmar, including forbidding the export of financial services and freezing the assets of some organizations. After 90s of twentieth century, U.S. gradually tightened the sanctions on Myanmar, and implemented the overall sanctions in 2003. Till 2009, U.S. started to contact Myanmar, and such foreign policy adjustment of U.S. was based on the foreign policy adjustment of Myanmar.

The Assistant Minister of East Asia and Pacific Ocean Affair Service of State Department – Kurt M. Campbell sincerely stated that the foreign relation between U.S. and Myanmar during the period from 2009 to 2011 was depressing.<sup>8</sup> On November 30, 2011, the U.S. Secretary of State – Hillary visited Myanmar, and this visit was the “ice-breaking journey” for the diplomacy since the sanction of U.S. to Myanmar, thus unfreezing the foreign relation frozen for more than 20 years between the two countries. When meeting the President Thein Sein and the Leader of Democratic Alliance – Aung San Suu Kyi, Hillary said that the importance lied in that Myanmar should release all the political prisoners and would never make a political prisoner in future. Meanwhile, U.S. requested Myanmar to promise to cut off the military cooperation relation with Korea and respect the mechanism of preventing nuclear proliferation. The visit of Hillary to Myanmar indicated the change of the foreign policy of U.S. towards Myanmar and implied the support of U.S. to the internal and external reformers of Myanmar Government. In order to support the reform process of Myanmar, U.S. formulated the matching strategy of “action for action”, and correspondingly adjusted it in a real time manner according to the

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<sup>8</sup> Kurt M. Campbell. U.S. Policy, Toward Myanmar, <http://www.state.gov/p/eap/rls/rm/2012/188446.htm>

substantial reform process of Myanmar.<sup>9</sup> In April 2012, the Secretary of State – Hillary announced the five actions responding to the congress by-election of Myanmar, namely, reconstructing United States Agency for International Development at the embassy in Rangoon, approving the U.S. private fund assistance for the non-profit activities of Myanmar, promoting the travel of the selected officers and senators to U.S., starting to relax the limitation on American financial service and new investment, etc., but U.S. still prohibited the American enterprises to have the trade activities with the Myanmar enterprises with military background. Meanwhile, the Treasury Department of U.S. also issued the general license in allusion to the financial aid for the human rights, religion and other non-profit activities. U.S. announced to resume the relation between the two countries to the ambassadorial level and assigned the new ambassador to Myanmar.

In November 2012, the President of U.S. – Obama visited Myanmar, and in May 2013, the President of Myanmar visited U.S., marking the strengthening of the relation between the two countries. Obama made a speech in Rangoon University: “I stood here with confidence, this country was suffering from some irreversible events, the people’s wills could motivate this country to become the world model and U.S. would be your partner during your long journey.”<sup>10</sup> At the invitation of the President of U.S. – Obama, the President of Myanmar – Thein Sein historically visited U.S. on May 17, 2013. The White House announced that the visit of President Thein Sein strengthened the determination of President Obama for giving the support and assistance to the government that firmly carried out the reforms. According to the introduction of the Speaker of Myanmar, the visit of Thein Sein to U.S. had two main goals: firstly, keeping the trend of improving the relation between the two countries; secondly, introducing the situation of Myanmar to U.S. in order to persuade U.S. to completely release the sanctions on Myanmar. In fact, the visit of Thein Sein to U.S. was the acceptance of U.S. upon the reforms thereof and meanwhile indicated that Myanmar needed to continuously deepen the relation between the two countries, to speedily release the economic sanctions and to expand the economic and trade contact so as to promote the economic development of Myanmar.

#### **4.3.2.2 Coherence of the U.S. Strategy for Returning Back to the Asia-Pacific Region and the Democracy Process of Myanmar**

Under the strategic framework of Obama for speedily promoting “returning back to Asia” and “re-balancing the Asia-Pacific region”, U.S. positively sought the way for deepening the relation between the two countries and meanwhile Myanmar also positively responded to U.S. in order to balance the power of China and promote the democracy process, thus further and deeply strengthening the relation between Myanmar and U.S. The development of the relation between the two countries

<sup>9</sup> Kurt M. Campbell. U.S. Policy, Toward Myanmar, <http://www.state.gov/p/eap/rls/rm/2012/188446.htm>

<sup>10</sup> Jayshree Bajoria. Understanding Myanmar, <http://www.cfc.org>

undoubtedly highly conformed to the U.S. strategy for returning back to the Asia-Pacific region and the democracy process of Myanmar. On the one hand, U.S. presented its acceptance upon the reforms of Thein Sein Government through gradually reducing the sanction to Myanmar; on the other hand, Myanmar eliminated the sanction of U.S. through the domestic reforms and promoted the bilateral economic and trade cooperation. For a long time, U.S. believed that Myanmar was constitutionally “the dependent country of China”, but for U.S., Myanmar was the opportunity for supporting democracy and for investing and was also the approach to surround the largest investment country of Myanmar – Chinese.<sup>11</sup> U.S. had clearly strategic intention in Myanmar, namely restraining China to enter Indian Ocean from the west and further strengthening the influence of U.S. in Southeast Asia, and such strategy had obvious effect. Such acceptance of U.S. also provided the opportunity to Myanmar for relieving the independence on China and achieving the diversified economic development. The rapid improvement of the relation between the two countries was believed as the landmark victory of U.S. strategy for returning back to the Asia-Pacific region.

Upon the issues regarding Myanmar, U.S. democratically and positively promoted the relation between the two countries in order to enable Thein Sein Government to promote the domestic reforms logically in line with U.S. Meanwhile, U.S. gradually and militarily drew Myanmar over to the strategic system of U.S. in order to construct a greater military power in Southeast Asia and Indian Ocean region. U.S. not only worried that the military power of China entered the Indian Ocean region, but also did not want to see the continuous expansion of the military cooperation between China and Myanmar. Therefore, U.S. started to draw Myanmar over to the participation of the military activities in this region and meanwhile invited Myanmar to participate in the Cobra Gold Military Exercise jointly held by U.S., Thailand, Singapore and Japan in order to further strengthen the military existence of U.S. in this region.

#### **4.3.2.3 Slow-Release Strategy of U.S. Towards Myanmar: Co-existence of Inducements and Threats**

In consideration of the positive promotion of the democracy process in Myanmar, the sanction policy of U.S. to Myanmar was changed, but U.S. believed that the sanction relief should be implemented step by step as a continuous process, namely “maintaining the sanctions and carrying out the high-level dialogue”. U.S. did not completely change the policy towards Myanmar and needed to keep the flexibility and the elasticity of the policy towards Myanmar in order to respond to the slow-down and the repetition of the process of reforms in Myanmar. On May 2, 2012, U.S. Government announced to cancel part of the visa sanction for the former officers, their business partners and relatives, and meanwhile President Obama also announced to prolong the terms of the “national emergency regulation” of Myanmar

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<sup>11</sup> Jayshree Bajoria. Understanding Myanmar, <http://www.cfc.org>

by 1 year. According to this regulation, the American enterprises and people were forbidden to cooperate with the famous Myanmar people participating in suppressing the democratic movement in 1990 for operation, investment and commercial business.

U.S. will not formulate the policy towards Myanmar in one step, and will give different “awards” according to the performance of Myanmar Government. President Obama indicated in the letter to the Congress that U.S. canceled and maintained some sanctions in order to prevent the democratic transformation of Myanmar from being receded. The Assistant Minister of East Asia and Pacific Ocean Affair Service of State Department – Kurt M. Campbell that they would carefully and continuously focus on the issues regarding (Myanmar) human rights, democracy and nuclear weapon diffusion prevention, and they would continuously implement the policy with the combination of pressure and promise in order to promote the progress in all fields.<sup>12</sup>

Generally, the “action for action” diplomacy of U.S. towards Myanmar was actually the “Quid Pro Quo Diplomacy”,<sup>13</sup> and the initiative for change was controlled by U.S., and the policy change of U.S. was determined in accordance with the reform of Myanmar expected by U.S. During the change process, the benefits of U.S. included economic benefit, political benefit and strategic benefit. In detail, politically, U.S. expected to remain its leader image of the global democracy and the human rights campaign; economically, U.S. expected to promote the investment in Myanmar and expand the trade contact with Myanmar; strategically, U.S. expected to further strengthen the relation with Southeast Asian countries in order to compete in Myanmar and constrain China. Relatively, the benefits of Myanmar included economic benefit and political benefit. In detail, economically, the normalization of the relation between China and U.S. could not only eliminate the economic sanction, but also make Myanmar obtain the financial support from U.S., thus promoting the bilateral trade development; politically, Myanmar could obtain the acceptance from U.S. upon Thein Sein Government still controlled by military power.

### ***4.3.3 Diplomatic Relations Between India and Myanmar***

India-Myanmar relations are rooted on the base of history, race, culture and benefit. Since the signing of the treaty of friendship in 1951, India and Myanmar have maintained closer geopolitical relations.

With the land border of 1,600 km, the two countries have suffered from boundary division and border rebellions since Myanmar’s independence, but they had a friendly cooperative diplomatic relations during the governing of U Nu and

<sup>12</sup>Kurt M. Campbell. U.S. Policy, Toward Myanmar, <http://www.state.gov/p/eap/rls/rm/2012/188446.htm>

<sup>13</sup>Nehginpao Kipgen. Quid Pro Quo Diplomacy in U.S-Myanmar Relations, [http://www.huffingtonpost.com/nehginpao-kipgen/quid-pro-quo-diplomacy\\_b\\_3312030.html](http://www.huffingtonpost.com/nehginpao-kipgen/quid-pro-quo-diplomacy_b_3312030.html)

Jawaharlal Nehru. When Ne Win was in power, India-Myanmar diplomatic relations was normal but not close. The relations between the two countries have been improved following Indian's Prime Minister Rajiv Gandhi's visit to Myanmar in 1987. Myanmar new military government came into the power in 1988. After Myanmar's general election in 1990, Myanmar new military government canceled the general election. Condemning Myanmar firstly, India required Myanmar to admit the election of Aung San Suu Kyi and received a lot of members from the democracy movement and allowed them to fight against the Myanmar's government based in India. Myanmar's government strongly attacked India on interference in their internal affairs and support of Myanmar's opposition. India-Myanmar cut off all social interaction and the relationships between the two countries descended into deadlock to record lows. In 1991, the relationship between the two countries gradually recovered because of Indian "dual-policy" to Myanmar. "Dual-policy", a policy of "divide and rule", means the separation of Myanmar's democracy and government issues. The relationships between the two countries reached a mature period following Myanmar's Peace and Development council vice chairman Maung Aye's visit to India in 2000. Being inclusive with Myanmar, India actively promoted international reconciliation of Myanmar's problems. In the view of Indian the long-term independent foreign policy, the starting point of Indian foreign policy was based on its own interests.

The reasons that India had long not been consistent to Myanmar's foreign policy are, on one hand, Indian foreign policy is given priority to great powers, on the other hand India had long been swinging in promoting Myanmar's democracy and construction of national ability and development assistance. Although India was the largest democracy country in the region, India was not opposed to Myanmar's authoritarianism, like America and UK. Indian coldness to Myanmar's regime changes reflected its hope for strengthening influence in the region and competition with China. India strengthened relations with Myanmar through economic assistance and ability development in order to get Myanmar's resources on basis of geopolitics. In general, cooperation between India and Myanmar did not reach the goal of anticipation and Indian foreign policy to Myanmar suffered from criticisms.

A major shift in Indian foreign policy was 'Look East', which implemented in 1990s. Myanmar was the key and the bridge to Southeast and East Asia with its important strategic position. On the one hand, India needed to get energy from Myanmar to solve the problem of long-term energy shortage. On the other hand, India specially focused on the competition with China on the cooperation with Myanmar through the reinforced cooperation with the countries in Southeast Asia because China was the biggest competitor to India in the fields of petrol and gas. India's former ambassador to Myanmar, Rajiv Kumar Bhatia, thought that bilateral relations between India and Myanmar including politics, security, defense, economy and other cooperation. The most important part was political cooperation, which its core was drive (Bhatia 2011). In the field of politics, India and Myanmar built the high-level dialogue mechanism with the purpose of communication with each other and mutual support; India and Myanmar brought the cooperation on

security and defense into their important part of cooperation and actively promoted the cooperation of armies in the two countries. In the field of economy, India enhanced investment and trade through economic aid to Myanmar especially in petrol and gas. Expanding economic and trade, India became the biggest commodities exporter to Myanmar. In 2010 the India-Myanmar bilateral trade reached USD 1.2 billion. At the same time, India also cooperated with Myanmar in fields of education, culture, tourism and capacity building.

In May 2012, Indian Prime Minister Singh led a large business delegation to visit to Myanmar. During the visit, India signed 12 Cooperation Agreement with Myanmar, including extension of USD 500 million credit line, building an agricultural research and education development research centers, a rice ecology garden, Mandalay information technology, aviation service agreement, trade and investment forum and development of border area. In a long time, the development of Indian enterprises had not grown substantially because of the more and more competition in many fields, so stable and rapid development not only could expand bilateral economic and trade exchanges but also could build a further India-Myanmar close cooperation. Indian Prime Minister Singh's visit to Myanmar could pave the road to "snatch market share" for Indian enterprises as well as strengthen its "Look East Policy". At the same time, India strengthened the security and defense cooperation with Myanmar. On January 21, 2013, the Indian defense minister a.k. Antony visited Myanmar and discuss the cooperation in defense cooperation including improvement of border management and capability construction of the Myanmar's army. On October 30, 2013, the Indian army chief of staff, Mohan Bikram Singh's visited Myanmar and met President Tein Sein, commander in chief of Wehrmacht Min Aung Hlaing, discussing on Myanmar's military modernization and the border security and other issues.

In diplomatic relations to Myanmar, India brought Myanmar into regional cooperation system through various regional co operations in order to close relationships between the two countries. In 1997, India, Myanmar, Bangladesh, Sri Lanka, Thailand, Bhutan and Nepal signed BIMSTEC, with the aim of strengthening regional contact and cooperation among these countries and quickening discussion of regional FTA; The countries decided to strengthen cooperation on food, energy, maritime safety, climate change, communication and culture. In November 2000, ASEAN-5: India and Myanmar, Laos, Cambodia, Thailand and Vietnam launched the "Mekong-Ganga Cooperation, MGC", in the Lao capital Vientiane in order to push the friendly cooperation among the countries along the Mekong river and the Ganges. The key points of MGC were travel, education, culture and transportation. Absorbed into South Asian association for regional cooperation, Myanmar became an observer of SAARC in August 2008.

Along with the changes of the global political and economic pattern, in the new period India showed a more active attitude to participate in international affairs. In addition to continuously strengthening and consolidating its influence in the Indian Ocean region, India promoted the implementation of the "Look East" policy in many aspects with a view of accelerating the pace of entering southeast Asia and east Asia India paid more attention to domestic reform and the politics and economy

situation changes in this region when its rapid promotion to “Look East policy” for deep strategic cooperation with Myanmar.

#### ***4.3.4 Diplomatic Relations Between Japan and Myanmar***

The relationships between Japan and Myanmar had been anfractuositities since Myanmar's independence in 1948. Instead, Myanmar was grateful for Japanese invasion instead of antipathy. “The textbook after Myanmar's independence on the one hand stressed the Japanese invasion to Myanmar, on the other hand affirmed the Japanese contribution and help to Myanmar's nationalist movement and independence.”<sup>14</sup> Japanese former ambassador to Myanmar Suzuki Fliial Pieh once said in his memoirs “the relationship between Japan and Myanmar is special”, “Myanmar is one of the most worthwhile countries for Japan”<sup>15</sup> Japan was the most important economic aider for Myanmar from 1948 to 1988 (Steinberg 2013). Japan had offered Myanmar an aid loan of USD 2.2 billion and reparations till Myanmar's military coup d'état in September 18, 1988 (Steinberg 2013). Japan became the biggest economic aider through various means with its amount of aid coming up to a half of all Myanmar's supportable money. The main reasons were that Japan wanted to get Myanmar's natural resources and occupy a place in its market.

Japan hoped its aid plan could promote its domestic industrial renaissance. Since Western countries' economic sanctions against Myanmar, Japan had been forced to suspend its economic cooperation and aid to Myanmar. But Japan took a more low-key nongovernmental cooperation way to continuously support Myanmar's society instead of complete quit to Myanmar's aid in order to maintain the various relationships with Myanmar.

In the period of economic sanctions, Japan did not choose the tough “North-wind policy” supported by occident but set itself “Sunshine policy” to Myanmar in order to keep friendly conversations between SPDC and Aung San Suu Kyi from NLD (Takeda Isami 2001). Democratization and economic development is the key of the Japan's policy toward Myanmar, also including Myanmar's ethnic problems. Japan established Four Cardinal Principles: conducting dialogue, taking an active part in diplomatic activities and cooperation with the United States and gradualism (Takeda Isami 2001). Japan thought Myanmar was very important in strategic priority in Southeast Asia and its interests would be rewarded, so Japan had deliberately made bedding of Myanmar's future possible deep reform in democracy.

As unfreezing of relationships between the United States and Myanmar, the United States began to reduce and cancel economic sanctions to Myanmar and Japan began to strengthen on Myanmar's political diplomacy and economic

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<sup>14</sup>Fan Hongwei, Liu Xiaomin: *Japanese balance diplomacy to Myanmar: characteristics and dilemma, contemporary Asia Pacific* the second issue in 2011.

<sup>15</sup>Fan Hongwei, Liu Xiaomin : *Japanese balance diplomacy to Myanmar: characteristics and dilemma, contemporary Asia Pacific* the second issue on page 130 in 2011.

cooperation. Japan thought its economic cooperation with Myanmar fell far behind to China. With absolute advantage, China had made investment more than USD 14 billion in 2012 but Japan only did USD 257 million (Steinberg 2013). Japan showed worries about the Chinese advantages in Myanmar. Japan implemented “an Unity of Politics and Economy” strategy instead of “Separating Economy from Politics” to Myanmar in order to speed up the cooperation with Myanmar on politics and economy and to gain more interests from Myanmar (Lian Degui 2012). In fact, improving its influence in Myanmar was Japanese desire for a long time, at the same time Japan continued to increase support for Myanmar, which played a positive role in American Asia-Pacific strategy.

The Diaoyu Island dispute between China and Japan was upgrading, and Sino-Japanese relations were deteriorating. The Japanese Shinzo Abe government implemented containment against China through promoting its values diplomacy. Myanmar became Japanese one of the main diplomatic countries in Asia. Shinzo Abe, had been the first Japanese prime minister paid a state visit to Myanmar on May 24, 2013 since the former prime minister Fukuda’s visit to Myanmar in 1977. Myanmar and Japan signed the agreement and reached a consensus on bilateral relations, economic and trade cooperation and Japanese investment in Myanmar including the Japanese help to Myanmar’s domestic reform, society, rural and economic growth in minorities areas. In addition, Myanmar and Japan cooperated with each other on sport cultural communication, political security and ASEAN Affairs.

Japan drew Myanmar over to its side in order to gain Myanmar’s economic interests and to contain China. Japan remitted Myanmar’s long-term jumbo loan for YEN 500 billion twice in order to draw Myanmar to its side. Japan offered YEN 91 billion of loan (About USD900 million) in official governmental assistance to help Myanmar to complete its infrastructure project and to maintain the operation of power facilities, and such loan had been the first Japanese loans to Myanmar in the past 26 years. Japan speeded up the economic cooperation between the two sides, and Japanese companies began to go into Myanmar’s market quickly on a basis of their improved political relations. Myanmar and Japan signed the two aid memorandum on December 28, 2012. (1) Japan announced YEN 1.71 billion (about KYAT 18.8 billion) in Myanmar’s communication network and YEN 230 million 1.71 (about KYAT 2.5 billion) in food supply of impoverished farmers aid to Myanmar. (2) Japan announced YEN 800 million (about KYAT 8.8 billion) in Myanmar’s purchase for Diesel fuel and Diesel Accessories needed for social development. Consortia of nine Myanmar’s co. Ltd. signed a cooperation memorandum of understanding with Japanese consortium including Mitsubishi, Marubeni, and Sumitomo on the development of Yangon Di Lowa special economic zone on May 25, 2013 in Rangoon. Myanmar and Japan signed a new agreement that Japan offered YEN 51 billion of loan in the cooperative development of Yangon Di Lowa special economic zone on May 26, 2013 in Naypitaw. As the main power in the Myanmar’s foreign capital activities, Japanese companies cooperated with Myanmar in various fields such as, railway transportation, financial securities, communications and agriculture at the same time. Another goal of developments were Tavoy Port and the Bay of Bengal industrial zone near Thailand. According to Japanese official, Tavoy port



allowed Japan to connect directly through the Bay of Bengal with Madras in India. Japan was supporting Myanmar in building a road began in Thailand as well as Japanese companies' participation in construction of Myanmar's industrial areas.

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# Chapter 5

## Sino-Pakistan Economic and Trade Relations: Status Quo and Challenges

Xu Wang

**Abstract** Economic and trade cooperation are progressing smoothly between China and Pakistan on the basis of existing good mutual trust in the politics. After construction of Sino-Pakistan economic corridor in the future, regions in the South Asia, Central Asia, Middle East and North Africa, etc. can be closely linked together by economic and energy cooperation with the formation of economic resonance, while strengthening the strategic position of Pakistan as a bridge and a link between the Eurasian continent and Africa. But at present, the bilateral economic and trade cooperation is facing many difficulties including deterioration of the domestic security and energy shortage, moreover, the existence of unfavorable factors regarding bilateral trade and investment imbalances, foreign exchange control and other specific issues poses a severe challenge for the future development of economic and trade cooperation between China and Pakistan. Therefore, the two countries need to make joint efforts and attach great importance to the development of bilateral economic and trade cooperation from a strategic height with priority in the energy and infrastructure cooperation for the planning and construction of bilateral economic corridor, so as to enhance economic and trade cooperation and realize common development.

**Keywords** China • Pakistan • Economic and trade cooperation • Opportunities • Challenges

During Premier Li Keqiang's visit to Pakistan in May 2013, he quoted a Pakistani welcome slogan of "good neighbors are a blessing" many times, emphasizing Pakistan is always a trustworthy "iron" friend of China in the hearts of the Chinese people, and "Ba Tie(Our Iron Brother Pakistan)" as Chinese netizens call Pakistan truly reflects the relationship between the two countries. China and Pakistan are friendly neighbors bound by mountains and rivers with the relationship between the two countries having experienced the test of time and fluctuating international situation changes, and the two countries have developed all-weather friendship and

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all-round cooperation, growing into a model for good-neighborliness and sincere cooperation among countries with different social systems and different cultures. China and Pakistan have carried out extensive exchanges and cooperation in political, military, diplomatic and cultural fields as well as science and technology since the two countries formally established diplomatic relations in 1951 and have made remarkable achievements, however, the bilateral economic and trade cooperation between the two countries is still in a relatively low level. In order to further consolidate and deepen the Sino-Pakistan all-weather strategic cooperation, the two countries should work together and attach importance to the development of bilateral economic and trade relations from a strategic height to seize the historic opportunity of building Sino-Pakistan FTA and Sino-Pakistan economic corridor to flexibly respond to the challenges of severe security situation, energy shortage, trade imbalance and other unfavorable factors and to deepen bilateral economic and trade cooperation with effective measures, so as to consolidate the traditional bilateral friendship and promote pragmatic cooperation in various fields.

## **5.1 Current Status of Economic and Trade Cooperation Between China and Pakistan**

Since the turn of the twenty-first century, with the continuous deepening of friendly relations between China and Pakistan, the two countries have carried out a series of economic and trade cooperation to achieve mutual benefit and win-win development goals. Thereafter, bilateral economic and trade development between the countries has entered the speedway. At present, Pakistan has become the China's second biggest trading partner in South Asia, and China has also become the second largest trade partner, second source of imports and second largest export market of Pakistan. In recent years, bilateral economic and trade relations has made great progress with a steady growth in bilateral trade volume between the two countries. Economic and trade cooperation between China and Pakistan has expanded to extensive fields regarding mutual investment, project contracting and technical cooperation from simple commodity trade.

In 2012, Sino-Pakistan bilateral economic and trade cooperation was impacted by multiple factors both in Pakistan and the world. China's direct investment in Pakistan and the value of newly signed project contracts declined as well, but bilateral trade maintained a steady growth, and at the same time, the trade imbalance was also improved.

### ***5.1.1 Bilateral Trade***

In 2012, the bilateral trade volume between China and Pakistan still had a rapid growth although there was a decline in China's trade surplus with Pakistan. According to customs statistics of China, bilateral trade between China and Pakistan

amounted to \$12,417 million during the period from January to December in 2012 with a year-on-year increase of 17.6 %. China's export was \$9,276 million and the import was \$3,140 million, increasing by 9.9 % and 48.2 % respectively with a trade balance of \$6,136 million, reduced by 2.85 %.<sup>1</sup>

According to the latest statistic data from PBS, Pakistan's export to China accounted for 10.67 % of its total export value during the fiscal year 2012–2013<sup>2</sup> with China as China now is the second largest exporter only after the United States the United States; Pakistan's import from China accounted for 14.77 % of its total import value, also ranked second only after that from the United Arab Emirates.<sup>3</sup> The sum total value of import and export trade between China and Pakistan accounted for 13.32 % of its total foreign trade, second only to 15.53 % with the United Arab Emirates. China has become Pakistan's second largest trading partner.

According to the statistics in Table 5.1, bilateral trade development has shown the following characteristics since 2000.

### 1. Sino-Pakistan bilateral trade enjoys sound growth on the whole

The bilateral trade volume in 2011 exceeded \$10,000 million mark and increased to \$12,417 million in 2012. The trade volume has increased by 10 times during

**Table 5.1** Statistics on Sino-Pakistan bilateral trade in 2000–2012 (Unit: \$100 million)

Year	Amount	Year-on-year growth (%)	China's exports to Pakistan	Year-on-year growth in exports (%)	China's imports from Pakistan	Year-on-year growth in imports (%)	China's trade surplus
2000	11.6	19.6	6.7	15.5	4.9	25.6	1.8
2001	14.0	20.0	8.2	22.0	5.8	18.0	2.4
2002	18.0	29.0	12.4	52.0	5.6	-4.0	6.8
2003	24.3	35.0	18.5	49.0	5.8	4.0	12.7
2004	30.6	26.0	24.6	33.0	6.0	4.0	18.6
2005	42.6	39.0	34.3	39.0	8.3	40.0	26.0
2006	52.5	23.0	42.4	24.0	10.1	21.0	32.3
2007	65.4	25.0	54.3	28.0	11.1	9.7	43.2
2008	69.8	7.0	59.8	10.0	10.1	-9.0	49.7
2009	67.8	-2.9	55.2	-7.7	12.6	25.3	42.6
2010	86.67	27.7	69.38	25.5	17.29	37.2	52.09
2011	105.64	21.9	84.40	21.7	21.24	22.7	63.16
2012	124.17	17.6	92.76	9.9	31.40	48.2	61.36

Source: China's Ministry of Commerce, China Customs

<sup>1</sup>The website of Economic and Commercial Counselor of Chinese Embassy in Pakistan: *Brief of China-Pakistan Bilateral Economic & Trade Cooperation in 2012*, <http://pk.mofcom.gov.cn/article/zxhz/hzjj/201304/20130400082535.shtml>

<sup>2</sup>The fiscal year of Pakistan is from July to the next June each year.

<sup>3</sup>Pakistan Bureau of Statistics: External Trade Statistics, <http://www.pbs.gov.pk/trade-tables>

2000–2012 with an average growth of 20.76 % each year, and most years have seen double-digit increases, especially during 2000–2007, the average annual growth was as high as 27 %.

China's exports to Pakistan have kept relatively rapid growth on the whole with growth in export higher than that of the total bilateral trade. Except the year of 2009's decline in exports due to the impacts of the global financial crisis and internal security situation in Pakistan, the exports have kept two-digit growth basically in the rest of the time, especially during 2002–2004, the average annual growth as high as 30 % or above.

China's import from Pakistan continues to accelerate. Although its overall increase is less than that in China's exports to Pakistan with fluctuations in annual growth, China's import from Pakistan has had a significant growth after 2009, showing the commodity made in Pakistan has great potential in Chinese market.

## 2. Sino-Pakistan bilateral trade is impacted greatly by Pakistan's domestic situation and the global economic environment

As can be seen from Fig. 5.1, the bilateral trade volume change curve indicates that it has fluctuated some years. Pakistan has enjoyed sustained economic development during 2000–2008 due to its domestic political stability. According to the PBS statistics data, the annual growth rate of GDP in Pakistan has exceeded 4 % for 6 consecutive years during 2002–2008, in particular, the annual growth rate in the fiscal year 2003–2004 and 2004–2005 reached up to 7.48 % and 8.96 % respectively.<sup>4</sup> Just under such a background, the bilateral trade between the two countries has experienced substantial growth with the average annual growth rate of 27 % in 2000–2007. This level of growth is also higher than the average annual growth rate of 25 % of China's foreign trade in the same period.

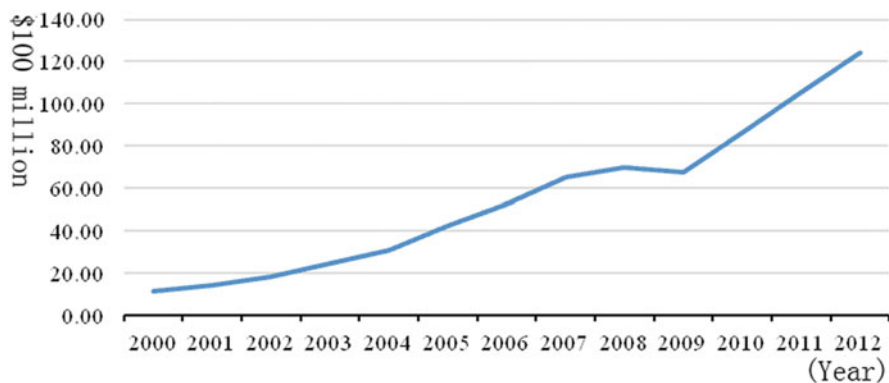


Fig. 5.1 Sino-Pakistan bilateral trade volume curve

<sup>4</sup>Pakistan Bureau of Statistics: Macro Economic Indicators, <http://www.pbs.gov.pk/content/table-1-macro-economic-indicators>

In 2008, because of the outbreak of international financial crisis and its shock waves spreading across the world, the bilateral trade volume growth narrowed significantly with a rapid drop from 25 % in 2007 to 7 %, there was even a negative growth of 9 % in Pakistan's exports to China. In 2009, the world economic recession caused by the global financial crisis was increasingly obvious, what's worse, the domestic security issues in Pakistan is becoming more and more serious and the Pakistani military has to take military actions in Swat and tribal districts in South Waziristan's Federally Administered Tribal Areas to suppress Pakistani Taliban militants. The anti-terrorism military action of Pakistan's security forces against Taliban has caused about three million refugees displaced from their homes, constituting a serious challenge to Pakistani society and economic development. In the fiscal year 2008–2009, Pakistani GDP only grew by 0.36 %. In this context, the bilateral trade volume between China and Pakistan decreased significantly in 2009 with a negative growth of 2.9 %, and China's exports to Pakistan declined for the first time – a drop of 7.9 %. However, with China's sustained and stable economic development and slow recovery of the global economy, bilateral trade between the two countries is growing again after 2010.

**3. There is a significant imbalance in the bilateral trade between China and Pakistan and China has kept gaining surplus for a long time. With the total bilateral trade increasing year by year, the surplus is also continuously growing.**

Further analysis of bilateral trade data can indicate that the trade imbalance is gradually improved in recent years. Although the amount of China's export is still higher than that of import from Pakistan, but from a growth perspective, the export growth was higher than the import growth before 2009, while after 2009, China's imports from Pakistan grew faster and the growing rate of China's import has exceeded that of the export to Pakistan for 4 years successively. At the same time, the proportion of China's import volume from Pakistan in the total bilateral trade is also rising year by year, gradually back up to 25.3 % in 2012 from the lowest point of 14.5 % in 2008, although the number was falling year by year from 2000 when China's imports from Pakistan once accounted for the total bilateral trade up to 42 % to 2008. The above analysis shows that, after July 1, 2007 when Sino-Pakistan FTA formally came into effect, the effect of tariff reduction on promoting Sino-Pakistan trade gradually appears, and Pakistan's exports to China have increased significantly with an increase of up to 48.3 % in 2012; China's trade surplus with Pakistan declined that year compared with 2011, showing the imbalance in Sino-Pakistan trade is gradually improved.

**4. In recent years, the proportion and the ranking of Sino-Pakistan trade volume in the total volume of import and export trade of Pakistan are rising year by year.**

According to the latest statistical data from Pakistan, the proportion of Pakistan's exports to China in the fiscal year 2012–2013 in the total exports of Pakistan rises to 10.67 % from 9.28 % in the previous year, and the proportion of its imports from

**Table 5.2** The proportion and the ranking of Sino-Pakistan trade volume in the total volume of import and export trade of Pakistan during 2008–2013 (Unit: \$100 million)

Fiscal year	Export				Import			
	Exports to China	Total exports of Pakistan	Proportion (%)	Ranking	Imports from China	Total imports of Pakistan	Proportion (%)	Ranking
2008–2009	7.02	176.88	3.97	6	40.87	348.22	11.74	2
2009–2010	11.54	192.9	5.98	4	44.11	347.1	12.71	2
2010–2011	16.34	248.1	6.58	4	57.89	404.14	14.33	1
2011–2012	21.92	236.24	9.28	2	67.14	449.12	14.95	2
2012–2013	26.09	244.6	10.67	2	66.39	449.5	14.77	2

Source: Pakistan Bureau of Statistics

China drops to 14.77 % from 14.95 % in the previous year,<sup>5</sup> which also shows that Pakistan's trade deficit with China has been improved (see Table 5.2).

Data in Table 5.2 shows that after the fiscal year 2008, the amount of Pakistan's import and export trade with China accounts for an increasing proportion in the total of Pakistan's export and import year after year, indicating that Sino-Pakistan trade has become increasingly important in the Pakistan's foreign trade with China being Pakistan's second largest trading partner. By further comparing, we can see the proportion of Pakistan's export to China has had an obvious rise, showing the Sino-Pakistan FTA has an obvious effect to the promotion in the exports of Pakistan to China.

### 5. China and Pakistan share strong complementarities in bilateral trade, and the structure of import and export commodities has remained stable in recent years

Take import and export data (see Table 5.3) of the fiscal year 2010–2011 as an example, from the specific categories of goods, China mainly exported machinery products, chemical products and steel products to Pakistan, and machinery equipment and its accessories accounted for the highest in the total exports to Pakistan, up to 36.62 %; while from Pakistan, China mainly imported textile materials and products, mineral products, aquatic products, leather and chemical raw materials and products, and the textile raw materials including cotton, cotton yarn and cotton clothes as well as their products accounted for nearly 70 %, up to 69.21 %.<sup>6</sup> The Pakistan's textile export to China is still keeping a growth in recent years. According

<sup>5</sup>Pakistan Bureau of Statistics: External Trade Statistics, <http://www.pbs.gov.pk/trade-tables>

<sup>6</sup>Pakistan Bureau of Statistics: External Trade Statistics, <http://www.pbs.gov.pk/trade-tables>

**Table 5.3** Top 10 import and export commodities between China and Pakistan in the fiscal year 2010–2011 (Unit: \$100 million, %)

Ranking	China's exports to Pakistan					China's imports from Pakistan				
	Product category	Trade volume	Proportion	Year-on-year growth		Product category	Trade volume	Proportion	Year-on-year growth	
1.	Mechanical equipment and its accessories	57.89	36.62	31.3		Cotton yarn	9.15	55.98	44.3	
2.	Chemical elements and compounds	3.85	6.64	19.4		Cotton cloth	1.37	8.41	77.3	
3.	Man-made fiber yarns	3.76	6.50	49.7		Iron ore/sand	1.2	7.36	-24.5	
4.	Steel and its products	2.78	4.81	14.5		Cotton	0.79	4.82	141.6	
5.	Chemical raw materials and products	2.73	4.71	30.3		Fish and its products	0.67	4.08	19.0	
6.	Synthetic plant fiber	2.53	4.37	121.7		Leather	0.48	2.93	14.3	
7.	Man-made fiber with cellulose	1.40	2.41	298.2		Chemical raw materials and products	0.41	2.52	177.3	
8.	Nonferrous metals products	1.30	2.24	5.2		Raw minerals (except salt)	0.40	2.45	70.5	
9.	Chemical fertilizer	1.27	2.19	180.6		Animal feed	0.23	1.43	-4.3	
10.	Motor vehicle and its accessories	1.20	2.08	32.8		Textile made-up article	0.20	1.20	114.3	

Source: Pakistan Bureau of Statistics



to the Chinese customs' latest statistics of the period from January to October in 2013, China has exported 519,000 tons of cotton yarn from Pakistan, increasing 17.3 % year on year and accounting for 29.6 % of China's total exports of cotton yarn. The trade was worth about \$1,526 million if calculated at current prices. Pakistan has become China's first largest source country for cotton yarn.<sup>7</sup>

### 5.1.2 Investment Cooperation

Investment cooperation between China and Pakistan mainly covers direct investment, contracted projects and labor service cooperation as well as others.

As for direct investment, Chinese government has provided financing for Pakistan for a long time by granting non-reimbursable assistance and preferential loans as well as other forms. In recent years, the enterprises of the two countries are also increasingly active on direct investment in each other's countries. According to the statistics given by the Ministry of Commerce of China, Chinese investment in Pakistan was on the rise during 2003–2012, with a total amount of investment up to \$2,112 million in 2012 from \$30.67 million in 2003, increasing nearly 68 times, which shows a promising prospect of Chinese investment in Pakistan (see Table 5.4). However, the growth momentum was not stable and the fluctuation occurred in some years. In 2005, 2009 and 2012, the investment declined, especially in 2009, the drop was up to 89.6 %, only 1/10 of the previous year, which shows that Chinese investment in Pakistan is influenced by various factors. In particular, the investment decline was mainly affected by the global financial crisis in 2008 and the economic recession

**Table 5.4** Statistical data of Chinese investment (non-financial) in Pakistan during 2003–2012 (Unit: USD)

Year	Chinese investment in Pakistan	Year-on-year growth (%)	Cumulative investment
2003	9,300,000	–	30,670,000
2004	–	–	–
2005	3,670,000	–	111,270,000
2006	–	–	–
2007	–	–	1,020,000,000
2008	3,680,000	–	1,070,000,000
2009	380,000	–89.6	–
2010	26,090,000	6,765.8	1,367,000,000
2011	86,950,000	233.3	1,853,000,000
2012	60,160,000	–30.8	2,112,000,000

Source: China's Ministry of Commerce, with a lack of data in 2004 and 2006

<sup>7</sup> Website of International Business Daily: *Growth in Both Cotton Import and Export*, <http://www.shangbao.net.cn/epaper/gjsb/249487.html>

as well as the unrest Pakistani domestic security situation in 2009 and other unfavorable factors. According to the Ministry of Commerce of China, Chinese non-finance direct investment in Pakistan declined in 2012, and the amount of the direct investment of China in Pakistan was \$60.16 million from January to December that year, declining 30.8 % year on year, and at the end of 2012, the direct investment stock was \$2,112 million.<sup>8</sup> The deteriorated safety and security situation, energy shortage, high inflation, high budget deficits, rising public debts and other issues in Pakistan have become the main obstacles to China's investment in Pakistan.

In contracted projects, the amount of China's newly signed contracts with Pakistan declined in 2012, but the turnover grew. According to the statistics published by China's Ministry of Commerce, the amount of contracts signed by Chinese enterprises with Pakistan during the period from January to December in 2012 was \$2,348 million, declining 24.2 % year on year, and the turnover was \$2,778 million with a growth of 17.1 %. As of the end of December 2012, China's enterprises have contracted projects amounting \$25.263 billion in Pakistan with a turnover of \$19.969 billion. And as of the end of December 2012, the number of Chinese people working in Pakistan on various service has reached 5,824 (see Table 5.5).<sup>9</sup>

At present, Chinese investment in Pakistan and contracted projects including energy and infrastructure construction field, in addition, in the mining, telecommunications, finance, manufacturing, agriculture and other fields has also launched a cooperation.

**Table 5.5** Statistics of China's contracted services in Pakistan during 2003–2012 (Unit: \$100 million)

Year	Amount of newly signed project contracts	Year-on-year growth (%)	Turnover achieved	Year-on-year growth (%)	Cumulative value of contracts	Cumulative value of turnover	Number of Chinese workers in Pakistan
2003	4.1	–	6.18	–	–	–	–
2004	–	–	–	–	–	–	–
2005	77.56	–	5.83	58.33	–	61.55	–
2006	–	–	–	–	–	–	–
2007	31.53	–	13.56	–	133.2	91.1	–
2008	32.2	–	19.4	–	165.4	110.6	–
2009	19.5	–39.2	17.3	–10.8	184.9	127.9	–
2010	13.77	–29.4	20.63	19.2	198.7	148.6	–
2011	30.96	124.8	23.73	15.0	229.15	171.91	4,760
2012	23.48	24.2	27.78	17.1	252.63	199.69	5,824

Source: China's Ministry of Commerce, with a lack of data in 2004 and 2006

<sup>8</sup>The website of Economic and Commercial Counselor of Chinese Embassy in Pakistan: *Brief of China-Pakistan Bilateral Economic & Trade Cooperation in 2012*, <http://pk.mofcom.gov.cn/article/zxhz/hzjj/201304/20130400082535.shtml>

<sup>9</sup>The website of Economic and Commercial Counselor of Chinese Embassy in Pakistan, <http://pk.mofcom.gov.cn/article/zxhz/>

The energy sector is the cooperation focus of Chinese investment in Pakistan, including cooperation in conventional energy, new energy and civilian nuclear energy. The conventional energy field involves construction of hydropower and thermal power stations, Chinese companies have contracted a number of hydropower station construction projects in Pakistan including Neelum Jhelum hydropower project in Pakistan which is the biggest hydropower project that Chinese companies have contracted overseas. The project officially started in February 2008, to be constructed jointly by China Gezhouba Group Company (CGGC) and China Machinery and Equipment Corporation (CMEC). The project contract amounts up to \$1,506 million with the total installed capacity of 963,000 KW and the construction period will last for 93 months.<sup>10</sup>

Cooperation in new energy covers the projects of wind power and solar energy, etc. Pakistan's first wind power project constructed by China Three Gorges Corporation (CTGC) is the first wind power project that Chinese enterprises have invested in building in Pakistan. It is an overseas investment project operated under the mode of BOO and the first part of the project has started officially in 2013. The project will take 18 months to complete with an operation period of 20 years. The total construction cost will reach \$131.6 million with 80 % of the amount provided by Chinese National Development Bank as loans. The total installed capacity of the project is 49.5 MW, and it is expected to realize power generation in 2014.<sup>11</sup>

China and Pakistan have also carried out cooperation in civil nuclear power. The 300 MW Pakistan Chashma Nuclear Power Plant (CHANUPP) I of a pressurized water reactor is the first project invested by China National Nuclear Corporation (CNNC) in Pakistan, as well as the first commercial nuclear power plant under China's independent design and construction for export. The project was signed in 1991 and the main works construction was started in August 1993, realizing power generation in June 2000 and delivered to Pakistan for commercial operation in September that year. The successful construction of Chashma Nuclear Power Plant is the outcome of bilateral cooperation between China and Pakistan, known as an excellent example of "South-South cooperation" by both sides. Since when the nuclear power plant was put into operation, its safety indexes and operational performance have been in good conditions. The project has been well received by the International Atomic Energy Agency (IAEA) and has laid a solid foundation for further cooperation in the peaceful use of nuclear energy between China and Pakistan.<sup>12</sup> CHANUPP II has also been completed ahead of schedule and delivered to Pakistan in 2011. At present, CHANUPP III and IV are under construction, expected to be put into commercial operation in 2017–2018.

Infrastructure is another important field of China's investment in Pakistan, and the construction of Karakoram Highway (KKH) and Gwadar Port are examples of cooperation in such field between the two countries. Built in 1966, KKH was opened

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<sup>10</sup> *Neelum Jhelum Hydropower Project Constructed by CGGC Started*, <http://www.sasac.gov.cn/n1180/n1226/n2410/n314274/3911895.html>

<sup>11</sup> *Phase I of Three Gorges Pakistan Wind Power Project Started Smoothly*, <http://www.ctg.com.cn/xwzx/news.php?Mnewsid=56159>

<sup>12</sup> *Chashma Nuclear Power Plant Project*, <http://www.cnec5.com/Project/C2.aspx>

to traffic on June 18, 1978 after more than 10 years of efforts of nearly 20,000 constructors from the two countries, and it was formally opened to visitors in May 1986. KKH is the world's highest highway with extremely complex geological conditions all along. Under extremely hard conditions, the highway was constructed at the expense of tremendous efforts and even life of the builders from the two countries. For more than half a century, the KKH has been there as a symbol of the friendship between China and Pakistan. In February 2006, during the visit of Pakistani President Musharraf to China, Pakistan and China issued a joint statement, agreeing to cooperate to reconstruct and expand the KKH. In February 2008, the KKH extension project hosted by China Road & Bridge Engineering Co., Ltd (CRBC) started officially at the cost about \$350 million. The expanded KKH will be widened to 30 m from the current 10 m, raising speed up to 80 km/h and increasing the transport capacity by 3 times, suitable for large load of traffic. The KKH expansion project is a continuation of the Pakistan-China friendship in the new period.

Another model of Sino-Pakistan cooperation in infrastructure is the construction of Gwadar Port. Gwadar Port is a rare deep-water port in Pakistan, located in the southwestern Baluchistan province in Pakistan, about 460 km east to Karachi, about 120 km west from Pakistan-Iran border and bordering the sea of Arabia to the south. It is near the Persian Gulf's throat that is strategically important, tightly controlling the throat of a number of important offshore routes from Africa and Europe to East Asia and the Pacific region through the Red Sea, the Strait of Hormuz and the Persian Gulf. Gwadar is about 400 km away from the Strait of Hormuz, the main channel for the global oil supply. At the request of the Pakistan government, China made a decision to provide assistance in construction of Gwadar Port in 2001. In August that year, the two governments signed the financing agreement for phase I of Gwadar deep-water port project in Beijing. In March 2002, the first phase of Gwadar deep-water port project started. The project was contracted and constructed generally by China Harbor Engineering Co. Ltd (CHEC) at a total cost of \$248 million, including \$198 million provided by China and the supporting funds worth of \$50 million offered by Pakistan. The project was formally completed in March 2007 and known as the new milestone of Sino-Pakistan friendship.

China and Pakistan have also carried out the investment and cooperation in other fields. In the development of mineral resources, Metallurgical Group Corporation of China (MCC) is involved in the construction of Saindak gold and copper mine and Duda lead-zinc deposit. In the field of telecommunications, China Mobile Communication Corporation paid \$477 million in 2007 for Paktel, the fifth largest telecom operator in Pakistan and took the first step towards international expansion, which is also a breakthrough in telecommunications cooperation between the two sides. As the first overseas branch, CMCC Pakistan Company has invested up to a total of \$2 billion in Pakistan, becoming the fourth largest telecom operator in Pakistan market.<sup>13</sup> In recent years, some large enterprises of China such as Haier, continue to expand their investment in Pakistan. In 2006, Haier set up a "Haier-Ruba Economic Zone", the first China's overseas economic and trade cooperation

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<sup>13</sup> *CMCC Has Become the Fourth Largest Telecom Operator in Pakistan*, [http://news.xinhuanet.com/fortune/2012-03/16/c\\_111666271.htm](http://news.xinhuanet.com/fortune/2012-03/16/c_111666271.htm)

zone approved by the Ministry of Commerce of China, and a “Chinese Special Economic Zone in Pakistan” that the Pakistani government approved to build. Since its establishment, the economic zone has grown into an international platform for Chinese enterprises to expand the market in Pakistan and surrounding countries in South Asia utilizing Haier’s production and sales channels as well as logistics base in Pakistan, taking advantage of Sino-Pakistan all-weather cooperation in multiple fields and preferential policies for bilateral trade and investment. The main preferential measures include facilitating investment, offering financial support, providing conveniences for exit and customs clearance, exempting imported equipment from taxation, and providing infrastructure business services and so on. At present, Haier-Ruba economic zone has attracted other five enterprises to move in with the cumulative investment of about \$20 million.<sup>14</sup> These projects have become models of investment and cooperation between China and Pakistan.

In the twenty-first century, the two countries are committed to developing closer bilateral relations so as to realize mutual benefit and common development, further deepening and expanding bilateral economic and trade cooperation. The *Five-Year Planning on Sino-Pakistan Economic Cooperation and Trade* signed by two countries in November 2006 has determined key areas of cooperation including agriculture, manufacturing, infrastructure and public works, mining, energy, information industry and service industry. The two sides signed a “Five-Year Plan on Economic Cooperation between China and Pakistan” in 2011, further developing the cooperation in energy, infrastructure, telecommunications and financing. In order to improve the Sino-Pakistan trade imbalance, the two countries established a joint venture, namely Sino-Pakistan Joint Investment Company (PCJIC) in July 2007 with its headquarters in Islamabad. Its registered capital is \$200 million, contributed by China State Development Bank and Federal Finance Ministry of Pakistan with \$100 million respectively, each holding 50 % shares. This is the first bilateral investment fund set up by the Chinese government, aiming to raise funds to help the two countries to carry out investment in financing, construction of infrastructure, service industry, mining, manufacturing and other fields, which will help to improve Pakistan’s investment environment, promote the existing economic and trade cooperation between the two countries, and attract other countries to invest in Pakistan.

## **5.2 Opportunity for Sino-Pakistan Economic and Trade Cooperation**

### ***5.2.1 Sino-Pakistan FTA Construction***

As an important measure for China to develop the foreign trade and economic cooperation, the free trade area (FTA) has fundamental significance. In order to adapt to the rapid development of global regional economic integration, China has

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<sup>14</sup>*Haier in South Asia*, [http://www.haier.net/cn/about\\_haier/haier\\_global/south\\_asia/](http://www.haier.net/cn/about_haier/haier_global/south_asia/)

positively promoted the FTA construction since 2003. “Implementing the FTA strategy” was clearly put forwards in the Report of the 17th National Congress of CPC, “accelerating the implementation of the FTA strategy” was put forwards again in the 18th National Congress of CPC, and “accelerating the FTA construction” and “establishing the global high-standard FTA network” were further put forwards in the Third Plenary Session of the 18th CPC Central Committee, thus presenting steadfast determination of the Central Committee of CPC for promoting the FTA construction. According to the *Suggestions of the Central Committee of CPC about Formulating the 11th Five-Year Plan of National Economy and Social Development*, China will positively participate in multilateral trade negotiation, drive the regional and bilateral economic cooperation and promote the liberalization and facilitation of the global trade and investment. Meanwhile, China will participate in the international economic and technical cooperation and competition in wider ranges and fields on the principle of mutual benefit and win-win result, make full use of the international and domestic markets, optimize the resource allocation, widen the development space, more positively and steadily promote the negotiation on FTA in order to build an all-around and multilevel FTA pattern and expand the economic and trade relations between China and other countries over the world as well as create good conditions for the stable and rapid development of national economy and foreign trade.<sup>15</sup> According to “the 12th Five-Year Plan”, China will “accelerate the implementation of the FTA strategy, further strengthen the economic contact with the main trade partners and deepen the practical cooperation with the emerging market countries and developing countries”.<sup>16</sup>

So far, 18 FTAs involving 31 countries and regions are being constructed in China. Therein, 12 Free Trade Agreements have been signed, namely, the Free Trade Agreements between China and ASEAN, Singapore, Pakistan, New Zealand, Chile, Peru, Costa Rica, Iceland and Switzerland, the closer Economic Partnership Arrangement between the mainland and Hong Kong, Macao, and the Economic Cooperation Framework Agreement between the mainland and Taiwan. Except that the Free Trade Agreements between China and Iceland, Switzerland have not come into effect yet, other Free Trade Agreements have been implemented.<sup>17</sup>

The Sino-Pakistan Free Trade Agreement which is the third Free Trade Agreement between China and foreign county was signed in 2006. Under this agreement framework, the Sino-Pakistan economic and trade cooperation has been positively promoted.

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<sup>15</sup>*The Free Trade Zone Constructed for Foreign Merchants during “the 10th Five-Year Plan” Has a Good Start*, <http://www.mofcom.gov.cn/aarticle/bb/200602/20060201465983.html>

<sup>16</sup>*Outline of 12th Five-Year Plan of National Economy and Social Development of the People’s Republic of China*, [http://news.xinhunet.com/politics/2011-3/16/c\\_121193916\\_28.htm](http://news.xinhunet.com/politics/2011-3/16/c_121193916_28.htm)

<sup>17</sup>*Eighteen Free Trade Zones Involving 31 Countries and Regions Are Being Constructed in China*, <http://www.chinanews.com/gn/2013/12-05/5582556.shtml>

### 5.2.1.1 Development History

Pakistan is the “good neighbor, good friend, good partner and good brother” of China, and the people of the two countries have long-standing friendship. In recent years, the Sino-Pakistan FTA construction has been always supported and concerned by the leaders of the two countries, thus creating a good political environment for the FTA negotiation between the two countries. The Sino-Pakistan FTA construction has been continuously promoted since 2003. On November 3, 2003, the two countries signed the *Preferential Trade Arrangement between the Islamic Republic of Pakistan and the People’s Republic of China*. Afterwards, the Sino-Pakistan FTA joint research was officially launched in October 2004.

During the visit of the Prime Minister – Wen Jiabao in Pakistan in April 2005, the leaders of the two countries jointly announced to officially launch the Sino-Pakistan FTA negotiation. After several months, the two countries jointly signed the *Agreement on the Early Harvest Programme for the Sino-Pakistan Free Trade Agreement* on December 9, 2005. After another one and a half years, the Chinese negotiating union formed by the relevant departments, such as Ministry of Commerce, Ministry of Foreign Affairs, Ministry of Finance, National Development and Reform Commission, Ministry of Agriculture, General Administration of Customs, AQSIQ (General Administration of Quality Supervision, Inspection and Quarantine of the People’s Republic of China) had six rounds of friendly, sincere and practical negotiation with Pakistan and finally the two parties reached a satisfactory agreement. Under the joint witness of Chinese President Hu Jintao and the Pakistani President Pervez Musharraf, the two countries jointly signed the *Sino-Pakistan Free Trade Agreement* in November 2006, and the implementation of this *Agreement* was smoothly launched on July 1, 2007. Therein, this *Agreement* is the third Free Trade Agreement signed between China and foreign countries following the *Sino-ASEAN Free Trade Agreement* and the *Sino-Chile Free Trade Agreement*. The signing of the *Sino-Pakistan Free Trade Agreement* is not only favorable for further expanding the economic and trade cooperation fields for the two countries and improving the economic and trade cooperation level, but also favorable for further consolidating and developing the long-tested friendship of the two countries, thus enriching the contents of the Sino-Pakistan strategic partnership.<sup>18</sup>

Under the joint witness of Chinese President Hu Jintao and the Pakistani President Asif Ali Zardari, the two countries jointly signed the *Amending Protocol to the Sino-Pakistan Free Trade Agreement* in October 2008. Under the Sino-Pakistan FTA framework, the *Amending Protocol* aims at preferably cutting down or removing the customs duties for the cargoes produced in the Sino-Pakistan investment zones, such as “Haier – Ruba Economic Zone”, and for the cargoes which both parties are interest in importing. Additionally, Pakistan specially provides 12 preferential policies to the Sino-Pakistan investment zones as the annex of the *Amending Protocol*. The signing and implementation of the *Amending Protocol* will

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<sup>18</sup> *Replies of the Press Secretary of Ministry of Commerce to Reporters about the Sino-Pakistan Free Trade Agreement*, <http://www.mofcom.gov/article/zhengcejid/bn/200611/20061103848259.html>



be favorable for accelerating the construction of the Sino-Pakistan investment zones including Haier – Ruba Economic Zone and attract more enterprises to enter these investment zones for business so as to further improve the economic and trade cooperation level of the two countries.

In December 2008, the fifth round of negotiation for the Sino-Pakistan FTA service trade was held in Beijing, and both parties reached a consensus upon the openness commitment form of the service departments and the service trade agreement text to successfully end the service trade agreement text negotiation lasting for 2 years. Afterwards, the first conference of the Sino-Pakistan Free Trade Committee was held on September 10, 2009. The Assistant Minister of the Ministry of Commerce – Wang Chao attended the opening ceremony and announced together with the Secretary of the Pakistani Ministry of Commerce – Suleman Ghani that the *Sino-Pakistan FTA Service Trade Agreement* would come into effect since October 10, thus indicating that the two countries will construct a comprehensive FTA covering cargo service, service trade, investment and other relevant contents. According to the *Agreement*, on the basis of the commitments of the two countries to WTO and among the 12 main service departments, 102 sub-departments of 11 service departments of Pakistan and 28 sub-departments of 6 service departments of China will be further opened up to each other.<sup>19</sup>

During the visit of the newly appointed Prime Minister of Pakistan – Sharif in China in July 2013, the two countries agreed to well implement the *Supplemental Agreement for Prolonging the Five-Year Sino-Pakistan Economic and Trade Cooperation Development Plan* and the *Sino-Pakistan Free Trade Agreement*, accelerate the promotion of the relevant projects listed in the *Five-Year Sino-Pakistan Economic and Trade Cooperation Development Plan* in order to promote the second stage of tax reduction negotiation for Sino-Pakistan FTA as soon as possible and further improve the liberalization of the trades between the two countries as well as promote the Sino-Pakistan economic integration process.<sup>20</sup>

The Sino-Pakistan FTA construction is implemented with the good political mutual trust existing between the two countries, thus not only promoting the development of the Sino-Pakistan bilateral economic and trade cooperation, but also accumulating the valuable experience for China to promote the FTA construction in the whole world.

### 5.2.1.2 Main Contents of the Agreement

1. The *Sino-Pakistan Free Trade Agreement* mainly includes cargo trade, investment and other relevant contents. This Agreement is divided into 12 chapters and 83 articles, including initial terms, general definition, national treatment and market

<sup>19</sup> *The Sino-Pakistan FTA Service Trade Agreement Will Come into Effect since October 10*, <http://www.mofcom.gov.cn/aarticle/ae/ai/200909/20090906509966.html>

<sup>20</sup> *Joint Expectation Issued by China and Pakistan about Deepening the Sino-Pakistan Strategic Partnership during New Period*, [http://www.fmprc.gov.cn/mfa\\_chn/ziliao\\_611306/1179\\_611310/t1056504.shtml](http://www.fmprc.gov.cn/mfa_chn/ziliao_611306/1179_611310/t1056504.shtml)



access, rule of origin, trade remedy, sanitary and phytosanitary measure, technical barriers to trade, transparency, investment, dispute settlement, management and final terms.

According to the *Sino-Pakistan Free Trade Agreement*, China and Pakistan has implemented the tax reduction for all products in two stages since July 1, 2007. In detail, the first stage refers to the period within 5 years since the Agreement comes into effect, both parties implement different tax reduction for the products respectively occupying 85 % of the tax items thereof in five categories, and both parties will exempt the products respectively occupying 36 % of the tax items from the customs duties. The products of China in the tax reduction range mainly include animal by-products, aquatic products, vegetables, minerals, textile, etc. while the products of Pakistan in the tax reduction range mainly include red meats, chemical products, mechanical and electrical products, etc. The second stage refers to the sixth year since the Sino-Pakistan Free Trade Agreement comes into effect, and on the basis of the assessment on the past situations, both parties will further implement the tax reduction respectively for their products. They aim to make the ratio of duty paragraph of tax-exempt products and the trade volume respectively reach 90 % on the basis of considering the concerns of the two parties in a proper period. As for the rule of origin, both parties will completely obtain 40 % of the regional value (namely value-added percentage) as the basic standards for judging the place of origin according to the Agreement. Meanwhile, both parties will make the origin criterions for the specific products as needed. As for the technical barriers to trade (TBT), both parties will cooperate with each other in the aspects of feasibility research, trade policy transparency improvement, etc. which are mutually accepted by the bilateral compulsory conformity assessment results according to the Agreement. As for the sanitary and phytosanitary measure (SPS), both parties will strengthen the information changes in the aspects of inspection and quarantine, certificating procedure, control and processing verification, results check, etc. according to the Agreement. As for anti-dumping, anti-subsidy and global safeguard measure, both parties will retain the rights and obligations under the relevant WTO agreement. Meanwhile, both parties has also referred to the universal practice of WTO Safeguard Measures Agreement and International Free Trade Agreement and accordingly established the bilateral safeguard measure terms. Besides the liberalization of cargo trade, the Agreement also regulates the issues regarding investment definition, investment promotion and protection, investment treatment, collection, damage solution, investment dispute settlement, etc. in order to positively promote the two-way investment.

2. The Sino-Pakistan FTA Service Trade Agreement includes 25 articles in the text and 2 annexes, wherein the text is divided into 4 main parts of the Blue Book of the India Ocean Region, namely definition and scope, obligation and discipline, specific commitment, other terms, etc., and the two annexes are respectively the specific commitment form of the service openness of China and Pakistan. At present, this Agreement is the FTA service trade agreement with most comprehensive contents and largest openness degree. In future, the two countries

will mutually open the service market and provide the market access opportunity and preferential treatment on the basis of their commitments to WTO, in order to create better conditions for the two countries to strengthen cooperation and exchange. Specifically:

According to the service department classification of WTO's *General Agreement for Trade of Service*, among the total 12 main service departments, Pakistan implements the opening policy for the Chinese service providers in 102 sub-departments of 11 main departments, wherein 56 service departments and sub-departments are newly opened, specifically including: firstly, expand the openness of the service departments and sub-departments, such as building, telecom, finance, distribution, medical treatment, environment, tourism, transportation, R & D, computer education, etc., and greatly reduce the restriction on the share proportion of the foreign investment (the share proportion of the foreign investment should not exceed 40–51 % in the past, but now it can be allowed to be increased to 60–99.99 %); secondly, provide the market access in 56 service departments and sub-departments, including newly opened distribution, education, environment, transportation, entertainment culture and physical education, totally 5 main service departments, and other newly opened service departments, such as express service, law, accounting and bookkeeping, building design, veterinarian, midwife and nursing, computer and other office equipment repair, printing and publishing, agricultural equipment, etc.; thirdly, according to the specific situation, agree to give the more preferential treatment to the Chinese service providers in the aspect of the share proportion of the foreign investment, especially allow the sole proprietorship in the three service departments, namely express, telecom and tourism; fourthly, provide slacker and more convenient conditions for personnel transfer. Meanwhile, on the basis of the commitments to WTO, China implements the opening policy for the Pakistani service providers in 28 sub-departments of 6 main service departments, specifically including mining, R & D, environmental protection, hospital, tourism, physical education, traffic, translation, real estate, computer, market survey, management consultancy, printing and publishing, construction cleaning, labor force, service arrangement, etc.

### 5.2.1.3 Significance

In recent 10 years, the Sino-Pakistan FTA has been gradually and steadily constructed and promoted and the coverage fields have also been gradually expanded, thus positively promoting the Sino-Pakistan economic and trade development. Since the formal effectiveness of the Sino-Pakistan Free Trade Agreement, the Sino-Pakistan bilateral trade volume has been doubled, namely increasing from 6,540,000,000 US dollars in 2007 to 12,417,000,000 US dollars in 2012. Meanwhile, the export volume of Pakistan to China has a steady increase and is gradually accelerated, with the annual average growth rate exceeding that of the bilateral trade. The above achievements all fully show that the Sino-Pakistan Free Trade Agreement plays a important role in promoting the economic and trade cooperation between the two

countries. The Sino-Pakistan FTA provides the institutional guarantee to the development of the economic and trade relation between the two countries, thus improving the economic and trade cooperation level. Generally speaking, the positive effects thereof can be presented in the following aspects: export expansion; realization of market diversification; reduction of consumption expenditure and production cost; favorable for attracting foreign investment and undertaking international industrial transfer; promotion of relevant industrial development and creation of employment opportunity.

The industrial structure and the structure of imports and exports of the two countries have strong complementarities. Since the establishment of the Sino-Pakistan FTA, the export of the cheap and fine Chinese mechanical and electrical products, chemical products and light industrial products to Pakistan has been increased, and the import cost of Pakistan has been reduced. Meanwhile, the textiles, minerals, leatherware, aquatic products, etc. produced in Pakistan also appear in Chinese market.

The establishment of Sino-Pakistan FTA also promotes the mutual investment and brings the win-win result to the two countries. The Chinese enterprises can enjoy a more favorable investment environment in Pakistan. Additionally, the two countries also have promising cooperation relation and wide development prospect in the service trade field.

However, the trade imbalance also exists between the two countries, and China has a greater favorable balance. In order to help Pakistan to increase the export to China, the Chinese Government positively promotes the Sino-Pakistan FTA construction. In the negotiation of the Sino-Pakistan Free Trade Agreement, China not only provided the tax reduction arrangement for some advantageous products of Pakistan, but also reserved the export space for some potential export products of Pakistan, such as building stones, leathers, textiles, chemical products, etc. Meanwhile, the Ministry of Commerce of China also provided all convenient chances, for example, exhibiting the Pakistani products in various Chinese trade shows in order to enable the Pakistani products to be accepted by more Chinese customers. Along with the gradual practice of the Free Trade Agreement, the effects of these policies are gradually presented, and the export of Pakistan to China has been continuously increased since 2009, with the growth rate obviously above the export of China to Pakistan. Even in 2009 when the Sino-Pakistan trade suffered from the negative growth, the year-on-year growth of the export of Pakistan to China was still up to 25.3 %. Additionally, the annual average growth rate from 2009 till now is 33.35 %, greatly higher than the growth rate of the total Sino-Pakistan bilateral trade volume. Obviously, the Sino-Pakistan Free Trade Agreement can significantly drive the export of Pakistan to China and improve the trade imbalance between the two countries.

Meanwhile, the Government of China encourages the Chinese enterprises with competitive advantages, such as building, telecom and manufacturing enterprises, to invest for setting up factories in Pakistan, and these newly established enterprises have become the new revenue sources and export bases of Pakistan. Additionally, the service industry occupies more than half of GDP in Pakistan and has strong competitive advantages. The implementation of the *Sino-Pakistan FTA Service*

*Trade Agreement* will be favorable for mutually opening the service markets of the two countries, complementing each other's advantages, enhancing the international competitiveness and improving the trade investment environment in order to lay a solid foundation for the two countries to jointly face the global economic challenges and promote the joint economic development.

In conclusion, the Sino-Pakistan FTA construction plays a positive role in promoting the comprehensive win-win and mutually beneficial economic and trade cooperation between the two countries.

## ***5.2.2 Sino-Pakistan Economic Corridor Construction***

The Sino-Pakistan economic corridor refers to the main road and railway connecting western China and Pakistan and running through Pakistan from south to north, namely from Kashgar, Sinkiang to the southwest port city Gwadar in Pakistan. The Sino-Pakistan economic corridor construction aims at further strengthening the interconnection and interworking between the two countries so as to promote the joint development of the two countries.

### **5.2.2.1 Planning Process**

The conception of the Sino-Pakistan economic corridor was included into the discussion topics between the governments of the two countries as early as 7 years ago. In February 2006, at the 55th anniversary of the establishment of Sino-Pakistan diplomatic relations, the President of Pakistan – Pervez Musharraf put forwards his adventurous imagination during his visit to China, namely creating Pakistan as the “energy corridor” and “trade corridor” of China and constructing the Sino-Pakistan railway and energy pipeline for the energy transportation and import of China. Afterwards, such imagination was listed as the “westward strategy” in “the 11th Five-Year Plan”. In 2007, the engineering technicians of the two countries completed the site survey for the railway side in the imagination. During the visit in China in July 2010, the President of Pakistan – Asif Ali Zardari discussed the open-door policy for constructing the railway and road network in China and the feasible plan for constructing the oil and gas pipeline. On February, 2013, the President of Pakistan – Asif Ali Zardari announced to officially hand over the operation right and the accessory infrastructure development right of Gwadar Port located in Balochistan Province from PSA International Pte Ltd (PSA) to China Overseas Port Holding Company (COPHC).<sup>21</sup> Gwadar Port is the third largest port in Pakistan and has important strategic location. Therefore, the acquisition of the operation right of Gwadar Port accelerated the process of the Sino-Pakistan economic corridor construction.

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<sup>21</sup>New beginnings: China takes control of Gwadar port, <http://tribune.com.pk/story/509277/new-beginings-china-takes-control-of-gwadar-port/>

During the official visit in Pakistan in May 2013, the Prime Minister Li Keqiang again emphasized the formulation of the long-range plan for the Sino-Pakistan economic corridor in order to steadily promote corridor construction. Meanwhile, in the same period, the two countries signed a series of cooperative agreement and MOU (memorandum of understanding), including MOU about the Long-range Plan for Sino-Pakistan Economic Corridor. On May 23, 2013, the two countries announced the *Joint Declaration of the People's Republic of China and the Islamic Republic of Pakistan about Deepening the Comprehensive Strategic Cooperation* (hereinafter referred to as *Declaration*), and the *Declaration* indicated that the two parties agreed to strive for closely integrating the Chinese develop-the-west strategy with the domestic economic development process of Pakistan and translate the high-level political relation advantage into the pragmatic cooperation achievement. Both parties believed that the Sino-Pakistan interconnection and interworking construction was favorable for exploiting potentialities of the two countries in the field of economy and trade, logistics, personnel contact in order to promote the national and regional economic integration, and therefore, the two countries has carried out good cooperation in these fields. Meanwhile, the two parties will make joint effort to continuously improve the Sino-Pakistan interconnection and interworking level, accelerate the barrier lake treatment, promote the upgrading and rebuilding of Karakoram Highway and the national road network repair project of Pakistan and strengthen the cooperation in the transportation infrastructure construction. Furthermore, both parties agreed to jointly research and formulate the long-range plan for the Sino-Pakistan economic corridor under the condition of full demonstration so as to promote the Sino-Pakistan interconnection and interworking construction and expand the development of the Sino-Pakistan economic and trade cooperation. Additionally, both parties decided that the National Development and Reform Commission of China and the Planning Commission of Pakistan would establish a joint working team to research the projects regarding interconnection and interworking.<sup>22</sup>

During the visit of the Prime Minister of Pakistan – Nawaz Sharif in China on July 5, 2013, the two countries signed eight items of cooperation agreement in Beijing, wherein the cooperative agreement regarding “Sino-Pakistan Economic Corridor” became the key point. Meanwhile, the two countries jointly announced the *Joint Expectation about Deepening the Sino-Pakistan Strategic Partnership during New Period*. According to the *Expectation*, both parties believed that improving the Sino-Pakistan interconnection and interworking level was important for expanding the economic and trade cooperation between the two countries and promoting the economic integration and development of the two countries. In order to promote the formulation of the long-range plan for the Sino-Pakistan economic corridor, both parties agreed to establish the joint cooperation committee of the long-range plan for the Sino-Pakistan economic corridor, wherein this committee was led by the National Development and Reform Commission of China and the Planning

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<sup>22</sup> *Joint Declaration of the People's Republic of China and the Islamic Republic of Pakistan about Deepening the Comprehensive Strategic Cooperation*, [http://www.fmprc.gov.cn/mfa\\_chn/zyxw\\_602251/t1043347.shtml](http://www.fmprc.gov.cn/mfa_chn/zyxw_602251/t1043347.shtml)

Commission of Pakistan, and meanwhile the secretariats were respectively set in the two departments. Recently, ministerial officers of the countries held talks in Beijing, and China would assign the working team as soon as possible to visit Pakistan and negotiate the relevant issues. The two parties agreed to launch the long-range plan for the Sino-Pakistan economic corridor as soon as possible. The cooperative fields regarding the long-range plan mainly include interconnection and interworking construction, economic and technical cooperation, cultural and local exchange. Under the cooperation framework of the long-range plan, both parties agreed to recently promote the following cooperation: timely launching the Sino-Pakistan trans-boundary optical cable project, accelerating the upgrading and rebuilding project of Karakoram Highway, discussing and promoting the solar energy and biomass energy cooperation, discussing and implementing the industrial park construction along the line, launching the trans-governmental negotiation as soon as possible, achieving the Chinese terrestrial digital television international standard in Pakistan, coordinating the commercial operation of TD-LTE in Pakistan and strengthening the cooperation in Wi-Fi technical filed. Meanwhile, the two countries also supported the enterprises of the two countries to carry out the industrial cooperation in Gwadar Port.<sup>23</sup> Hereto, the Sino-Pakistan economic corridor construction was officially launched.

### 5.2.2.2 Construction Goal

In the long-range plan for the Sino-Pakistan economic corridor, the two countries expects to exploit the potentials of economy and trade, logistics and personnel contact through the “four-in-one” passage construction, namely the interconnection and interworking of road, railway, oil and gas pipeline and optical cable in order to promote the national and regional economic integration.

The Sino-Pakistan economic corridor plan covers the construction and cut-through of the passage, but more importantly, it can accordingly promote the industrial park construction of the two countries along the economic corridor in order to strive for closely integrating the Chinese develop-the-west strategy with the domestic economic development process of Pakistan and translate the high-level political relation advantage into the pragmatic cooperation achievement. Therefore, both parties will strengthen the cooperation in the fields of trade, investment, energy, agriculture, finance, etc.

### 5.2.2.3 Significance

The Sino-Pakistan economic corridor construction has extremely important practical significance and far-reaching influence for promoting the economic development and deepening the economic and trade cooperation of the two countries.

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<sup>23</sup> *Joint Expectation Issued by China and Pakistan about Deepening the Sino-Pakistan Strategic Partnership during New Period*, [http://www.fmprc.gov.cn/mfa\\_chn/ziliao\\_611306\\_1179/t1056504.shtml](http://www.fmprc.gov.cn/mfa_chn/ziliao_611306_1179/t1056504.shtml)

The newly appointed Prime Minister of Pakistan – Sharif thought highly of the Sino-Pakistan economic corridor and indicated that the Sino-Pakistan economic corridor could change the destiny of this region. So far, the operation of Gwadar Port has been handed over to Chinese Company, and we hope that Gwadar Port will become a more important economic center in future and become one of the most important ports of Arabian Sea. Sharif believed that the Sino-Pakistan economic corridor could greatly promote the economic and trade development of the two countries, and the special economic zones established along the Sino-Pakistan economic corridor provide a huge opportunity for the enterprises in various industries of the two countries. Meanwhile, Sharif also hoped the enterprises of the two countries to have more cooperation in the energy field and indicated that China and Pakistan had comprehensive strategic partnership and both parties should have cooperation in various fields, and the Sino-Pakistan economic corridor could not only benefit for the central and western China, but also benefit for Pakistan and even the whole South Asia region. Furthermore, Sharif indicated that the great foreseeable cooperation potential existed between the two countries and the cooperation between the two countries could be extended to Central Asian and South Asian countries to benefit for 3,000,000,000 populations.<sup>24</sup>

The Sino-Pakistan economic corridor has targeted “win-win” strategy. On the one hand, the economic corridor construction and cut-through can expand the economic cooperation and cultural exchanges; on the other hand, the economic corridor construction and cut-through can realize the diversification of the energy import of China, thus having the important strategic significance for resolving the “Malacca Dilemma” and ensuring the energy security. According to relevant research data, China has become the largest oil net importer in the world, and the foreign-trade dependence towards crude oil is as high as 58 %, exceeding that of US (53.5 %).<sup>25</sup> So far, the crude oils imported by China are mainly from the Middle East and African countries and other traditional oil production regions, but 80 % of the crude oils need to be delivered from these countries and regions to China by way of Malacca Strait of which the length is about 1,080 km. However, the economic corridor can directly connect Sinkiang in China and Gwadar Port which is only 400 km away from the main oil supply passage in the world – Hormuz Strait, thus not only shortening the energy shipment distance from the Middle East to China, but also reducing the dependence on the Sino-Myanmar oil and gas pipeline. More importantly, China and Pakistan have long-tested comprehensive friendly relations, thus providing the strong political guarantee for the Sino-Pakistan energy passage.

Macroscopically, after the cut-through, the Sino-Pakistan economic corridor can closely connect South Asia, Middle Asia, Middle East, North Africa regions, etc. through the cooperation in the fields of economy and energy to form the economic

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<sup>24</sup> *Exclusive interview for Prime Minister of Pakistan: the Sino-Pakistan Economic Corridor Will Benefit for 3,000,000,000 Populations*, [http://news.xinhuanet.com/world/2013-06/30/c\\_124932825.htm](http://news.xinhuanet.com/world/2013-06/30/c_124932825.htm)

<sup>25</sup> *Predicted in CNPC Report: the Foreign-trade Dependence on Crude Oil is Approaching 60 %*, [http://news.xinhuanet.com/energy/2013-01/31/c\\_124303291.htm](http://news.xinhuanet.com/energy/2013-01/31/c_124303291.htm)

“resonance” and meanwhile strengthen the strategic position of Pakistan as the bridge and link for connecting Europe & Asia and Africa continents.

#### 5.2.2.4 Existing Difficulties

The Sino-Pakistan economic corridor construction also faces many difficulties. Taking the main land “lifeline” Karakoram Highway connecting Pakistan and China as an example, because disasters frequently occurred along this highway, such as collapse, rockfall, debris flow, etc., the Karakoram Highway is known as “geological disaster museum”. Since the Karakoram Highway is the sole land trade passage between the two countries, China Road and Bridge Corporation was promoted by Chinese Government to undertake the Karakoram Highway reconstruction and extension project covering 335 km in order to repair the section damaged by the South Asian great earthquake in 2005. On February 16, 2008, Karakoram Highway upgrading and rebuilding project was officially launched. When the project was being orderly promoted, the great natural hazard occurred in Abbottabad of Gilgit-Baltistan region on January 4, 2010 cut off Karakoram Highway under construction and meanwhile formed a huge barrier lake at the upstream of Hunza River. Such natural hazard not only brought great inconvenience to the production and livelihood of the local people, but also greatly influenced this project. At present, the construction of Karakoram Highway has been cut off for many years due to the large-area collapse, thus greatly influencing the land trade between the two countries. On December 18, 2010, the two countries signed the supplemental agreement for Karakoram Highway barrier lake rerouting project in Pakistani National Highway Bureau located in Islamabad, wherein the total length of Karakoram Highway barrier lake rerouting section is 24 km, five tunnels and two bridges will be newly constructed, with the total investment increment of 275,060,000 US dollars and with the construction period of 24 months.<sup>26</sup> At present, Karakoram Highway has become the indispensable part of the Sino-Pakistan economic corridor, the repair and reconstruction and extension thereof will play an important role in promoting the bilateral trade and the strategic cooperation as well as the friendly relation between the two countries, and strengthening the economic and trade cooperation between China and Middle-South Asia region.

Additionally, various adverse factors in Pakistan, such as turbulent political scene, obvious security issues, energy and power shortage, etc. will also bring the severe challenges to the construction and cut-through of the Sino-Pakistan economic corridor. During the last ten days of June 2013, terrorists attacked Nanga Parbat campsite and caused the death of ten foreign climbers, including two Chinese

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<sup>26</sup> *Supplemental Agreement for Karakoram Highway Barrier Lake Rerouting Project Is Signed in Islamabad*, <http://gb.cri.cn/27824/2010/12/19/3245s3094559.htm>



people; and this campsite was less than 20 km away from the section A of Karakoram Highway reconstruction and extension project.<sup>27</sup>

Facing the existing difficulties as above, the governments of the two countries strategically pay high attention to the Sino-Pakistan economic corridor construction. The relevant departments of the two countries are making joint effort to strengthen coordination, scientifically plan the construction and take effective measures in order conquer various difficulties and positively and steadily promote the Sino-Pakistan economic corridor construction,

### **5.3 Challenges to the Sino-Pakistan Economic and Trade Cooperation**

The Sino-Pakistan economic and trade cooperation relations have made a great progress over the past more than 10 years, but currently face the difficulties in Pakistan, such as the deterioration of the security situation, energy shortage crisis, etc. Meanwhile, the specific problems, such as unbalanced bilateral trade investment, foreign exchange control, etc. also exist in Pakistan, and such adverse factors will bring severe challenges to the Sino-Pakistan economic and trade cooperation in future.

#### **5.3.1 Severe Security Situation**

According to the economic and trade cooperation development history in recent years, the Sino-Pakistan economic and trade cooperation was obviously influenced by the domestic and neighbor area security situation. In 2009, the Sino-Pakistan bilateral trade volume and the investment volume of China in Pakistan both declined, such downturn was caused not only by the international financial crisis in 2008 and the global economic recession incurred thereby, but also by the severe security situation in Pakistan. In that year, the direct investment volume of China in Pakistan sharply declined from 3,680,000 US dollars in 2008 to 380,000 US dollars, with a drop of 89.6 %. Obviously, the investment of China in Pakistan was more influenced by the security factors.

After U.S. started the anti-terrorism war in Afghanistan in 2001, the security situation of Pakistan was also affected and gradually deteriorated. In the past 10 years, Pakistan paid a high price for fighting against international terrorism and made a great sacrifice. According to the statistical data of Pakistan, the anti-terrorism war caused a direct economic loss of over 100,000,000,000 US dollars to Pakistan, but the indirect loss of personnel and infrastructure construction was far more than the above number. Meanwhile, the Pakistani Government spent a lot of energy and financial resources in anti-terrorism and dispatched the large-scale military

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<sup>27</sup> "Sino-Pakistan Friendship Way" Documentary: 22KM Barrier Lake Cannot Stop the Determination of the Two Countries, <http://gb.cri.cn/42071/2013/07/26/635s4196031.htm>

force to fight against tribal armed forces and terrorist forces with countless ties with “base” organization and Taliban, which made the Pakistani Government unable to focus on economic development and social construction. Therefore, the economic development delay intensified the instability of the society and further caused the turmoil of the security situation in Pakistan. However, the deterioration of the security situation in turn hindered the normal economic development and the international and domestic investors rapidly evacuated from Pakistan, thus causing the vicious circle of the economic development.

The disinvestment of China Kingho Group was a case in point. Kingho Group is one of the largest private enterprises in Chinese energy field currently, which intended to invest for the coal power project in Sindh Province, Pakistan. Although Federal Board of Revenue, Government of Pakistan (FBR) made a decision that the Pakistani Government would provide the tax preference for the enterprises investing for the thermal power generation project in Sindh Province for 30 years, Kingho Group still finally cancelled the investment valued at 19,000,000,000 US dollars in August of the same year due to the worries about the security issues in Pakistan.<sup>28</sup> According to the statistical data issued by China’s Ministry of Commerce, the direct investment of China in Pakistan declined by 30.8 % in 2012, namely declining to 601,600,000,000 US dollars. Additionally, according to the data issued by the State Bank of Pakistan, the direct investment in Pakistan from foreign countries was only 812,000,000 US dollars in the fiscal year 2011–2012, with a year-on-year drop up to 50.3 %.<sup>29</sup> In conclusion, the deterioration of the security situation in Pakistan had obvious negative effects on the foreign investment.

At the beginning of taking office in June 2013, the new Pakistani Government clearly lodged an objection on UAV (unmanned aerial vehicle) air attack and advocated to hold peace talks with Taliban in order to take nonviolent measures to handle the terrorism problems. On September 9, the Prime Minister of Pakistan – Sharif hosted and held the All Parties Conference (APC) and reached a consensus with the parties and the military participating in the conference upon supporting the peace talks with Taliban. However, influenced by a series of adverse events occurred afterwards, no progress was made for the peace talks between the Pakistani Government and Taliban, thus intensifying the security situation. Before the end of 2014, U.S. and NATO will evacuate all combat troops from Afghanistan. Along with the handover of the defense, Afghanistan will experience extremely difficult political and economic transformation. Meanwhile, the domestic reconciliation of Afghanistan cannot obtain the substantial progress, the security situation of Afghanistan will be not optimistic after 2014, thus inevitably further intensifying the turmoil of the security situation in Pakistan neighboring to Afghanistan.

If the security situation in Pakistan cannot properly improved in future, the Sino-Pakistan bilateral trade and investment cooperation will undoubtedly face

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<sup>28</sup> *Kingho Group Cancelled the Investment of 19,000,000,000 US Dollars for Pakistan Due to Security Issues*, <http://finance.sina.com.cn/chanjing/gsnews/20110930/141610571323.shtml>

<sup>29</sup> *The Direct Investment of Foreign Countries to Pakistan Declined by 50.3 % in Fiscal Year 2011–2012*, <http://finance.sina.com.cn/roll/20120717/131912589032.shtml>

the severe challenges. Therefore, the Pakistani Government has promised to take specific measures in order to protect the security of the Chinese organizations and personnel in Pakistan.

### 5.3.2 *The Serious Energy Shortage*

In recent years, energy shortage in Pakistan has been increasingly prominent. Problems such as power outages, the lack of natural gas have caused production cutback or shutting down of textile mill. Textile industry is Pakistan's pillar industry, with exports accounting for 55 % of total exports, providing 39 % of the industrial jobs.<sup>30</sup> A serious shortage of electricity and natural gas has caused a great loss for Pakistan's economic development. According to the federal Treasury of Pakistan, annual economic loss brought by the power shortage is equivalent to 2 % of GDP. In Pakistan, power outage time in major cities is at least 10 h a day, while in rural areas, the power failure time is 22 h a day. Power shortages have caused serious influence to the people's life in Pakistan, triggering a public outcry, even evolving into incident of violence in some cities.

Contributing to power shortages in Pakistan was mainly resulted from the lack of energy and the energy consumption structure imbalance. The Pakistan's dependence on oil and gas products is as high as 79 %, among which oil has accounted for about 30 % of the total energy consumption, mainly relying on import, with oil imports as much as \$15.28 billion in fiscal year from 2012 to 2013, while natural gas makes up 50 % of the total energy consumption, able to basically achieve self-sufficiency. According to statistics, in fiscal year from 2012 to 2013, average daily oil production of Pakistan was 765,000 barrels, an increase of 14 % compared with the average daily oil production of 673,000 barrels in previous year. But gas daily output of 4.1 billion cubic feet on average has fallen by 3 % compared to daily average output of 4.3 billion cubic feet compared to the previous year.<sup>31</sup> Recently, Pakistan, no lack of natural gas, has unexpectedly stuck into the embarrassing position of natural gas shortage due to its heavy dependence on the energy consumption and inefficient application. In fact, Pakistan is endowed with rich coal and hydropower resources. According to reports from Lahore Chamber of Commerce and Industry (LCCI), Pakistan coal reserves are about 186 billion tons, ranking seventh throughout the world. The report indicates that the Pakistan's coal preserves are sufficient to meet the demand of domestic fuel, able to be better used to generate electricity.<sup>32</sup> Reports from Pakistan Water and Power Development Authority has

<sup>30</sup>“*Textile Industry Development Trend of Foresight in Ten Countries of Southeast Asia in 2014*”, <http://price.mofcom.Gov.cn/article/sc>

<sup>31</sup>“*14 % rise of the Pakistan's Oil Production in Fiscal Year From 2012 to 2013*”, <http://www.Mofcom.Gov.Cn/article/I/jyjI/J/201307/20130700202474.shtml>

<sup>32</sup>“*Pakistan, World's Seventh Largest Coal Reserves*”, <http://www.Mofcom.Gov.Cn/article/I/jyjI/j/201311/20131100405686.shtml>

released that reserves of water and electricity in Pakistan are about 100 million kw, which has proven and preliminary ensured the 56.77 million kw reserves in power station.<sup>33</sup> But due to various reasons, the rich coal and hydropower resources are far from fully being developed and utilized in Pakistan. The energy crisis has seriously affected the economic recovery in Pakistan. Pakistan's new government will work together to promote economic growth, thus the government's first priority is to solve the problem of energy shortage and to eliminate all barriers to energy investment.

At the same time, to restore the normal order of industrial production and social life as soon as possible, the government has tried to quickly solve the problem of power shortage through debt. The power shortage in Pakistan is the outcome of plenty of factors combined, including: Low efficiency in project implementation due to capital and build capacity problem; restriction of system on development of water, electricity and coal; restriction of infrastructure on oil and gas development; sole power generation fuel and improper electricity price structure; underdeveloped electric power industry and insufficient sending transmission facilities; lack of energy conservation measure, too much loss in process of sending and transmission, and serious waste of industry; inability to exploit energy efficiently resulted from slow process of privatization of public sector.<sup>34</sup> At present, the problem of "debt chain" in Pakistan's electric power enterprises is the main factor which confines the development of the electric power. Because of electricity price regulated by Pakistan government lower than the cost of fuel, huge losses are caused by fuel prices and electricity price upside down, together with severe conditions of power theft, default of electricity and big loss in transmission, which results in financial crisis to power generation enterprises, who are unable to pay high fuel imports, which forms a vicious cycle of debt. Therefore the government plans to issue bonds to pay off the energy companies and state-owned enterprise debt, reducing accounts payable by the provincial and local governments totaled \$5 billion. At the same time, Pakistan extraordinarily hopes to be able to carry out energy cooperation with China, and welcome Chinese enterprises to invest in Pakistan's energy industry, etc.

Because of this, for economic and trade cooperation between China and Pakistan, the energy crisis Pakistan currently faced with is both a challenge and an opportunity. Although the severe energy shortage has hindered the economic development, a blow to the confidence of the international capital to invest in Pakistan, impacting the production and operation of Chinese enterprises, it has also provided a broad space for our further cooperation in the energy field for the two countries. For a long time, energy cooperation has being the focus of economic and trade cooperation between China and Pakistan. With cooperative history in energy of more than 30 years, the two countries have achieved fruitful results in nuclear power, conventional power, renewable energy and other Chinese companies has contracted a batch of power plants and hydropower station, also vigorously carrying out cooperation

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<sup>33</sup>"Present Situation, Prospects for Cooperation and Suggestions of Pakistan Hydropower Resources Development", <http://template1.Mofcom.Gov.Cn/article/ea/201110/20111007780793.html>

<sup>34</sup>"A Brief Strategic Introduction of Pakistan's Energy in Medium-term Development", [http://www.SDPC.Gov.Cn/nyjt/GJDT/20060809\\_79561.htm](http://www.SDPC.Gov.Cn/nyjt/GJDT/20060809_79561.htm)

in new energy construction such as wind power and solar energy, civil nuclear and so forth in recent years. The two governments attach great importance to deepen cooperation in energy field. In 2011, the two countries have established the united energy group, to push cooperation in the petroleum, natural gas, coal, conventional energy, nuclear energy and renewable energy. Predictably, energy cooperation in the future will continue to be the focal point of investment cooperation between China and Pakistan.

### ***5.3.3 The Trade Imbalance***

According to statistics from Chinese customs and the ministry of commerce, bilateral trade between China and Pakistan has grown steadily presently, but the trade imbalance issue is more serious. In 2012, Pakistan's trade deficit with China is \$6.136 billion, while its total foreign trade deficit is \$19.666 billion.<sup>35</sup> That is to say, the amount of Pakistan's deficit with China accounts for 31.2 % of the total foreign trade deficit. Trade imbalance between China and Pakistan will affect economic recovery on Pakistan's side, unfavorable to long-term healthy development of economic and trade cooperation between China and Pakistan.

The Chinese government attaches great importance to the trade imbalance with Pakistan, and take measures to solve this problem. For instance, cooperation and tax cuts are promoted under the frame of free trade area; export capability shall be elevated for Pakistan's enterprise; import from Pakistan is actively encouraged, and import subsidies are provided for Chinese companies who buy products from Pakistan and so on. In recent years, the effect of the free trade agreement between China and Pakistan denotes that Pakistan's exports to China have maintained rapid growth. According to Chinese customs statistics, Pakistan's exports to China are about \$3.1400 million throughout 2012, and a rise of 48.2 % year-on-year growth. According to the latest data of the federal bureau of Pakistan, Pakistan's top five export goods are textile raw materials and products, rice, vegetables and fruits, leather and aquatic products in the fiscal year from 2012 to 2013, among which textile raw materials and products, leather and aquatic products are Pakistan's main commodity exports to China. In the Pakistan's export, the proportion of exports to China tends to rise constantly, and at present it has become the largest source of China's cotton import. With the deepening of the construction of free trade zone between China and Pakistan, there is a huge potential in Pakistan to the promotion of China's exports.

Moreover, Pakistan has a huge potential in trade of service, which has already become the one of the main drive economic growth, with GDP contribution of 57.7 % in the fiscal year of 2013, an increase of 3.7 % on year-on-year basis. According to the latest data released by the federal bureau of statistics, Pakistan's exports have reached \$6.619 billion in the fiscal year from 2012 to 2013, a sharp

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<sup>35</sup> Pakistan Bureau of Statistics, <http://www.PBS.Gov.Pk/trade-summary>

growth of 31.46 % on year-on-year basis, the export growth industry mainly including tourism, construction, finance, insurance, information and consultation, etc.; service imports have been up to \$7.758 billion, a decrease of 5.7 % on year-on-year basis, with service trade deficit of \$1.14 billion, a contraction of 64.31 %.<sup>36</sup> With the implement of “The Service Trade Agreement of Free Trade Zone between China and Pakistan”, the two countries further open the service market to enhance complementary advantages of each other, so as to further reduce the bilateral trade imbalance.

### ***5.3.4 Issue of Foreign Exchange Control***

Issue of foreign exchange control such as international settlement, foreign exchange buying and selling has adverse effects on bilateral trade between China and Pakistan and also China’s investment cooperation with Pakistan. After the nuclear test in 1998, to save foreign exchange reserves, Pakistan froze foreign exchange accounts, which has caused a tremendous negative impact on the Pakistan’s international image and investment environment. In 2001, in order to boost the confidence in Pakistan, Pakistan had launched “Foreign Currency Account Protection Law”, promulgating that anyone who has foreign currency account domestically in Pakistan, is not subject to deprivation of owning and maintaining foreign exchange accounts, not to be deprived of legitimate sale, extraction, exchange, transfer and collateral of foreign exchange funds in the account, and of right to carry freely in and out of the Pakistan border.<sup>37</sup> But FE Circular No. 12 of 1998 enacted in 1998 has not been cancelled until now for the foreign exchange account transfer.

Pakistan’s foreign exchange control problems have diminished investors’ confidence in the long-term investment in Pakistan. Once the financial situation of instability occurs, to avoid foreign exchange account being frozen once again, investors will choose to leave Pakistan. In 2008, impacted by multiple adverse factors both domestically and internationally, Pakistan’s economy is in danger of collapse. From July to September, the trade deficit surged to \$5.549 billion, with account deficit as high as \$2.572 billion, at the same time, the government also under serious debt repayment pressure. Then, the foreign exchange reserves was merely \$8.135 billion, while the national bank of Pakistan (central bank) foreign exchange reserves was \$4.686 billion. Saving the related international debt in foreign exchange reserves, there is only less than \$3 billion left, which is barely enough to pay for a month’s worth of imports. The Pakistan’s rupee depreciated by 21 %, with inflation as high as 25 %. Because foreign exchange reserve is too low, Pakistan’s big banks and money-changers began to stop exchange business. Many Banks in Pakistan have already begun to freeze large foreign exchange accounts, not allowing outward

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<sup>36</sup> Pakistan Bureau of Statistics, <http://www.PBS.Gov.Pk/trade-summary>

<sup>37</sup> “The Foreign Exchange Account Protection Ordinance Issued by Pakistan”, [http://newsXinhuanet.Com/chanjing/2001/-10/24Content\\_55070.htm](http://newsXinhuanet.Com/chanjing/2001/-10/24Content_55070.htm)

remittance of large amounts of dollars. Investors' confidence suffered a heavy blow, and, withdrew dollars from the bank to avoid suffering losses as in 1998. This kind of situation has exacerbated the decline in investment in Pakistan, and foreign investment has fallen sharply 31.2 % in fiscal year from 2008 to 2009 in Pakistan, which has reduced \$1.688 billion compared with the previous year.<sup>38</sup>

Faced with unfavorable situation of decreased foreign exchange inflows and high external debt service pressure, the situation is still severe in terms of foreign exchange reserves. According to latest data of the bureau of statistics of Pakistan, exports of Pakistan is \$12.64 billion with year-on-year growth of 5.11 % from July to December in 2013, while imports value of Pakistan is \$21.671 billion, a decrease of 1.14 % on year-on-year basis and trade deficit has been \$9.032 billion with year-on-year decrease of 8.75 %.<sup>39</sup> Pakistan's central bank aims to control the deficit at \$3 billion or to GDP ratio at 1.2 % or less this year.<sup>40</sup> According to statistics released by Central Bank, on December 6th, 2013, the foreign exchange reserves is \$8.06 billion, while the foreign exchange of central bank has reached the rock bottom of \$2.963 billion in 12 years.<sup>41</sup> With the aim to control foreign exchange outflows, the federal treasury of Pakistan has recently issued new rules that 50 % should be reduced for foreign exchange quota to carry by outward passengers. Previously, Pakistan has allowed each adult passenger to carry with \$10,000 in cash every time, now reduced to \$5,000, children less than 12 years old carrying 50 % the amount of adult, infant carrying 25 %<sup>42</sup> the amount of adult. Latest exchange control measures of Pakistan government have brought a further blow to the fragile confidence of investor, the weak investment market seriously hindering the economic recovery in Pakistan.

In order to save the investor confidence and to boost the weak investment market, effective measures should be taken to solve the problem of foreign exchange control in Pakistan. High debt and heavy dependence on remittances income are the main cause of poor state of foreign exchange reserves. By means of developing vigorously the economy and expanding exports, trade deficit and current account deficits should be reduced, and increased foreign exchange reserves, improved international settlement ability should be conducted in Pakistan, so as to boost investor confidence, to improve the investment environment, thus achieving the virtuous circle of economic development.

As to this, China and Pakistan have jointly set up Pakistan joint investment company (PCJIC) in July 2007, which will help improve the investment environment of Pakistan, to promote cooperation between two countries in fields of finance, infrastructure, services, mining, manufacturing and so on, and to the attract investment

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<sup>38</sup>“Pakistan Foreign Direct Investment Fell Sharply in Fiscal Year from 2008 to 2009”, <http://finance.Sina.Com.Cn/roll/20090715/14052950873.shtml>

<sup>39</sup>Pakistan Bureau of Statistics, <http://www.PBS.Gov.Pk/trade-summary.Page=1>

<sup>40</sup>“Pakistan's Current Account Deficit Increases”, <http://www.Mofcom.Gov.Cn/article/I/jyj/j/201311/20131100405686.shtml>

<sup>41</sup>The State Bank of Pakistan, <http://www.SBP.Org.Pk/ecodata/FER,index.Theasp>

<sup>42</sup>“Pakistan Cut Carrying Quota of Foreign Currency Outflow”, <http://China.Huanqiu.Com/News/mofcom/2014-01/4744261.html>



from other countries. Since then, People's Bank of China and Pakistan's national bank has signed bilateral currency swap agreements in Islamabad on December 23rd, 2011, aimed at strengthening the bilateral financial cooperation, promoting trade and investment between the two countries, to jointly maintain regional financial stability. Swap scale is 10 billion RMB to 140 billion rupees, valid for 3 years, able to be extended by mutual consent.<sup>43</sup> To some extent, these measures help to boost the bilateral trade, to promote investment cooperation, to improve the investment environment, thus accelerating the revitalization of the economy.

To sum up, the biggest challenge of the current bilateral economic and trade cooperation between China and Pakistan is the security issues. The two countries' enterprises, especially private enterprises have a strong demand and desire to improve the bilateral trade and investment. I am convinced that economic and trade cooperation between China and Pakistan will have greater development opportunities, along with effective measures taken by Pakistan's new government to cope with the deteriorated security situation and the double challenges of energy shortage crisis, to overcome issues of the high debt, hyperinflation and high unemployment.

## 5.4 Policy Suggestions

Attaching great importance to solve the problem of trade imbalance between China and Pakistan, the Chinese government has adopted a series of policies and measures to suppress the excessively rapid growth of China's trade surplus. Through the joint efforts of China and Pakistan, Pakistan's trade deficit with China has dropped to \$6.136 billion in 2012, still accounting for 31.2 % of Pakistan's foreign trade. And according to data from the central bank of Pakistan, the foreign exchange reserves has fallen to only \$8.06 billion on December 6th, 2013, the lowest level in 12 years. To improve the trade imbalance between China and Pakistan is of great significance for the healthy development of bilateral economic and trade relations and the increase of foreign exchange reserves. However, trade imbalance between China and Pakistan at present is mainly caused by economic structural differences. To fundamentally solve the problem, we shall combine economic corridor far-seeing planning between China and Pakistan, setting up more industrial parks and free trade zones along the line, to encourage more Chinese enterprises to invest in Pakistan, and to change the unreasonable structure of bilateral trade, thus realizing the sustainable development of bilateral trade.

First of all, Chinese enterprises should accelerate the internationalization process. Since the twenty-first century, along with increasing tendency of economic globalization and regional economic integration, internationalization has become an inevitable choice for enterprise development. Entrepreneurial internationalization is involved in six aspects: management internationalization, production

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<sup>43</sup>“The Two Countries' Central Banks Has Signed Bilateral Currency Swap Agreement”, [http://www.ThePBC.Gov.Cn/publish/goutongjiaoliu\\_/524/2011/524/2011.html](http://www.ThePBC.Gov.Cn/publish/goutongjiaoliu_/524/2011/524/2011.html)



internationalization, marketing internationalization and finance internationalization, service internationalization and Human resource internationalization. According to a survey of Chinese companies, more than sixty percent enterprises think that “the lack of qualified international talents” is the biggest difficulty in the internationalization of enterprises, and “production factor advantage of low cost” is still the main advantage relied on by enterprises to enter into overseas markets.<sup>44</sup> While Pakistan’s advantage in two aspects of the internationalized human resources and production factor of low cost will promote Chinese enterprises’ internationalization process.

Secondly, industrial transformation and upgrading in China can be achieved by international industry transfer to Pakistan. At present, Pakistan remains to be main source of and products consumer market for China’s raw materials and primary products. The distorted structure of bilateral trade is the important cause of bilateral trade imbalance. Therefore, to fundamentally change the situation, Chinese enterprises with competitive advantage should be encouraged to invest in factories of Pakistan through the investment cooperation between China and Pakistan, making Pakistan become one part of the international industrial chain in China.

Pakistan possesses many advantages in terms of undertaking international industrial transfer. Firstly, Pakistan is an important country in Islam, having close political and social relations with gulf countries which have huge market potential. At present, there are countless Pakistani labors working in the Gulf States, products manufactured in Pakistan easier into the Gulf States market. Secondly, Pakistan has prominent strategic geographical location connecting China, South Asia, central Asia and the Middle East. Advantages of bilateral political relations between the two countries, of geopolitical adjacency and of complementary economy have been proved to be important link and the bridge for China’s “opening to the west” policy. Thirdly, Pakistan can provide vividly internationalized human resources for Chinese enterprises. According to the statistics bureau of Pakistan, Pakistan’s population is 0.18172 billion by January 1st, 2013, and age structures are young. The population aging from 15 to 64 years old as account for 55.95 % of the total population, and this is an abundant labor resources; the population proportion accounts for 40.85 % from 0 to fourteen with obvious demographic dividend advantage.<sup>45</sup> At the same time, Pakistan’s official language is English, which means that Pakistan can provide a large number of international talents who proficiently grasp English contributing to the internationalization of Chinese enterprises. Fourthly, at present, there are a lot of Pakistani immigrants living in the Gulf States, Europe and the United States. Overseas relations of Pakistanis helps to further expand the international market

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<sup>44</sup>Survey system Chinese entrepreneurs: “*China Entrepreneurial Strategy: Current Situation, Problems and Suggestions – Survey Report on Growth and Development of Chinese Entrepreneurial Business Operators in 2010*”, issued on April 25th, 2010, [http://JJCKB.Xinhuanet.Com/gnyw/2010-04/26/content\\_218675.htm](http://JJCKB.Xinhuanet.Com/gnyw/2010-04/26/content_218675.htm)

<sup>45</sup>Pakistan Bureau of Statistics, HTTP: Labor Force Statistics, <http://www.PBS.Gov.Pk/content/Labour-force-statistics>

of Chinese enterprises investing in Pakistan. In short, these advantages in Pakistan contribute to Chinese enterprises' internationalization, and China's industrial transformation and upgrading can be promoted through the international industrial transfer to Pakistan to formulate a new pattern of mutually benefit and win-win economic and trade cooperation between China and Pakistan.

In the process of international industry transfer, while improving internationalization management level of Chinese enterprises, they should take measures to boost the local business in Pakistan, hiring a large number of local labors, making full use of human resources in Pakistan. Compared with foreigners, the advantage of local staff lies in their familiarity with the local laws and regulations, social culture and customs with certain local social relations for the enterprise to communicate more conveniently with the outside world. Localization management shall be implemented, which is beneficial to solve misunderstanding and contradictions caused by cultural differences between employees, more beneficial to arouse the working enthusiasm and creativity of employees. And more importantly, localization will help to expand local employment in Pakistan. According to the data from bureau of statistics, Pakistan's unemployment rate has risen to 6.2 % in fiscal year from 2012 to 2013, in which the urban unemployment rate is 8.8 %, with rural of 5.1 %. High unemployment is one of severe challenges faced by Pakistan's economy and society. Chinese enterprises' investment in Pakistan and its implementation of local business will create more jobs opportunities in Pakistan, so as to promote the economic development, and to make contribution for the social stability locally.

In October 2013, the Peripheral Diplomacy Work Conference held in China for the first time, on the basis of inheriting the good-neighborly and friendly policy, chairman of Xi Jinping further putting forward the important idea of intimacy, sincerity, reciprocity, tolerance. "To carry out cooperation with neighboring countries adhere to the principle of reciprocity and mutual benefit, and to weave closer network of the common interests, enable to promote the interests fusion of both sides to a higher level and make the surrounding countries benefit from the development of our country, which also makes it possible for our country to obtain assistance from common development of neighboring countries."<sup>46</sup> China and Pakistan should attach great importance to the problem of bilateral trade imbalance, encouraging more Chinese enterprises with advantages especially in the manufacturing industry to increase investment in Pakistan through the construction of free trade zone and economic corridor construction between China and Pakistan, promoting China's industrial transformation and upgrading through the international industrial transfer to Pakistan, expanding local employment and revitalizing Pakistan's economy, to achieve mutually beneficial and win-win pattern of the two countries.

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<sup>46</sup>"Xi Jinping Has Delivered an Important Speech in Symposium on Peripheral Diplomatic Work", [http://newsXinhuanet.Com/MRDX/2013-10/26/c\\_2013.htm](http://newsXinhuanet.Com/MRDX/2013-10/26/c_2013.htm)

## 5.5 Conclusion

China and Pakistan are all-weather strategic partners. Since the establishment of diplomatic relations in 1951, the two countries has always been honest with each other, political equality and mutual trust, economic win-win cooperation, being mutual understanding and support in issues concerned each other's core interests. China has always put of Sino-Pakistan relations development on China's diplomacy priority. In May 2013, prime minister Li Keqiang has stressed during the visit that: "No matter how international and regional situation changes, China will unwaveringly consolidate and develop relations between Pakistan and China, and will as always firmly support Pakistan to maintain its sovereignty and territorial integrity to realize national stability and development." This visit is of great significance to further enhance the all-weather strategic partnership between China and Pakistan in the new period.

In the face of the opportunities and challenges in the development of Sino-Pakistan trade and economic cooperation, the two sides need to work together, by attaching great importance to the development of bilateral economic and trade cooperation from a strategic height, to transform a good political will into results of pragmatic cooperation in all areas, and by giving priority to cooperation in energy and infrastructure, and conducting good planning and construction of Sino-Pakistan economic corridor, to further enhance the level of economic and trade cooperation, thus ensuring the regional stability and prosperity by accomplishment of common development.

# Chapter 6

## India and TPP: Opportunities and Challenges

Laihui Xie and Tianguo Li

**Abstract** Actively promoted by the United States, “Trans-Pacific Partnership Agreement” (TPP) is likely to be an economic and trade integration agreement with the highest standards and the most extensive scope in the Asia-Pacific region. However, few people have always associated TPP with India despite the strong desire of India to enhance the economic ties with the countries in the Asia-Pacific region. In August 2013, the Vice-President of the United States Joseph Robinette Biden extended an invitation to Indian President Manmohan Singh to join the TPP when he visited India. Afterwards, India seems to be clearly interested in the TPP. But what does the role of India probably mean to the TPP and even the process of developing integration of this region? And what opportunities and challenges will India face when in TPP? With the qualitative and quantitative analysis of the politics and economy, this paper holds that the invitation made by the United States to India doesn’t mean India is important for the TPP, but more coming from political concerns other than economic benefits; besides, the TPP itself may bring India more challenges than opportunities in economy and India is likely to reap more actual benefits when in the RCEP, but the TPP offers India more strategic choices, so it is a possible choice for India.

**Keywords** Trans-Pacific Partnership (TPP) • India • The United States “Pivot to Asia-Pacific” strategy • Indo-Pacific • Regional Comprehensive Economic Partnership (RCEP)

### 6.1 Introduction

Since the United States joined the negotiation of the Trans-Pacific Strategic Economic Partnership Agreement (P4) initiated by New Zealand, Singapore, Chile and Brunei, the “Trans-Pacific Partnership Agreement” (TPP), as a new high-level

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economic and trade rule in the future Asia-Pacific region, has attracted extensive attention across the world. Thereafter, with Canada and Australia and other big powers joining the negotiation, especially Japan officially joining the negotiation in July 2013, the TPP has been an important regional cooperation mechanism with its members accounting for 40 % of the global GDP and about 30 % of the world trade. At present, promoted by the United States, the TPP negotiation is continuously making progress, and if the target is successfully achieved, it will have an important effect on both regional economic integration and the economic and political strategic structure in the Asia-Pacific region. Major media in India also published and reported that TPP would be one of “three deals that can change the world”.<sup>1</sup>

From another perspective, TPP is also widely considered as one of important strategic dimensions of the United States in returning to the Asia-Pacific, an important means to lead working out regulations and balance Chinese influence in the economy. As the biggest power in the South Asia region, India is continuously raising its regional influence in the entire Asia-Pacific region, and is considered by the United States as an important base of the strategy to balance China’s influence in this region (Panda 2012). In addition, India is also pursuing the “Look East” strategy of regional integration, trying to strengthen the economic and trade relations with the countries in the Asia-Pacific region. However, few people have associated TPP with India. Moreover, India has been keen to become a member of APEC but this goal has not been achieved, although there are many people think that the United States should take effective measures to help India to join the APEC.<sup>2</sup>

In August 2013, the United States Vice-President Joseph Robinette Biden extended an invitation to Indian President Manmohan Singh to join the TPP during his visit to India.<sup>3</sup> India seems to be clearly interested in the TPP, and Singh once expressed that India is now studying the policy implication of joining the TPP after his visit to Japan in May. Many comments suggested that India should join the TPP, although India feels uncomfortable at some rules of the TPP, such as the contents with respect to the environmental and labor laws, intellectual property rights, which have negative impacts on India’s trade in the current development stage. But there is a real possibility for India to choose to join the TPP. But what does the role of India probably mean to the TPP and even the process of developing integration of this region? And what opportunities and challenges will India face when in TPP?

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<sup>1</sup>V.S. Seshadri, Three deals that can change the world, <http://www.thehindu.com/opinion/lead/three-deals-that-can-change-the-world/article5207438.ece>

<sup>2</sup>Walter Lohman and Derek Scissors, U.S. Should Back India’s Membership in APEC, Issue Brief No. 3853, The Heritage Foundation, February 15, 2013, <http://www.heritage.org/research/reports/2013/02/us-should-back-india-s-membership-in-apec>

<sup>3</sup>Ashoke Nag, U.S. keen on India’s inclusion in the Trans Pacific Partnership, Aug 20, 2013, [http://articles.economicstimes.indiatimes.com/2013-08-20/news/41429362\\_1\\_indian-ocean-myanmar-asean](http://articles.economicstimes.indiatimes.com/2013-08-20/news/41429362_1_indian-ocean-myanmar-asean)

## 6.2 Analysis on India's Regional Integration Strategy

The TPP led by the United States offers an opportunity to develop the regional economic integration for countries in the Asia-Pacific region, but it also complicates their strategic choices on FTA. Since the 1990s, India has always wanted to be connected with the economically fast-growing East Asia through the so-called “Look East” strategy, to establish its status as a regional power in Asia. However, India has made limited achievements in regional integration so far at a slow rate. Currently, India has signed the CEPA with Singapore, Korea and Japan, FTA with ASEAN and Thailand, and has completed negotiations with Malaysia. It means that in the Asia-Pacific region, in addition to the centers of China, Japan and ASEAN, there emerges a trade structure layout centering on India, though India's influence is still weaker (Yang Xiaoping and Wu Zhaoli 2013). Therefore, if we want to understand the opportunities and challenges facing India on TPP, we first need to review and analyze the contents and features of India's regional integration strategy.

### 6.2.1 *Approaches and Contents of India's Regional Integration Strategy*

In the early of 1990s, India was once wandering in the international order at the end of the cold war with foreign policies characterized by variability and instability. But from the end of 1990s, India took an all-around and pragmatic diplomatic policy and started the “Look East” strategy in order to strengthen the economic ties with fast-developing East Asia. The core of India “Look East” strategy is to put itself on the fast track of the East Asia for economic growth, especially to be integrated into the economy-energy supply network of the Southeast Asia. With the drive of India “Look East” strategy, the economic cooperation between India and countries in Asia, and even the countries in pan-Asia-Pacific region such as Australia and New Zealand becomes more active, and India's regional integration strategy was developed under this background.

Under the background of regional economic integration in the world and between Asian countries in particular, India also starts regional economic cooperation with neighboring countries. On the one hand, due to the weak drive from multilateral trade liberalization of WTO, the negotiation enters long-term coordination and discussion and it is hard to reach agreements in a short time. As one of WTO founders, India wanted to take active part in the multilateral trade agreements but failed to achieve the goal due to different interest relationship among the members. Since Doha Round of World Trade Talks came to a deadlock, WTO has been suffering the risk of marginalization caused by bilateral and regional trade agreements. On the other hand, with the spread of regionalism, countries outside of the region

tend to suffer a “domino effect” of trade diversion. India wants to develop the export market blocked in the international market with the help of regional economic integration progress. The sanitary and phytosanitary measures, technical trade barriers, procedural barriers, provisional measures and others implemented in EU and the United States have huge impacts on India. India has strengthened the economic relations with neighboring countries, first to start trade liberalization cooperation with neighboring countries at the similar stage of economic development, such as SAFTA, Sri Lanka, BIMSTEC, and next to sign regional cooperation agreements with countries at a more leading stage of economic development, such as Thailand, Singapore, Korea and EU, etc.

After 2000, the policies made by the Indian government mainly focused on improving the technological level, developing the backward manufacturing industry and expanding export. India proposed that the annual growth rate of manufacturing should be raised to 12 % above to ensure the annual economic growth at 8 % above. In order to promote the competitiveness of the manufacturing industry, the Competition Act issued in 2002 in India puts a ban on hindering the production, supply, distribution, storage of individuals and enterprises as well as transfer and merger of goods and services, and it also disallows enterprises to abuse their advantages in commodity and market fields.

The core of national manufacturing fostering strategy issued in 2005 and the five-year plan report for India’s economic development issued in 2007 is also on developing the manufacturing competitiveness. Driven by these policies, the international competitiveness in mobile communication, civil aviation, automobiles, household appliances and other industries in India has been improved significantly. These policies will promote the domestic competition and improve the consumers’ satisfaction, thereby enhancing India’s international competitiveness at last.

### ***6.2.2 Features of India’s Regional Economic Cooperation***

As a great power in the South Asia and a large developing country, India has some important features in its regional economic cooperation. And these features must be taken into account when we analyze its regional integration strategy.

Firstly, India has developed its export strategy guided by service and technology sectors. India’s comparative advantage in foreign trade lies in export of finance, software and other service sectors, while manufacturing exports are concentrated in the field of resource-based raw materials. This situation is determined by its dual structure of the labor force (Xin Lu 2011). India has numerous low-skilled laborers while training a large number of top talents in finance and IT field. With this endowment, India exports high-end knowledge intensive services with a coexistence of low-end manufacturing resource-based exports. This feature of India caters to the needs of vertical intra-industry trade in the trade and investment

of the East Asian countries. In 2005, the merchandise trade of India only accounted for 1 % of the market, ranked at 29; but in service exports, the market share reached up to 23 %, ranked at 11 globally. Although India's merchandise exports tend to be diversified in variety, the engineering sector still accounts for the largest proportion, about 23 % of total export. In the process of free trade agreement negotiations, India has incorporated liberalization of the service sector as an important negotiation topic, to promote export of financial, education, IT, telecommunication and other services to its free trade partners, so as to benefit from the service trade.

Secondly, India is attempting to modify the existing trade policy to encourage export of high value-added products and promote trade in the cooperative region. India is changing the practice of exporting raw resources and guiding enterprises to export relatively high value-added products. For example, it restricts the direct export of iron ore and rough gem materials, etc. and encouraging enterprises to export more processed steel products and processed gem products. In the field of software, it also encourages the export of the software and programs that can create more brand values rather than simple acceptance of outsourcing. The Indian government expects to open up oversea markets a step further through FTA, to increase the export scale to \$450 billion by 2014. India may have less expectation in achieving a surplus in goods trade than obtaining a surplus in the service.

Thirdly, India encourages attracting foreign capital investment. In addition to the retail sector, foreign capital investment and production are allowed in most sectors in India. Especially for the manufacturing sector, no restriction is laid on the investment proportion to foreign investors. Therefore, since 2000, foreign investment in the manufacturing sector has increased greatly, especially in the automotive, electrical and electronic, petrochemical and other sectors at a significant growth rate. Moreover, special economic zones (SEZ) policy is adopted to encourage private investment and foreign capital. In 2009, the growth rate SEZs' export has reached 120 %. The export share of SEZs has increased from around 5 % in 2002 to 26 % in 2009. IT, engineering, medicine, and chemical sectors take a major proportion of SEZs' export. As far as the whole nation is concerned, foreign direct investment inflows grow at an average rate of 18 % since 2000, and amounts \$36.88 billion in the fiscal year 2012–2013. In order to attract foreign capital, India further abolishes or raises the investment upper limit of foreign investment in major industries. For instance, the multi-brand retail and defense manufacturing limits are raised to 74 % and 49 % respectively; in the field of insurance and state-owned banks, the limit is raised from about 20 to 49 %; while in the communications field, single brand retail and tea planting etc., foreign investment limit has been directly abolished (see Table 6.1).

Fourthly, India carries on pragmatic and gradual free trade negotiations. Since 2000, India has come to be aware that too extensive regional cooperation lacks efficiency and will become a burden. Thus, India marks Asia as an important area for free trade negotiations, meanwhile it promotes trade liberalization process together with other countries. Being the first part of "Look East policy", India has



**Table 6.1** India's newly revised foreign direct investment limit (%)

Sector	Original ceiling	Revised rule	Sector	Original ceiling	Revised rule
Oil, gas and smelting	49	Approval no longer needed	Credit information	49	74
Single brand retail	49	100	Communication	49	100
Multi brand retail	51	74	Tea planting	49	100
Insurance	26	49	Defense manufacturing	26	49

Source: Biswajit Chatterjee and Daniel LI. M. Sahrma, Foreign direct investment norms in India further relaxed, DLA Piper, 18 July 2013; IBEF homepage. [http://www.ibef.org/artdispview.aspx?art\\_id=34655&cat\\_id=409](http://www.ibef.org/artdispview.aspx?art_id=34655&cat_id=409)

**Table 6.2** An overview of agreements signed between India and major countries and regions

	Preferential trade agreement and free trade agreement (PTA and FTA)	Other forms of regional cooperation
Agreements signed	Bangladesh (1980), Myanmar (1995), Sri Lanka (2000, cargo field in force), Nepal (2002), Afghanistan (2003), Thailand (2004), Chile (2007), Singapore (2005), SAFTA (South Asian Free Trade Area, 2006), Bhutan (2006), MERCOSUR (Southern common market, 2009), ASEAN (2010, commodity field in force), South Korea (2010), Malaysia (2011) and Japan (2011)	Bangkok Agreement (1975), SAARC (South Asian region Domain Cooperation, 1985), IORARC (The Indian Ocean Rim-Association for Regional Cooperation, 1997), BOBCOM (Bay of Bengal Community, 1999), IBSA (India Brazil South Africa Dialogue Forum, 2004)
Agreements under negotiation or in study	Iran, SACU (South Africa Customs Union), the EU, EFTA (European Free Trade Association), GCC (Gulf Cooperation Council), Mauritius, BIMSTEC (The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation), Sri Lanka (original FTA needs to be deepened), United States, China, New Zealand, Australia, Canada, Chile, Indonesia, Uruguay, Egypt, IBSA, New Zealand, Russia, Switzerland and Pakistan	

Source: Ministry of Commerce and Industry, India

successfully signed trade agreements with more than ten Asian countries and regional organizations (see Table 6.2). Consequently, after 2000, the trade has increased significantly between India and countries that have signed free trade agreements. In 2009, India published a 5-year foreign trade policy plan to strengthen the incentives for development of new products and new markets and provide tax free policy for engineering products. In May 2011, the aim is set to improve export proportions of machinery, pharmaceuticals, chemicals, electrical and electronic products by means of export strategy plan, strengthening product

strategy, market strategy and technology and R&D. For the partners with which comprehensive corporation agreements cannot be reached immediately, India firstly reaches liberalization of some products through “framework agreements” or “preferential trade agreements” and gradually steps to the ultimate aim of free trade agreements or comprehensive cooperation agreements. Both tariff liberalization between India and Thailand, and the preferential trade agreement with Chile present these features.

Overall, like other powers, Indian foreign trade policy is also affected by international political and economic structure, as well as institutions and interest groups in the nation. It is noteworthy that India is still lagged behind in terms of regional integration compared with other powers in the Asia Pacific region. Therefore, the implementation of its open foreign policy is relatively lagged. Because India has just begun to actively promote liberalization of economic reform since the 1990s, the reform is fully not carried through and the licensing system is not completely abolished, foreign and domestic investors are still hampered by the omnipresent bureaucracy and are confronted by serious problems due to corruption and inefficiency. But on the other hand, India is faced with the urge of speeding up the opening up policy. Because India is relatively more in need of fixed rules of international integration to be able to carry through its reform, preventing hinder from conservative interest groups.

### **6.3 Potential Role of India in the TPP**

There are two questions that come across our minds while thinking about the invitation made by the U.S. Vice President Joe Biden to India to join the TPP: First, does it imply that India will play an important role in the TPP? Secondly, what does it mean for the U.S. “pivot to Asia-Pacific” strategy if India is recruited?

We don’t think there is much benefit for TPP members with joining of India, while more likely having marginal effect, “only enhance the TPP’s transformative potential”. But taking a view from the strategic objectives of the U.S. to promote the TPP, the TPP containing India is beneficial for strengthening the relationship between the U.S. and India, thereby favoring the U.S. in achieving the goal of the “pivot to Asia-Pacific” strategy.

The purpose of the TPP establishment by the U.S. can be understood from two layers of meaning. First, in terms of economic interests, the U.S. expects to strengthen economic ties with the rapid growing East Asian region and increase its trade and investment interests, rather than being excluded from the East Asia integration process (Gordon 2012). In 2011, the then Secretary of State Hilary Clinton said in a speech: “One of the most important tasks of American statecraft over the next decade will therefore be to lock in a substantially increased investment –

diplomatic, economic, strategic, and otherwise – in the Asia-Pacific region” (Hilary Clinton 2011). Second, the U.S. adopts the pivot to Asia-Pacific as its political strategy. The establishment of open trade agreements has never been solely for the economic purpose. In addition to increasing the economic interest of the U.S., the U.S. wishes to establish Asia-Pacific free market leading rules through TPP in order to limit competition coming from the Chinese development model (Meltzer 2012). The American theoretical basis of new global economic governance is against the “distortion of competition” in “State capitalism”, in practice it is reflected in TPP, the so called high level regional cooperation plan. This constitutes the basic plan and roadmap for Obama’s global economic governance in his next term (Changhong 2013). In this sense, TPP is the key carrier of the American strategy described above (Meltzer 2012).

From the perspective of international trade, India’s participation in the TPP seems to be insignificant. This can be concluded from the relative trade share of India compared with other TPP partner countries of the U.S. India accounts for a small share in the U.S. foreign trade. In 2010, exports from the U.S. to India amounted to \$19.2227 billion, accounting for only 1.17 % of its total export. In 2010, imports from India to the U.S. amounted to \$29.531 billion, accounting for merely 1.56 % of its total import that year. In 2012, exports to India and imports from India amounted to \$21.6276 billion and \$40.518 billion respectively. In the same year, exports and imports between the U.S. and other 11 TPP members amounted to \$289.004 billion and \$843.579 billion respectively (Williams 2013). Therefore, compared with other 11 TPP members, India’s proportion in the U.S. export and import is smaller, only 3.14 % and 4.8 % respectively.

The reason that the U.S. courts India and invites India to join the TPP is not due to the economic interests brought by India to the TPP, but because the U.S. expects to capitalize on India as strategic supporter in its pivot to Asia-Pacific strategy. The U.S. and India have a lot of common points on Asia-Pacific affairs. For instance, they both want to have a stable and secure Asia and balance the growing influence of China in Southeast Asia to benefit from the East Asian development. The U.S. hopes to give India the opportunity of opening up the market, establishing friendly U.S.-India relations and helping India becoming a great power in the region. Earlier, the U.S., Australia and India all states that the “Indo Pacific” region (where from the Indian Ocean to the Pacific Ocean) is the world’s new strategic center. Although India is in support of the concept of “Indo Pacific”, it only joined the RCEP, rather than the TTP. In addition, the BRIC cooperation is in conflict with the U.S. regional interests and framework design, the U.S. is not willing to see India coming together with China and Russia (Panda 2012). Therefore, from the U.S. point of view, the political significance of India joining the TPP is much larger than the economic significance.

## 6.4 The Potential Impact of TPP on India: Challenges and Opportunities

We have analyzed the role of India from the TPP and the U.S. perspective in the previous section. In this section, we will examine the existing opportunities and challenges of TPP from India's perspective.

First of all, it will have certain influence on India whether it joins TPP, which mainly embodies the 'trade diversion' effect generated from TPP. Although the specific degree of trade loss depends on the results of the TPP negotiations, but to be sure, India's loss is not too large, because India has signed FTA with some of the current members of TPP, including Japan, Malaysia, Singapore and ASEAN as a whole. Secondly, India is also working for FTA negotiations with Australia, Canada and New Zealand. Therefore, India would negotiate with the relevant parties in the process in order to reduce adverse impacts from TPP. The biggest loss in the export market of India may come from the United States. Although China has taken the place of the United States and become the largest trading partner of India in 2011, the United States is still India's largest export market. Vietnam and Malaysia, members of the TPP, will compete with India for American market in textile and clothing and other industries on which the United States imposes higher tariff rates. Textile is one of India's biggest industries, so it may cause a more obvious affect on the employment of India. In addition, India's superior industrial sectors in the service industry, such as IT and telecommunications sectors may be in a weak position as the result of the TPP.

In terms of investment, India will be also under some adverse effects. The Multi-National Corporations will make more investment in TPP member economies rather than in India, because they can provide a better supply chain infrastructure and more conducive environment to trade and invest. India's competitors like Vietnam and Malaysia will again become beneficiary countries. Considering India's backward infrastructure construction and lack of competitiveness and the investment environment in Malaysia will be improved after joining TPP, India enterprises may thus increase investment in these countries. But considering these TPP members will improve environment in terms of the constraint in state-owned enterprises, deregulation and facilitation to trade and investment, India will also benefit from TPP to some extent.

Some industries in India may be of benefit if Indian joins the TPP. First of all, the competitive service industries will get more overseas market share. India's export of services is in a leading position in the world, especially in software development, capital, financial services and tourism. India has become the second biggest software superpower, only after the United States and the largest outsourcing service country of the world (Mao Xiaoxiao 2013). Indian outsourcing industry mainly services Europe and the United States market. The entry of TPP can be more convenient for service export. Secondly, India may achieve earnings

in terms of energy security. At present, energy products' shares are the highest in India import commodity structure, petroleum and coal products together accounted for about 35 %. India has always been in the hope of increasing the import of coal and natural gas from Indonesia, Vietnam and Myanmar, thereby reducing energy import dependence on Middle East. The accession to the TPP is expected to obtain imports of cheap oil shale gas from America and Canada, as well as increased imports of coal and other resources from Australia.

However, what India faces more is still the challenges for it to join the TPP. As a trade agreement with high standards, TPP is very strict in government procurement, labor standards, environmental protection, supply chain management, supervision and coordination, investor state dispute settlement mechanism and other conditions. There have been many concerns in FTA talks ever since for India for there are many difficulties in promoting solving the issues such as the backward manufacturing tariff protection, the reform of government management, the opening of investment field to the outside world, etc. Moreover, TPP also involves such non-trade issues as environment and labor laws as well as protection of intellectual property rights. To join TPP not only means that India must take reform measures greatly, but also seriously limits the domestic policy space. For instance, TPP requirements on intellectual property rights may lead to greater adverse effects on pharmaceutical industry and health department for India. India is a big producer and exporter for generic pharmaceuticals. Accounted for 8 % of global pharmaceutical sales, ranking fourth in the world, India is the world's fifth largest producer of bulk pharmaceuticals. It is known as the "pharmaceutical paradise" for the world's poor, producing pharmaceuticals valued of \$10 billions annually that is not protected by trademarks, especially pharmaceuticals for cancers and AIDS treatment.<sup>4</sup> In India patent law, the third chapter (fourth term) does not give existing pharmaceuticals two patent rights, unless efficacy is much higher than the original pharmaceutical. Transnational pharmaceutical company, Novartis, had sought to challenge the law, and appealed to the India Supreme Court. The lawsuit lasted for 7 year and recently ended up with defeat. Once accepted the existing provisions of TPP, the country will be deprived of the ability to take similar guarantees.<sup>5</sup> The Indian scholars pointed out that the strategic target of American trade representatives and the pharmaceutical giants is to prevent other countries from adopting Indian public health care model, and to isolate India in the Asia-Pacific region. However, these are preliminary understanding. With the role and scope of TPP more and more clear, India may take more striking position from its point of view.<sup>6</sup>

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<sup>4</sup>Thomas van der List, Is the Trans-Pacific Partnership Jeopardizing Developing Nations? August 2013, <http://www.borgenmagazine.com/is-trans-pacific-partnership-jeopardizing-developing-nations/>

<sup>5</sup>*Doctors Without Borders Urge Countries to Correct TPP Defects and Solve the Access to Medicines*, May 14, 2013, Global Network.

<sup>6</sup>P. Dasgupta, India and East Asia: Towards a Regional Economic Integration.

## 6.5 India's Trade-Off Between TPP and RCEP

India has become a RCEP member, but the possibility for it to join TPP cannot be ruled out. So it is necessary for us to make a comparison on the significance of these two trade agreements for India. We can analyze the economic and trade interests of India involved in TPP and RCEP through the calculation and comparison on trade complementarity between India and the ASEAN countries, China and the United States as well as other TPP partner countries.

### 6.5.1 *Scope of TPP and RCEP Members*

As for members under the agreements, TPP covers the U.S., Canada, New Zealand, Chile, Peru, Vietnam, Singapore, Mexico, Malaysia, Brunei, Australia and Japan, while RCEP covers China, Japan, Korea, Australia, New Zealand, India and ten ASEAN countries. Countries involved in both these two agreements are Vietnam, Singapore, New Zealand, Malaysia, Brunei, Australia and Japan. Namely, except the U.S., Chile, Peru and some other countries, RCEP covers most of the TPP members. Besides, India has reached free trade agreements with Korea, Japan, Malaysia, Singapore and ASEAN and is promoting the signature of free trade agreements with Canada, New Zealand and Australia. Because China, member of RCEP, has not joined TPP, the important difference between TPP and RCEP is that the two regional agreements involve the United States factors and China factors respectively at present. The former one does not involve China, but the latter regards China, the world's second largest economy, as an important role. Once RCEP completed, it will cover the area with half the total population in the world and its GDP will account for 1/3 of the world gross GDP. This is of great significance for India to plan its bilateral, multilateral, regional and sub-regional open up and cooperation, so as to improve the ability to resist the international economic risks.

According to the data of the Indian Trade Ministry, we can find that, the current TPP members constitute 23.95 % of the export market of India, 16.79 % of the import source, 19.52 % of the total trade. In contrast, the RCEP members account for a little smaller share of 22.26 %, a larger share in the imports up to 26.02 %, and 24.59 % of the total trade. From these data, to be a TPP member is more helpful for India to export, but from the trade positions in whole especially the import point of view, RCEP means more to India.

At the same time, we have summarized the situations of India's major trading partners that have not yet become the members of TPP in the Asia Pacific region. These members account for 14.78 % of India's export trade, up to 20.82 % of the import share and 18.48 % of the total trade with substantial trade deficit with China, Korea and Indonesia. By contrast, India has a trade surplus with TPP members in

general (except Japan, Malaysia and some ASEAN countries). There are ever more mutual trade barriers between members of RCEP than that of TPP when we consider that the RCEP are mainly composed of developing countries, so India will get more opportunities to improve the balance of trade in RCEP (see Table 6.3).

In the context of TPP and RCEP in promoting the Asia-Pacific regional integration, the choice of India can be largely understood as how to choose between the United States and China. From the perspective of economic geography, as India's neighboring country, China is obviously of far more significance in economic cooperation than the United States across the distance of an ocean. As for India's economic development especially the development of border area China means much for India. For the border trade, the transportation distance can be shortened through the improvement of infrastructure in the border area on the one hand, thus leading consumers and producers to gather in the area, to strengthen the free flow of commodities and elements and efficiency of agglomeration free flow of goods and factors and to form clusters benefit of the market integration; on the other hand, under the effect of increasing returns to scale, the competitive advantage and the modes of labor division and specialization in the border area between the countries will be self-reinforced, forming a circular causality accumulating effect so as to attract more consumers and producers to concentrate in the border area (Li Ling and Chang Yaqing 2012). Yunnan is the most convenient channel for India to communicate with China and Southeast Asian countries over land.<sup>7</sup> India is investing a lot of money in the "border area development plans" with the aim to develop the China-India border area, and the amount as well as the number of projects is generally on an increasing trend.

The money invested is increased from 50 million rupees during 1998–1999 up 592.8 billion rupees during 2008–2009, accounting for 74.38 % of the total investment in all India's border areas; the number of the projects invested in China-India border area is increased from 150 during 1998–1999 to 666 during 2008–2009, accounting for 54.65 % of the total at borders.<sup>8</sup>

From the China-India bilateral trade, China as India's first largest import source with imports amounted to \$54.3 billion in 2012, \$15.9 billion higher than of the United Arab Emirates, the second largest import source of India. The total volume of foreign trade between India and China reached \$6,782.7 billion. The empirical analysis on comparison of India's trade and investment relationship with China, Korea, Japan, Singapore and other Asian with the western countries led by the United States shows that the correlation coefficient with Asian countries is far higher than that of the western countries (Choongjae Cho 2013). Five "10+1" free trade agreements and their implementation have laid favorable conditions for RCEP, which is one of the reasons why it is easier to build RCEP than TPP. India's joining RECP appears to be more effortless.

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<sup>7</sup> *Good Start and Bright Future – Proceedings on Cooperation and Development Between China, India, Myanmar and Bangladesh*, Yunnan Science and Technology Press, 2000.

<sup>8</sup> Border Area Development Programme in Arunachal Pradesh, [http://www.arunachalplan.gov.in/html/docs/badp/Status\\_of\\_BADP09.pdf](http://www.arunachalplan.gov.in/html/docs/badp/Status_of_BADP09.pdf)

**Table 6.3** Positions of 12 TPP countries and RCEP member countries in India's trade

	Export market	Amount of exports (\$ 100 million)	Proportion (%)	Amount of imports (\$ 100 million)	Proportion (%)	Total trade (\$ 100 million)	Proportion (%)
12 TPP countries	US	36,155.22	12.04	25,204.73	5.14	61,359.95	7.76
	Australia	2,348.65	0.78	13,085.70	2.67	15,434.34	1.95
	Japan	6,100.06	2.03	12,412.29	2.53	18,512.35	2.34
	Brunei	40.02	0.01	814.80	0.17	854.82	0.11
	Canada	2,036.58	0.68	2,800.22	0.57	4,836.80	0.61
	Chile	690.00	0.23	2,992.31	0.61	3,682.31	0.47
	Malaysia	4,444.07	1.48	9,951.06	2.03	14,395.13	1.82
	Mexico	1,628.24	0.54	4,037.62	0.82	5,665.86	0.72
	New Zealand	302.06	0.10	696.62	0.14	998.68	0.13
	Peru	561.32	0.21	637.93	0.11	1,199.25	0.15
	Singapore	13,619.24	4.53	7,486.38	1.53	21,105.63	2.67
	Vietnam	3,967.37	1.32	2,314.78	0.47	6,282.15	0.79
Subtotal of 12 TPP countries	71,892.83	23.95	82,434.44	16.79	154,327.27	19.52	
Subtotal of non-TPP countries or regions	Korea	4,202.25	1.40	13,105.12	2.67	17,307.37	2.19
	Indonesia	5,331.30	1.77	14,879.49	3.03	20,210.79	2.55
	Hong Kong, China	12,279.20	4.09	7907.17	1.61	20,186.37	2.55
	Thailand	3,733.17	1.24	5,352.61	1.09	9,085.78	1.15
	Taiwan, China	3,043.97	1.01	3,963.35	0.81	7,007.32	0.89
	China	13,534.88	4.51	52,248.33	10.65	65,783.21	8.32
	Russia	2,295.68	0.76	4,231.56	0.86	6,527.25	0.83
	The Philippines	1,187.19	0.40	504.00	0.10	1,691.18	0.21
	Subtotal of non-TPP countries or regions	1,187.19	14.78	504.00	20.82	1,691.18	18.48
	RCEP partner countries		22.26	127,653.23	26.02	194,540.43	24.59

Source: Website of Indian Trade Ministry. All the data refers to that of trades in goods during the period of 2012–2013



### ***6.5.2 Differences in Scope and Opening Standards***

India has signed free trade agreements with Japan, Korea, ASEAN and other countries, and each of the agreements specifies different rules. If India joins RCEP, these agreements can be integrated and optimized to build a highly qualified FTA. Although the degree of openness among RCEP member countries is higher than two free trade agreements respectively between India and other countries in some respects, most countries have experienced common researches and negotiations with India, so India is not passive to accept rules developed by other countries, with consideration of comfort and feasibility of each member country to make the process progressive and transitional. However, there are tougher conditions for joining TPP with a strong sense of protecting the United States interests. To comply with the above terms required by TPP, there are still a lot of difficulties for India to face. At the same time, the existing TPP members have not sent clear signals to India. According to official scholars in India, a statement noted in November 2011 that TPP is open to Asia-Pacific countries, but did not make it clear which areas are receivable. India does not belong to APEC members in the Asia-Pacific region, so the necessity of joining TPP for it is still quite fuzzy. For the United States dominated TPP with distinctive tough opening requirements, the standards of the United States must be met. The consensus document approved in TPP provides ten general principles for the establishment of RCEP, such as special and differential treatments. Even if the document offers special and differential treatments to some individual member countries, such countries will be the ASEAN countries.

Meanwhile, India means far less in TPP than the ASEAN countries. In addition, the potential advantage of RCEP is to open the service sector. To liberalize services is a very sensitive issue in most countries, but in India, it is the comparative advantage of it. If RCEP takes measures to promote the broader industry liberalization, the development of the industry with the great potential can produce effect faster. Because RCEP fully accepts the conditions in each member country and accepts the identities and situations of all the developing countries without involving the issues of labor and environmental standards, India can better utilize the platform of RCEP. India can improve its investment environment and competition rules to ensure the export competitiveness. In this respect, India shares similar interests and subjects with some of the RCEP members (Seshadri 2013).

### ***6.5.3 India's Concerns in Protecting the Manufacturing Industry***

While actively promoting FTA, India attaches great importance to the protection of the domestic manufacturing industry. So when it strengthens the rules of origins continuously, India is increasing types of goods in sensitivity and exceptive sectors to open product domains and ranges cautiously. In establishing FTA with Thailand

and Singapore, India is reluctant to talk about the tariff liberalization and take tariff or quota systems for sensitive goods to reduce imports or even exclude them from understood objects. India's manufacturing industry is weak in the construction of roads, ports and other infrastructure as well as factories, so the government and the enterprises of are very negative to open such industry. As the case of India-Thailand FTA, Thailand once gained surplus with India's trade, but from the second year after the implementation of the tariff liberalization, Thailand's trade surplus with India turned into a deficit, especially in 2006, the deficit was up to \$500 million and even rose to \$21.6 billion in 2011. India still faces a large amount of trade deficit of \$4 billion after signing India-Singapore FTA, so we can learn from the lessons of the experience of Thailand and Singapore that is making possible efforts to enlarge its exceptive and sensitive products, strengthen the rules of origins and strictly control the opening of the product market so as to maximize the protection of its domestic manufacturing. The reason why the free trade agreement negotiations between India and Thailand come to a deadlock is that India only accepts only 60 items among the 150 zero-tariff products additionally listed and delivered by Thailand to India. The promotion of TPP is not helpful to improve the trade deficit, while it only can pose more resistance. After reaching the tariff liberalization with Thailand, India is deeply troubled in the negative consequences caused by FTA with a huge community response. India cannot provide protections for its fragile agriculture, fruit, spices, wheat, rice, edible oil, wine, automobile parts and other industries.

However, the introduction of technology and the expansion of foreign capital investment is India's one of important premises to join in bilateral and multilateral agreements. India's FTA with developed countries (such as Japan and other countries) is of this kind. The FTA signed by India and Singapore in June In 2005 covers the finance, investment and communication of human capital and so on. While CECA between India and Singapore involves the full opening of talent flow in finance, communication, IT, design, construction, biology, aerospace and medical sectors, etc., leading Singapore's FDI massively flows to the financial field in India. In the FTAs of India with Korea and Japan, the first is to open IT, medical, accounting, engineering, legal and other fields. In the regional exchanges and cooperation with the United States, India is intended to expand investment and technology introduction. In the economic cooperation with the United States, India strives to back away from the issues of the trade liberalization, but to emphasize the human capital and investment exchange, which obviously makes it a big conflict with the intention of TPP to realize zero tariffs on all goods in the region including agriculture, manufacturing and services industry in the 10 years.

In short, for India as a developing country, RCEP is a more realistic choice obviously, helping it successfully achieve its "Look East" strategy easier. Although TPP has a larger economic scale with more ambitious, RCEP will contribute more significantly in the trade liberalization once set up if we take that there are more trade barriers between the RCEP partners at present into account. India has always hoped but failed to be an APEC member, the realization of RCEP is conducive to achieve

its aims of “Look East” strategy without requirements to compromise in intellectual property and environment. To join TPP, an agreement with high standards, there are apparently more challenges for India to face in the opening degree. An article of India’s former ambassador to Myanmar V. S. Seshadri noted that for the rules of TPP and TTIP, the India’s concern is how to avoid the mandatory commitments in TRIPs including intellectual property, labor and environmental standards, which will form serious restrictions on India’s policy choices in the current stage of development. He believed that RCEP cannot match up with TPP and TTIP in ambitions, which are even lower than that of WTO, but RCEP pays more attention to the interests of the developing countries; if RCEP can achieve a more balanced result, then it will be a path that is worthy of India’s efforts to support. Of course, he also mentioned India faces important challenges in RCEP negotiations. For example, India has not reached FTA with China, but it has a big trade deficit with China, which is a factor that should be actively considered in involvement in RCEP. India should promote RCEP to accept the commitment in its favor such as the cross-border flow of professional services.<sup>9</sup>

## 6.6 Three Attitudes of India Towards TPP at Present

Whether to join TPP or not is still a tradeoff relating to a large of interests for India, with strategic considerations involving many political and economic factors. At present, the government of India has not yet made a formal position. But summarizing from India’s domestic scholars point, the attitudes can be summed up as three possible ones as follows.

### 6.6.1 *TPP Does More Harm than Good for India*

As a developing country, India’s backward domestic reform and lower opening degree will cause relatively greater price to join TPP. Therefore, many India scholars hold negative attitudes and doubts on TPP. According to them, it will be unlikely for India to get more gains from TPP, but on the contrary, India may put it into practice at a great cost with great possible opposition at home. India tends to “put the real economic interests before vague strategic interests”.<sup>10</sup>

Dr. V. S. Seshadri, India ambassador to Myanmar, believes that the negative effects of the India could be affected by TPP, but the current accession to the TPP

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<sup>9</sup>Three deals that can change the world, <http://www.thehindu.com/opinion/lead/three-deals-that-can-change-the-world/article5207438.ece>

<sup>10</sup>Brig (Retd) Vinod Anand, Geopolitics of RCEP and TPP: Implications for India, Vivekananda International Foundation, VIF, <http://www.vifindia.org/article/2013/sepember/10/geopolitics-of-rcep-and-tpp-implications-for-india>

will be more adverse. Through such incremental FTA strategy as RCEP, India will be able to protect their interests better and get the APEC membership more easily (Seshadri 2013). Associate Professor Pinaki Dasgupta from Indian Institute of Foreign Trade holds similar views. He said: “TPP in India is not too to be accepted, for the text of intellectual property rights respected by the United States trade representative needs great adjustment to the domestic law by the contracting parties. The United States’ position can be interpreted as making efforts to isolate India loose standard patent system.” At present, the leakage of TPP negotiating text shows clearly that India’s patent system is opposed to TPP target.

### ***6.6.2 TPP Is an Economic Coup for India***

In this view, joining the TPP for India is an important strategic opportunity. The United States scholars think it of great significance for the United States-India relations to let India join the TPP, because strengthening economic and trade relations of both sides is better than any of the high-level visits.<sup>11</sup> Dr. Jagannath P. Panda of India believes that along with the increasing India’s influence in the Asia Pacific region, America will take India as the main competitors with China in local area so as to meet the need for a larger “trans Pacific Partnership Program” beneficiaries. Therefore, they think, India’s joining the TPP will be an “Economic Coup”. Even if India still take RCEP as the main ways of integration, now it is invited to join TPP and then have greater freedom, especially flexible bargaining chips in RCEP.<sup>12</sup>

### ***6.6.3 Keeping Waiting and Seeing***

According to this view, the price of joining TPP for India can be seen in the short term, but strategic significance to strengthen India-USA relations has been affirmed. India may be considered to select a proper opportunity to join in TPP after weighing the advantages and disadvantages. India ambassador Kishan S. Rana argued that, although India has been interested in becoming the member of the APEC, there has been no progress over the years. TPP is not very significant for India because of its too much intervention in domestic policy. At the World Trade Organization (WTO), India once made efforts to remove the similar new standards from a trade agreement negotiation. Therefore, it is more sensible for India to pay close attention to further

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<sup>11</sup>“India’s admission to TPP would be an economic coup”, August 2, 2013, [http://www.business-standard.com/article/news-ians/india-s-admission-to-tpp-would-be-an-economic-coup-113080200419\\_1.html](http://www.business-standard.com/article/news-ians/india-s-admission-to-tpp-would-be-an-economic-coup-113080200419_1.html)

<sup>12</sup>“India’s admission to TPP would be an economic coup”, August 2, 2013.

development of TPP currently.<sup>13</sup> He said: “because TPP is a evolving agreement, India can observe carefully what its development will be before deciding whether to join or not. India will be more likely to join in because of the economic interests with a mission rather than any invisible strategic interests”.

Dr. Jagannath P. Panda from India’s Defense Research and Analysis Research Institute suggests that, India is destined to join the RCEP. He holds an open attitude to the accession. If India did not join the TPP, it will lose a large share of the market.<sup>14</sup> Dr. Armit Singer, The National Marine fund of India, states that if Indonesia, Philippines, Laos and Thailand are to join the TPP, then the TPP will be likely to undermine the prospects of RCEP. He thinks that TPP and RCEP will become a carrier struggling for trade dominance between China and the United States in the Asia Pacific region. While the victory of TPP over the APEC means the United States strategic victory against China. Singer argues that, “Considering China is rising as a trading power, India tries to maintain its economic and strategic position in Asia and even all the globe through its Look East strategy. TPP is a perfect tool for India to strengthen its influence in the whole Asia Pacific area. The current negotiation is an ideal opportunity for India, in which some of the controversial issues can be modified according to their own preferences, and India may seek opportunities to join this club” (Amit Singh 2013).

Like other Asian countries, India also seems not ready for the developments and is lacking a clear position for the rise of China and American coping measures. At present there are four kinds of attitudes on the United States “pivot to Asia-Pacific” strategy in India: Soft Nationalists; Great power Realists; Hard Nationalists and Bandwagoners.<sup>15</sup> The final strategic choice of India may also depend on the struggle of the four viewpoints (see Table 6.4).

It may meet the interests of India to cooperate with great powers outside the region such as the United States so as to balance the rising Chinese influence. But the rigid target of “rules consistency” in TPP does not meet the goal of “creating multiple, inclusive and open security architecture in Indo-Pacific region”. India has refused for a long period of time to put unrelated items of trade into the multilateral negotiations. Some scholars have observed that: “India agrees to abide by international law and freedom of navigation and a peaceful settlement of the conflict, but more and more

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<sup>13</sup>Ambassador Kishan S. Rana, Trans Pacific Partnership (TPP), 13 December 2011, Gateway House, <http://www.gatewayhouse.in/trans-pacific-partnership-tpp-861/>. “As for India – it has been interested in APEC membership, but nothing has moved forward on that front for some years As it stands, TPP is unlikely to interest India, because of its intrusion in domestic policy India had fought at the World Trade Organization to keep out some of these same new standards intruding into trade agreements For the moment, however, it will be wise for India to pay close attention to a further evolution of TPP.”

<sup>14</sup>Jagannath P. Panda, Factoring RCEP and TPP: China, India and the Politics of Regional Integration and Coexistence, June 21, 2013, Institute of Defense Studies and Analyses (IDSA), <http://www.idsa.in/event/ChinasdialogueonASEAN>

<sup>15</sup>Deepa M. Ollapally, Yogesh Joshi, Indian Debates on America .s Rebalance to Asia, Sigur Center for Asian Studies Policy Brief, July 2013, [http://www.risingpowersinitiative.org/wp-content/uploads/PolicyBrief\\_Jul2013\\_India3.pdf](http://www.risingpowersinitiative.org/wp-content/uploads/PolicyBrief_Jul2013_India3.pdf); C. Raja Mohan, China’s rise, America’s pivot and India’s Asian ambiguity, [http://www.india-seminar.com/2013/641/641\\_c\\_raja\\_mohan.htm](http://www.india-seminar.com/2013/641/641_c_raja_mohan.htm)

**Table 6.4** Four domestic viewpoints on policy preferences in India

Schools of foreign policies	Strategic environment	Understanding on the U S “pivot to Asia-Pacific”	Foreign policy advice
Soft nationalists	Relative decline of the United States and rise of China	Strategic concerns	To maintain strategic autonomy
Great power realists	Relative decline of the United States and rise of China	Strategic opportunities	To increase strategic engagement with the United States
Hard nationalists	Relative decline of the United States and rise of China	Strategic concerns	To keep the strategy independent from the United States
Bandwagoners	Uncertain decline of the United States and rise of China	Strategic opportunities	To establish strategic alliance with the United States

Source: Indian Debates on America’s Rebalance to Asia, 2012

evidence shows, the determining factor of India’s ideal ‘Indo-Pacific’ regional architecture is the need of the domestic economic restructuring and the principle to continue to abide by Strategic Autonomy” (Chaco (Australia) 2012). So according to some scholars in India, India is likely to take a more cautious strategy, such as the non-aligned movement instead of standing in the America’s side (Kan (India) 2013). The report *Non-Alignment 20* by scholars from India Research Center in 2012 puts forward similar strategic suggestions on India in twenty-first century foreign strategy, noting: “The most basic criterion of India dealing with external relations is to ensure creating the best environment for domestic economic development.... India must be integrated into Asia, and China is the most vital.... India must handle carefully the relationship with China based on the changing regional and international environment: for regional level is mainly on the problem of Tibet and for the global level is on the worries of India’s joining the other Unions.... In view of the fact of the trade deficit with China, India should not overestimate its ability to negotiate with China. The policy on China should be to seek a balance between competition and cooperation” (Khilnani et al. 2012).

## 6.7 Conclusion

From the perspective of economic and trade interests, TPP seems to be of no great importance to India, though India’s advantages in services trade can play better. In this battle between TPP and RCEP on Asia-Pacific regional integration plan, India seems not to be a pivotal voter. However, TPP is really an opportunity for India if it wants to strengthen strategic ties with the United States. However, if one consider from the current domestic development situation of India, RCEP may be more suitable for the realization of the implementing “Look East Policy” with lower cost.

India is more likely to choose ways to protect its national interests in RCEP, rather than to join the U.S. dominated TPP just for the strategic interests of so-called “Indo-Pacific” concept. Of course, India is still interested in joining the TPP in the medium and long term, there is possibility for it to join.

From the preceding analysis, we can see that the biggest concern for India in the Asia-Pacific regional integration is China. India seems to doubt that China was not willing to see it to join and play roles in the RCEP; furthermore, India has not yet completed the FTA with China because of the current large amount of trade deficit, thus making it more difficult to promote economic cooperation with China. India wants to get on a great power status equal with China in the Asia Pacific region, especially more influences in the Southeast Asian region. In order to balance the Chinese influence, India may wish to rely on the United States to achieve the goal. Based on such situation, China should increase efforts to promote the RCEP negotiations and India’s participation so as to reduce its strategic concerns. China has shown positive attitude to strengthen cooperation, for example, in May of 2013, Prime Minister Li Keqiang has proposed to establish a China-India-Myanmar (BCIM) economic belt corridor in order to promote the interconnection among East Asia and South Asia. If such a plan can be implemented smoothly, India is likely to reduce the interest in TPP.

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**Part III**  
**Special Reports: Bilateral Relations and**  
**Development in 2013**

# Chapter 7

## India-Myanmar Bilateral Relations: Cooperate Actively and Progress Significantly

Zhaoli Wu

**Abstract** Under the background of Myanmar's political transition, economic reform and adjustment of its foreign strategy, India-Myanmar Relations is facing development opportunities. The mutual visiting of high-level officials of the two countries provides opportunities for developing bilateral cooperation in the areas of economy, trade, security and culture. The bilateral economic relationship and trade grow rapidly, the border trade grows gradually and the investment relationship is developing. In the field of security, because of the wish to establish the defense cooperation mechanism of mutually beneficial type, the military exchanges between the two countries have become more frequent, the institutional route of military exchanges and cooperation is gradually shaping. On the basis of the traditional security cooperation field, maritime security cooperation becomes the new element for security cooperation between the two countries. In order to expand its influence in Myanmar, India increased its aid to Myanmar in the hardware facilities and construction of soft power. Enhancing the communication and cooperation within the regional and subregional cooperation frame will provide another platform for the new development of the two countries' relations.

**Keywords** India-Myanmar relations • Economic and trade cooperation • Mutual connection and mutual communication • Security cooperation

Since the ending of the authoritarian regime and the establishment of the democratic government in March 2011, Myanmar's new government on the one hand actively promoted the domestic political and economic reforms, on the other hand, actively adjusted its foreign policies according to new changes in domestic, regional and international situations. Being the neighbor geopolitically, Myanmar's political and economic reform as well as the adjustment on the diplomacy and military policies provided an unprecedented opportunity for India to further expand relations with

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Myanmar. In the past 2 years, the reciprocal visits of high-level leaders of India and Myanmar tended to be more active, the President of Myanmar and Prime Minister of India paid reciprocal visits. The reciprocal visits of high-level leaders showed the political will of the two countries to be committed to the development of bilateral relations. Especially it was the first time for India's Prime Minister to visit Myanmar in 25 years, which had more political significance and highlighted the status of Myanmar in India's foreign strategic chessboard. In fact, there are three key fields for India to develop the relationship with Myanmar: The first is the economic and trade field, the second is security and the third is influence. Over these years, significant progress was made on the cooperation of economic, trade and security fields as well as India's expansion of its influence on Myanmar.

## **7.1 Rapid Economic and Trade Cooperation, Limited Mutual Investment Scale and Distinct Growth Trend**

With the further development of India and Myanmar's high-level reciprocal visits, the two countries have reached high consensus to consolidate and promote the bilateral relations and especially attached great importance to promoting economic and trade cooperation. With the introduction of a series of institutionalized measures, the economic and trade cooperation between the two countries showed the good momentum of fast growth.

Since the signing of India-Myanmar Trade Agreement (IMTA) in 1970, with the deepening and perfecting of related trade mechanism and arrangement, the trade between the two countries developed rapidly,<sup>1</sup> especially since the 1990s, the bilateral trade between the two countries entered a new phase of steady improvement (see Table 7.1). In 1980–1981, the India-Myanmar bilateral trade volume was only \$12.4 million, which increased to \$56.9 million in 2005–2006, broke the \$1 billion mark; trade volume reached \$1.15 billion in 2008–2009, achieved a high growth rate of 43.95 % and reached nearly \$1.93 billion in 2011–2012. In 2012–2013, the growth rate of India-Myanmar trade fell back to 1.60 %, with the annual trade volume reached US \$1.96 billion.<sup>2</sup>

In more than 30 years, the bilateral trade volume of the two countries has increased by nearly 160 times. If considering the re-export trade through third countries (such as Singapore, etc.), the actual India-Myanmar trade volume can be more significant. At present, India is Myanmar's fourth largest trading partner following

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<sup>1</sup>Although the bilateral trade agreement signed by India and Myanmar in 1970 laid a solid foundation for the development of bilateral trade, but in the 1980s, the two countries' trade development was not smooth and the trade volume had dropped compared to the 1970s.

<sup>2</sup>Refer to the import and export database of Commerce Department of Indian Ministry of Commerce, <http://commerce.nic.in/>

**Table 7.1** Profile of India-Myanmar bilateral trade (Unit: Million US Dollars, %)

Year	2005–2006	2006–2007	2007–2008	2008–2009	2009–2010	2010–2011	2011–2012	2012–2013	2013–2014
India's exports	110.7	140.1	186	222	208	321	545.4	544.7	274.2
Percentage of India's exports	0.1	0.1	0.1	0.0	0.1	0.1	0.18	0.18	0.18
India's imports	526	782.5	809	929	1290	1018	1381.2	1412.7	675.2
Percentage of India's imports	0.3	0.4	0.3	0.3	0.4	0.3	0.28	0.29	0.29
Total trade volume	636.6	922.6	995	1151	1498	1339	1926.5	1957.4	949.4

Source: Data of and before 2010–2011 was sorted out according to Indian Finance Ministry's annual economic survey data and data after 2011–2012 was sorted out according to the import and export data of Indian Ministry of Commerce

Note: The data of 2013–2014 was the data of April–September, 2013

China, Thailand and Singapore, becoming Myanmar's third largest export market and the fifth largest source of imports.<sup>3</sup>

For quite a long time in the past, there was informal border trade between Myanmar and its surrounding countries, and the existence of the cross-border ethnic groups with similar social culture and religious, racial and other aspects have contributed to the trade activities between Myanmar and its surrounding countries. As geopolitical neighbors, the status of border trade in the bilateral trade of the two countries is attracting more and more attention.

Since the signing of India-Myanmar Bilateral Border Trade Agreement (IMBBTA) in 1994, the borders between the two countries mainly adopted the way of border trade to develop bilateral trade, allowing the trade of only 12 commodities; In October 2008, the third JTC meetings have agreed on the turning from the way of border trade to the way of large scale trade, increased the goods allowed to be traded to 40 kinds and reached agreement to add a third border trade port; In November 2012, the Indian government decided to add 22 kinds of goods<sup>4</sup> in the border trade with Myanmar, increasing the border trade item list of the two countries

<sup>3</sup>Embassy of India, Yangon, Myanmar, Bilateral & Economic Relations, [http://www.indiaembassy-yangon.net/index.php?option=com\\_content&view=category&layout=blog&id=21&Itemid=122&lang=en](http://www.indiaembassy-yangon.net/index.php?option=com_content&view=category&layout=blog&id=21&Itemid=122&lang=en)

<sup>4</sup>The added items included farm tools, bikes, coal, clothing, cooking oil, electrics, steel products, medicines, tea leaves, drinks, motorcycles and spare parts, semi-finished stones, sewing machines, and tricycles with displacement under cc100, etc.

from 40 kinds to 62 kinds.<sup>5</sup> At present, there are two border trade ports between the two countries are in actual operation, which are Moreh-Tamu port and Zokhatar-Rhi port respectively. The third port (Avakhung-Pansat/Somrai) was in the works.<sup>6</sup> In addition, officials of Myanmar Ministry of Commerce said Japan and Myanmar had decided to set up border trade markets. As a result, the border trade market which was located in Pansaung of Sagaing province was approved in July 2013. Moreover, seven border trade markets which are planned to be opened in Sagaing and ChinState by India and Myanmar are in the works.<sup>7</sup>

Objectively speaking, however, despite that India-Myanmar bilateral trade maintained a high growth rate in recent years, because the development level of the border regions of the two countries was relatively low and the infrastructure was very backward, it seriously restricted the development of the border trade. Overall, the trade level between India's northeast states with Myanmar is very limited and the shares of the border trade has been hovering at about 1–2 % for long term in the bilateral trade. In 2012–2013, there was a sharp increase in the border trade between the two countries and the border trade volume reached nearly \$3.6 billion (see Table 7.2). At present, India and Myanmar's government has reached a tacit understanding, allowing the same ethnic people within 40 km from the borders to trade and visit relatives and friends freely, which plays a certain role in promoting the development of the border trade (Kuppuswamy 2013, p. 187). But as scholars have pointed out, the growth in the trade volume of India and Myanmar was transported by traditional sea lanes, the thriving trade seemed to have bypassed India's northeast, where mutual connectivity and communication are lacking, border trade level is low, closed borders, open ports and development of infrastructure lag behind. India's northeast region has not become part of India's trade expansion strategy (Table 7.2) (Bijoykumar Singh 2013, p. 179).

There was development in India-Myanmar bilateral investment relationship. India and Myanmar signed Bilateral Investment Promotion and Protection Agreement on June 24, 2008, which became effective on February 8, 2009.<sup>8</sup> In the third JTC meeting held in October 2008, the two countries signed Dual Taxation Avoid Agreement (DTAA). For a long time, foreign investment had been very interested in Myanmar's natural resources and industries such as oil and gas were favored by foreign investment. While the motives for Indian companies to invest in foreign

<sup>5</sup>“India-Myanmar trade: India adds 22 new items”, *REDIFF*, November 20, 2012, <http://www.rediff.com/money/report/indo-Myanmar-trade-india-adds-22-new-items/20121120.htm>

<sup>6</sup>There are currently 15 border trade ports of Myanmar which are open to neighboring countries. In December 2013, Burmese government planed to add five border trade ports neighboring with China, Thailand and India, the newly added ports are Mongla along the China-Myanmar border, Misai, Puya and Dongsu along the Myanmar-Thailand border and Htantalan along the India-Myanmar border respectively.

<sup>7</sup>“Indian Ambassador meets Kachin State officials”, *ELEVEN*, December 11, 2013, <http://eleven-Myanmar.com/national/4390-indian-ambassador-meets-kachin-state-officials>

<sup>8</sup>According to the data from India's Finance Ministry, by December 2013, India has signed bilateral investment promotion and protection agreements with 85 countries or regions, 75 of which have come into effect.

**Table 7.2** Profile of India-Myanmar bilateral trade (Unit: Million US Dollars)

Year	2005– 2006	2006– 2007	2007– 2008	2008– 2009	2009– 2010	2010– 2011	2011– 2012	2012– 2013
India's imports	11.28	11.02	10.91	5.49	7.79	8.3	8.87	25.09
India's exports	4.13	4.75	3.92	4.43	5.95	4.5	6.54	10.57
Total	15.41	15.77	14.83	9.82	13.73	12.8	15.41	35.66
Balance	7.14	6.27	6.99	1.05	1.84	3.8	2.33	14.52

Source: Department of Border Trade, Ministry of Commerce, Myanmar

countries generally can be summarized as seeking for resources, technology and research & development, foreign famous brands and products and expanding overseas markets, reducing risks due to excessive dependence on domestic market, resource and technology, pursuing efficiency maximization,<sup>9</sup> among which seeking overseas resources, especially oil and gas resources has become an important field for India to invest in Myanmar. With the Assembly of the Union of Myanmar voted and passed the New Foreign Investment Law<sup>10</sup> in November 2012, India's direct investment in Myanmar may enter a new stage of rapid growth.

According to the statistics of Myanmar's National Planning and Economic Development Department, as of November 30, 2013, the accumulated foreign direct investment approved by Myanmar government has already reached up to \$44.124 billion, the actual FDI inflow was \$34.059 billion. Among the already approved FDI, electricity, oil and gas – these two fields have attracted the largest amount of foreign investment, with \$19.284 billion and \$14.372 billion respectively. The foreign investment attracted by these two fields has accounted for more than 76 % of foreign investment in Myanmar. In the actual FDI inflow in Myanmar, China ranked the first, with 33 companies invested a total of \$14.118 billion, taking up about 41.45 % of Myanmar's actual inflow of FDI; India ranked the tenth, with 8 companies invested nearly \$279 million, accounting for about 0.82 % of the actual inflow of FDI in Myanmar.<sup>11</sup>

<sup>9</sup>Rajan (2009, pp. 6–7). [http://www.isas.nus.edu.sg/Attachments/PublisherAttachment/ISAS\\_working%20paper\\_65\\_21102009181204.pdf](http://www.isas.nus.edu.sg/Attachments/PublisherAttachment/ISAS_working%20paper_65_21102009181204.pdf)

<sup>10</sup>The new law replaced the *Foreign Investment Law of the Union of Myanmar* issued in 1988. According to the new law, Myanmar allows foreign investment to invest in electricity, oil and gas, mining, manufacturing, hotel and tourism industry, real estate, transportation, communication, architecture and other service industries. New laws stipulates: Foreign enterprises hold companies wholly in Myanmar, with the minimum investment amount determined by the Burmese Management Investment Committee (MIC); The rules restricting foreign investment's proportion shall not exceed 50 % in some restricted fields were canceled and replaced by that the proportion of investment would be determined together by both investment parties; The duty-free treatment for foreign companies are extended for another 2 years; Foreign companies can lease land in Myanmar, and the lease term is 50 years and can be extended twice with 10 years each time; Ensure to not carry on the nationalization of foreign capital enterprises.

<sup>11</sup>Refer to Myanmar's National Planning and Economic Development Department's web site, <http://www.dica.gov.mm/dicagraph1.htm>

In the bilateral investment relations, Myanmar's direct investment in India is still very limited at present. According to the statistics of India Commerce and Industrial Policy Promotion Bureau, between April 2000 and September 2000, Myanmar's direct investment (FDI) in India was \$8.96 million, ranking 75 in the countries of FDI inflows in India.<sup>12</sup>

## **7.2 Security Cooperation with Different Goals and the Maritime Security Cooperation Made Progress**

India and Myanmar are connected by roads and interlinked by seaway, thus strengthening its security cooperation with Myanmar is an important part of India's development of the relationship with Myanmar. In the past 2 years, military exchanges between the two countries were increasingly frequent, military exercises were transferring from relying on multilateral framework to bilateral development mechanism. And more importantly, both parties show the will of establishing reciprocal type defense cooperation mechanism.

Frequent reciprocal visits of military high officials is an indicator of deepening military and security cooperation of the two countries. Since the Deputy Secretary of Defense of India visited Myanmar with his delegation in May 2011, the Indian Secretary of Defense as well as the highest chief of the armed forces visited Myanmar one after another. In May 2011, the Deputy Secretary of Defense of India visited Myanmar with his delegation; In August 2011, the Chairman of the Military Staff Committee and Navy Commander of India visited Myanmar; In January 2012, Chief of Army Staff of India visited Myanmar; From November to December, 2012, the Chairman of the Military Staff Committee and Air Force Commander N.A.K. Browne visited Myanmar; In January 2013, the Indian Secretary of Defense AK Antony visited Myanmar; In October 2013, Chief of Army Staff of India Bikram Singh visited Myanmar and the two parties discussed Myanmar's military modernization and the safety of India-Myanmar border regions.

Since 2012, Myanmar's high military officials also visited India frequently. In August, 2012, the commander who was in chief of national defense forces of Myanmar Min Aung Hlaing visited India and Eastern Military Command which was located in Calcutta; In July 2013, Myanmar's navy chief – lieutenant general Duladerui – visited India, and the two sides reached an agreement on helping Myanmar to build offshore patrol boat; In December 2013, the Myanmar army commander in chief Soe Win visited India and discussed matters relating to security and strengthening bilateral military relations of the two countries and other issues with Indian army commander in chief of the eastern military region Dalbir Singh.

Maritime security cooperation has become the new trend of security cooperation between the two countries. On March 9, 2013, a frigate and a cruiser of Myanmar

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<sup>12</sup>Ministry of Commerce and Industry, Department of Industrial Policy and Promotion, FACT SHEET ON FOREIGN DIRECT INVESTMENT (FDI), From APRIL 2000 to SEPTEMBER 2013. [http://dipp.gov.in/English/Publications/FDI\\_Statistics/2013/india\\_FDI\\_September2013.pdf](http://dipp.gov.in/English/Publications/FDI_Statistics/2013/india_FDI_September2013.pdf)

sea army arrived in the east port city of India, Visakhapatnam, for interaction with the military command officials of the east sea of India. Then, two Myanmar warships along with two Indian warships carried out joint patrols in the nearby area of cocoa islands, searching for illegal fishermen, poachers, smugglers and rebel groups. The joint military exercise was of special significance, because the India-Myanmar naval joint military exercises had only been carried out within the multilateral framework in the past 10 years. For example, “Milan” exercises led by India, which was the first time for both sides to carry out joint naval military exercises independently since 2003. As the Indian Prime Minister Manmohan Singh pointed out during a speech in Yangon on May 29, 2012, “India and Myanmar need to expand bilateral security cooperation, which is not only extremely important for maintaining peace in the border areas but also is indispensable for protecting safety of the trade route between Calcutta and Sittwe.”<sup>13</sup>

Providing Myanmar with military equipment and staff training is another important part of security cooperation between the two countries. Since the adoption of constructive engagement policy with Myanmar in the 1990s, India began to change its cautious stance in providing military equipment for Myanmar and began to provide the necessary military equipment for Myanmar, such as 105 mm guns, T-55 tanks, light helicopters, transport aircrafts, artillery, naval ships and so on. In the past 2 years, in order to strengthen the support for Myanmar’s military capability, Indian strengthened its forces in two aspects of military equipment and training military talents.

In January 2013, during India’s Defense Minister’s visit to Myanmar, the two countries reached consensus on training the Myanmar’s armed forces (such as training the Burmese air force to drive Russia made “mig-35” helicopters, allowing more Burmese personnel to enter into the Indian army institutes for training) as well as providing Myanmar with military hardware and software facilities (such as maritime patrol aircrafts, naval gunboats, light guns, mortars, grenade launchers and other weapons as well as other military electronic equipment, etc.) In July 2013, Myanmar’s navy chief-lieutenant general Duladerui visited India and reached agreement with Indian army to use Indian military body and arm equipment to train Myanmar sailors. According to Indian media, Myanmar would consider introducing the domestic submarine sonar and radar technology from India. In October 2013, Bick Ram Singh visited Myanmar, Myanmar’s President Thein Sein thanked India for its help in building a modern army and providing scholarships for Burmese officers and soldiers to use in human resource development.

India and Myanmar’s security cooperation occupies an important position in the bilateral relationship. On the one hand, India needs Myanmar to obtain the capability to maintain a stable border; Myanmar, on the other hand, also needs to expand its military build-up to deal with the threat of domestic insurgency. We can say that improving Myanmar’s military capacity is for both India and Myanmar’s needs and is a win-win strategy. This is the direct cause for India and Myanmar to orient security cooperation as the “natural key point” in the bilateral relations.

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<sup>13</sup>PM’s address to the think-tanks, intellectuals and Business Community in Yangon, May 29, 2012, Yangon, Myanmar, <http://pmindia.gov.in/speech-details.php?nodeid=1180>



### **7.3 Indian Extended Its Influence in Myanmar and Increased the Intensity of Economic Co-operation, Training and Assistance**

In order to expand its influence in Myanmar, India expanded its investments in Myanmar in three aspects: The first is to vigorously develop its economic and trade cooperation with Myanmar in the economic dimensions, hoping to exploit Myanmar's geographical advantages to strengthen its connections with southeast Asia and the east Asia so as to provide support and help for the "hardware facilities" such as its connectivity with Myanmar; The second is to provide assistance for Myanmar's "soft ability construction" such as human resources establish many training centers and provide necessary training support; The third is to increase aid to Myanmar, especially to those projects under the framework of economic and technical cooperation.

On the hardware infrastructure, India participated in the upgrading of Myanmar's transportation infrastructure projects such as transforming the 160-km Tamu-Kalewa-Kalemyo, reforming Myanmar Rhi-Tiddim roads and constructing Kaladan Multimodal Transport. Among them, Tamu-Kalewa-Kalemyo is an important transport hub at the India-Myanmar borders, which connects Morey, India with Mandalay which is in the middle of Myanmar. It was invested 1 billion rupees by India in the early stage and was completed in February 2001 formally. Indian Foreign Minister Singh called it the "path to India-Myanmar friendship" (Li Chenyang and Zhai Jianwen 2005, p. 22). The huge project Kaladan Multimodal Transport aims to connect the east of India and Myanmar and is seen by India as the core of its strategy of "going east". Indian Railway Technical and Economic Services Company (M/s RITES) participated in the development of Buram's rail transit system, including the supply of railway trains, motorcycles and parts. On December 31, 2010, under the financial assistance of the government of India, India TATA Motors officially established a heavy truck assembly and component production factory in Myanmar. The project is jointly built by India TATA Group and the Second Industry Department of Myanmar, the credit funds of construction are provided by the government of India.

India has participated in Myanmar's domestic communication infrastructure construction. India's state-owned enterprise India Telecommunications Consultants India Ltd. (TCIL) has already completed an asymmetric digital subscriber line (ADSL) project in Myanmar. This project connects 32 cities of Myanmar through the high-speed data link together.

In addition, India has also participated in Myanmar's development of oil and gas resources and water resources. India Overseas Investment Company (OVL) of Oil and Natural Gas Company, India National Gas Utility Company (GAIL) and India ESSAR Oil Company participated in Myanmar's energy sector. In September 2008, MOEP – 1 and National Hydropower Company (NHPC) signed an agreement on developing the hydroelectric project in Tamanthi along the Chindwin River and Shwezayae. According to the agreement, the two hydropower projects plan to install 2080 mw, India's National Hydropower Company submit Detailed Project Report

(DPR) on Mandy hydropower project. However, Myanmar terminated these two hydropower projects in 2013 with the reason that this project harms environment and social sustainable development.

In the construction of soft power such as human resources training, setting up training centers in Myanmar is another important way for India to participate in the economic activities of Myanmar. At present, India has set up industrial training centers, English training centers, Enterprise Development Centers in Myanmar and has set up many training programs such as the center of improving the level of science and technology, etc.

The India-Myanmar industrial training center. The first industrial training center was in Pakkoku. Indian government invested a total amount of \$3 million. It was completed and delivered to the Myanmar government on March 30, 2010. The center started the training courses in July 2010 and trained about 200 people each year. The second industrial training center was at Myingyan. The Indian government invested \$3.5 million. On October 15, 2013, the center was completed and delivered to Myanmar. The training center can provide 1-year industrial training, involving eight industrial subjects.<sup>14</sup>

Myanmar-India English Center (MICELT). The center was established in November 2009, with Hyderabad English and University of Foreign Studies providing technical support, India government providing financial support, Rangoon University of Foreign Studies implementing daily management. So far, a total of more than 400 students had received trainings there.<sup>15</sup>

Myanmar-India Enterprise Development Center (MIEDC). MIEDC was established in February 2009, with Ahmedabad India Entrepreneurship Development Institute (EDII) providing technical support, India government providing financial support, Yangon Economic School offering administrative management. The main training projects provided by the center are the establishment of new businesses, performance improvement plan, business development plan and training teachers and so on. By December 2012, a total of 2012 staff benefited from all kinds of training programs provided by the center. Among which, some 3,251 people attended the training program of MIEDC.<sup>16</sup>

On October 31, 2013, the director-general of the department of the ministry of science and technology of advanced technology of Myanmar and the Indian ambassador in Myanmar signed a memorandum of understanding on establishing India-Myanmar Center of Improving Level of Technology and Science (IMCEITS) on behalf of the two governments respectively. The Indian government provided 17.89

<sup>14</sup>Embassy of India, India Myanmar Industrial Training Centres, Yangon, Myanmar, [http://www.indiaembassyangon.net/index.php?option=com\\_content&view=article&id=132:india-Myanmar-industrail-training-centres&catid=18:highlights&Itemid=257&lang=en](http://www.indiaembassyangon.net/index.php?option=com_content&view=article&id=132:india-Myanmar-industrail-training-centres&catid=18:highlights&Itemid=257&lang=en)

<sup>15</sup>Embassy of India, Training Institutions Set up in Myanmar with INDIAN Assistance, Yangon, Myanmar, [http://www.indiaembassyangon.net/index.php?option=com\\_content&view=article&id=66:training-institutions&catid=22:hrd-cooperation&Itemid=195&lang=en](http://www.indiaembassyangon.net/index.php?option=com_content&view=article&id=66:training-institutions&catid=22:hrd-cooperation&Itemid=195&lang=en)

<sup>16</sup>Embassy of India, Training Institutions Set up in Myanmar with INDIAN Assistance, Yangon, Myanmar, [http://www.indiaembassyangon.net/index.php?option=com\\_content&view=article&id=66:training-institutions&catid=22:hrd-cooperation&Itemid=195&lang=en](http://www.indiaembassyangon.net/index.php?option=com_content&view=article&id=66:training-institutions&catid=22:hrd-cooperation&Itemid=195&lang=en)

million rupees to set up IMCEITS. This memorandum aims at conducting more training courses, transforming the center into the training center of advanced technology development authorized by the Indian government and issuing joint certificates with international certification to trainees, so as to promote the development of the field of information and communication technologies in Myanmar. The project is part of Indian government's commitment to support the development of information and communication technology of Myanmar. Its purpose is to provide professional and technical personnel and create jobs for Myanmar so as to attract foreign investment and promote its software export. The executing agency of this project is Center of Development of Advanced Computing (CDAC) belonging to India's Ministry of Communications and Information Technology (MCIT), and IMCEITS will be an authorized training center (ATC) of CDAC.<sup>17</sup>

India increased its aid to Myanmar. For quite a long period of time in the past, India had been mainly the recipient of foreign aids. Since 2003, however, India tried hard to change its image of the recipient country and began to increase its foreign aids. In February 2003, India's then Finance Minister, Jaswant Singh claimed, "India has come to a new stage of development, we should first review our dependence on external donors now and then expand our support to other developing countries."<sup>18</sup> Along with the rising economic power, India's foreign aids show constant rise year by year.

According to statistics from India's Finance Ministry, in the fiscal year of 2013–2014, India's foreign aid budget reached 701.8 billion rupees, increased by 4 times compared with year 2003–2004. In the past 4 years, average annual growth rate of India's foreign aids reached 32 %. Ninety percentage of India's foreign aids grants and loans was used in aiding its south Asian neighbors, among which aids to Bhutan accounted for more than 50 % of all its foreign aids, and aids to Afghanistan, Sri Lanka, Bangladesh, Nepal and Myanmar accounted for about 40 %.

In May 2008, Myanmar was attacked by the devastating tropical storm surge Nargis. Nargis swept Myanmar's southern coasts, caused severe storm surge and huge damage. Nargis is the most serious natural disaster in the history of Myanmar and has caused severe losses of life and property. It caused at least 90,000 deaths and 56,000 missings in the country.<sup>19</sup> After the disaster took place, the international community offered emergency rescue to Myanmar. The Indian government also reacted in the first place.

India immediately sent two military ships and eight air force planes to the storm-hit regions with food, tents, blankets, clothes, medicine and other supplies. It sent two medical teams including 47 doctors and support personnel to the areas affected

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<sup>17</sup>Embassy of India, MOU Signing Ceremony, Yangon, Myanmar, October 31, 2013, [http://www.indiaembassyangon.net/index.php?option=com\\_content&view=article&id=133:mou-signing-ceremony-31-oct-2013&catid=9:what-s-new&Itemid=131&lang=en](http://www.indiaembassyangon.net/index.php?option=com_content&view=article&id=133:mou-signing-ceremony-31-oct-2013&catid=9:what-s-new&Itemid=131&lang=en)

<sup>18</sup>India's foreign aid program catches up with its global ambitions, <http://respondanet.com/Asia/indias-foreign-aid-program-catches-up-with-its-global-ambitions.html>

<sup>19</sup>"Myanmar death toll jumps to 78000", *BBC NEWS*, <http://news.bbc.co.uk/2/hi/aisa-pacific/7405260.stm>

by the tropical storm and carried out rescue work for more than 2 weeks. In addition, it also provided \$200,000 aid to Myanmar to rebuild Shwedagon Pagoda Complex in Yangon. In the repair phase of the Shwedagon Pagoda Complex, India provided 1,020 tons of corrugated steel roofs, 500 solar flashlights and lanterns, 180,000 bottles of intravenous fluids, power supply transformers and other necessary items which were needed by Myanmar.<sup>20</sup>

On March 24, 2011, a magnitude 7.2 earthquake took place in northeastern Myanmar and Shan State was the most affected area. India offered \$1 million humanitarian aid to Myanmar, which was mainly used for restoration and reconstruction work in affected areas. Among them, the first donation was \$250,000, and an additional \$750,000 was used for reconstruction of 1 high school and 6 elementary schools in the heavily-hit town Tarlay Township.<sup>21</sup>

Besides, agriculture is also a main area of India's aid to Myanmar. On March 9, 2012, India provided \$10 million aid of agricultural machinery and tools to Myanmar, including tractors, combined harvesters and transplanners, etc. In addition to providing the agricultural machinery and tools which Myanmar needed, agricultural education and training also became the dominant forms of India's aids to Myanmar. In 2011, India offered \$2 million to Myanmar and built ten disaster prevention granaries in areas which were commonly hit by tropical cyclones in Myanmar (Table 7.3).

Channels for India to conduct foreign aids are the Ministry of Foreign Affairs, Ministry of Finance and the Department of Defense, but it was mainly implemented through the Ministry of Foreign Affairs. As early as in 2007, the government of India, announced that it would establish an independent foreign aid agency, however it was not until January 2012 did Indian government established Development Partnership Administration under the Ministry of Foreign Affairs. We could say that the establishment of DPA was a positive step for India to try to break through the present situation of its "scattered and fragmentary" foreign aid project. In fact, the

**Table 7.3** A profile of India's aids to Myanmar (Unit: Million Rupees)

Year	2005–2006	2006–2007	2007–2008	2008–2009	2009–2010	2010–2011	2011–2012	2012–2013	2013–2014
India's aid to foreign countries	172	134.5	176.9	201.6	227.4	233.7	305.0	510.1	696.7
India's aid to Myanmar	1.5	2.5	8.0	5.6	4.5	9.0	19.0	30.2	45.0

Source: Based on the related annual budget reports from India's Ministry of Finance

<sup>20</sup> Shri Moinul Hassan, Rajya Sabha Unstarred Question No. 1924 To Be Answered On 18. 12. 2008, December 18, 2008, <http://www.mea.gov.in/rajya-sabha.htm?dtl/10440/Q1924+Deaths+in+cyclone+Nargis>

<sup>21</sup> "Earth Quake in Myanmar and India's Sympathies, Condolences and offer of Help", in Avtar Singh Bhasin ed., *India's Foreign Relations-2011: Documents*, p. 1118. <http://www.mea.gov.in/Images/Pdf/India-foreign-relation-2011.pdf>

Indian Foreign Ministry provides assistance to its neighboring countries and other developing countries, such as Africa, central Asia, southeast Asia and Latin American countries through “Technical and Economic Cooperation Projects with Other Countries” (TEC), including technical and economic aids, relief assistances and humanitarian aids. Moreover, TEC project focuses on Bhutan, Myanmar and Afghanistan.

## **7.4 The Future Development Trend of India-Myanmar Relationship**

India’s policy toward Myanmar has experienced a transition from idealism to realism in 1990s. Under the background of “Look East Policy”, it turned from putting sanctions on Myanmar and isolating it into conducting constructive contacts with it, hoping to maintain good relations with Myanmar’s military junta and at the same time insisting on supporting Myanmar’s democratic movement. The contradiction in India’s policy toward Myanmar led to the great reduction of the strategic pursuit of India’s policy toward Myanmar. Taking Myanmar’s start of the process of political reform and adjustment of foreign policy as the turning point, the ever contradictory policy to support Myanmar’s democracy as well as promote the pragmatic foreign policy evolved into mutual promotion, and the analysis framework of cognition of each other’s strategic position began to be placed on a new platform. On the one hand, Myanmar started to get rid of its excessive dependence on China in the economic development and foreign policy orientation, and practiced balanced diversified diplomatic policy; On the other hand, the human rights and moral factors which had been criticized by the west which used to had troubled the development of the relations between India and the Myanmar junta for a long time did not exist anymore, and the role of economy and security in the relationship with Myanmar is strengthening day by day.

India and Myanmar both have the realistic requirements of deepening relationship with each other. At present, the relationship between India and Myanmar entered into a new stage of development and ascended into a new level, which was the inevitable result of conjunction of the interests and the strategic needs of both countries. Overall, India orients Myanmar as its key partner in its “Look East Policy”, “the bridge” between India and China, south Asia and southeast Asia as well as a force that can be used in hitting the rebel forces in the northeast region; While Myanmar views India as an important partner to improve the construction of its own national capacity especially the military power and the optimal state to balance the impacts of other countries, especially China on Myanmar.

In the past 10 years, the interaction between India and Myanmar’s bilateral relations were mainly concentrated in the following five areas: The first was the bilateral economic and trade cooperation; The second was the infrastructure construction and upgrading of the transportation; The third was security cooperation

and coordination; The fourth was regional cooperation; And the fifth was India's support for the national capacity building, especially the development of border areas of Myanmar (Majumdar 2013, p. 226). In the foreseeable future, the two countries' cooperation in the above five areas will continue to be the basis of their bilateral relations. Unlike in the past, however, since the mutual political trust obstacles restricting the development of bilateral relations have ceased to exist, various aspects of the bilateral relations including economy and trade, traditional and non-traditional security, science and technology, humanities and education etc. will show the good posture of accelerated development.

In the field of economy and trade, Myanmar's role as the bridge and tunnel of India's "Look East Policy" will be increasingly significant. First of all, the cooperation mechanism of the two countries in economy, trade and investment fields will be improved further. The first is the frontier trade measures, including India-Myanmar Bilateral Border Trade Agreement (IMBBTA), India-Myanmar Border Trade Commission Mechanism (IMBTC), etc.; The second is the Joint Trade Committee Mechanism (JTC). JTC was established in 2003 and is a ministerial consultation mechanism. It was taken charge of by the ministers of the Ministry of Commerce of the two countries. The main task is to review and formulate trade policies of the two countries and set targets of bilateral trade in order to promote the development of bilateral trade. By December 2013, the two countries had held four JTC meetings; The third is joint working group mechanism (JTF), which was established in 2004 with the agreement signed by Confederation of Indian Industry (CII) and Myanmar Chamber of Commerce and Industry (UMFCCI). Secondly, since developing the connectivity with Myanmar can achieve multiple geographical economic and political goals, together with the more advantageous current and future internal and external environments for pushing forward the connectivity, India will promote the construction of the connectivity more actively in the future.

Strengthening the two countries' cooperation within the regional and sub-regional frameworks will be another feature for the future development of relations between the two countries. At present, India and Myanmar's regional and sub-regional cooperative frameworks mainly include: The first is the Association of Southeast Asian Nations (ASEAN). Myanmar formally became a member of ASEAN in July 1997. As the only ASEAN member country which has land borders with India, Myanmar became the bridge between India and ASEAN.

The ASEAN started to implement the IAI Work Plan II in 2009. Within this framework, India's cooperative proposal to strengthen the contacts with ASEAN was put into practice, and some cooperative proposals are under discussion. The second is the Bay of Bengal Multi-Sectoral Technical Economic Cooperation (BIMSTEC) Plan. Myanmar became the official member of BIMSTEC in December 1997. Myanmar is one of the signatories of the BIMSTEC Free Trade Agreement, and is the most important country within the cooperative framework in the field of energy. In BIMSTEC areas, Myanmar's trade with Thailand and India is the largest. The 13th BIMSTEC ministers' meeting was held in Myanmar in January, 2011. The third is the Mekong River and Ganges River Cooperation (MGC). MGC started in November 2000 and was initiated by five ASEAN members and India, among

which Myanmar was the initiative country of MGC. MGC's cooperative fields include tourism, education, culture, transportation and communication, etc.<sup>22</sup> The fourth is South Asian Association for Regional Cooperation (SAARC). In August 2008, Myanmar became the SAARC observer.

The India-Myanmar security cooperation in the future will continue to be shown as: Military personnel exchanges, regular exchange visits of senior military officials, exchange visits of naval ships; India provides relevant personnel and facilities for military training for Myanmar; India exports weapons and equipment to Myanmar; Conducting military exercises such as the one with the code "Milan" within the multilateral framework; Myanmar assists India in besieging insurgents hidden in the border regions. But as the two countries push forward the construction of the connectivity in the economic dimension, the trend of expanding security cooperation scope to protecting the safety of sea lanes became very apparent. Moreover, in terms of the maintenance of peace and security of the border areas, the two countries mutually guarantee to not allow rebel forces to use their domestic engagements to carry out activities against each other, which is a new phenomenon. Different from the unilateral guarantee of Myanmar in the past. Under the background that the security situation in northeast India is still grim currently and Myanmar's ethnic problem is very complicated and changeable, the meaning of the two countries' mutual guarantee is self-evident. However, while India provides support for Myanmar's military capability construction, it has to take into consideration that this support should play a positive role in promoting Myanmar's domestic political peace process, rather than further lead to the escalation of Myanmar's domestic ethnic conflicts. Because the military equipment provided by India in the end would not necessarily satisfy India's pursuit of its strategic target of arms exports. The impact caused by the Swedish weapons which flew into Myanmar through India was not what India wanted to see. In the future, with the development of Myanmar's foreign exchanges, the vision of the two countries' security cooperation will be expanded, and in addition to the traditional focus on border security cooperation, the two countries' cooperation demands in the Bay of Bengal and the Andaman sea will increase.

In a word, Myanmar's new changes brought new opportunities for India to develop the relationship with Myanmar. The increase of India's domestic strategic circle's cognition of geopolitical strategic importance of Myanmar, the positive changes of India's government policy toward Myanmar, the clarification of the "road map" to promote the development of India-Myanmar relations, combined with Myanmar being the ASEAN's rotating presidency in 2014 and the goal of the ASEAN to build economic community in 2015, all of these would become the positive factors of the development of India-Myanmar relations in the next 3–5 years.

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<sup>22</sup>MGC members include India, Cambodia, Laos, Myanmar, Thailand and Vietnam.

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## Chapter 8

# Sino-Myanmar Bilateral Relations in 2013: Develop Steadily and Challenges Existed

Wu Liu

**Abstract** In 2013, Sino-Myanmar bilateral relations conquered the impact brought by such issues as political transformation and North Myanmar armed ethnic groups and the influences brought by the improvement of the relations between Myanmar and the western countries, and were developed steadily. Meanwhile, the improvement of the relations between Myanmar and the western countries gradually started to weaken the impact on Sino-Myanmar bilateral relations, but the domestic political development of Myanmar still influenced the Sino-Myanmar bilateral relations. Although Sino-Myanmar bilateral relations generally maintain the steady development trend, yet various domestic political factors, such as the change of the objectives of the main Myanmar's political organizations, the change of the public opinion situation, the conflicts between the main armed ethnic groups of North Myanmar and the Government, etc. will become the important factors influencing the Sino-Myanmar bilateral relations.

**Keywords** Sino-Myanmar bilateral relations • Myanmar politics • Myanmar public opinions • Armed ethnic groups

In 2013, Sino-Myanmar bilateral relations conquered many difficulties and challenges and were steadily developed. Meanwhile, Sino-Myanmar bilateral relations continued the development trend of mutual benefit and win-win result and friendly relations and cooperation. Politically, leaders at different levels of the two countries frequently met each other and sincerely talked about the issues regarding the state core benefits, etc., thus strengthening the mutual trust and understanding. Economically, the economic and trade cooperation in various forms and at different levels was also strengthened. Militarily, the high-level leaders of two armed forces

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kept frequent contact and communication. Meanwhile, multiform and multi-channel contact also occurred in the aspects of public diplomacy and people-to-people diplomacy, thus maintaining the flourish trend. However, the steadily developed Sino-Myanmar bilateral relations still face various challenges, which mainly come from the change of the political factors in Myanmar, such as the change of the objectives of the main Myanmar's political organizations, the change of the public opinion situation, the influence of the conflicts between the main ethnic armed force of North Myanmar and the Government on the Sino-Myanmar bilateral relations, etc. Therefore, the two countries need to further enhance the trust and strengthen the contact in order to improve the Sino-Myanmar bilateral relations and achieve the mutual development.

## **8.1 Steadily Developed Sino-Myanmar Bilateral Relations**

### ***8.1.1 Increasing High-Level Meeting and Strengthening Political Mutual Trust***

The Governments of the two countries both recognize the significance of strengthening the political mutual trust, especially under the conditions of the political transformation in Myanmar and the impact of the improvement of the relations between the western countries and Myanmar on the Sino-Myanmar bilateral relations. In 2013, the high-level leaders of the two countries strengthened the contact with each other, sincerely and timely communicated with each other especially upon the issues regarding the core benefits of the two countries, and such communication also obtained the remarkable effect. The meeting of the leaders of the two countries in the bilateral and multilateral occasions has ensured the communication and exchange of the leaders of the two countries upon various issues, thus strengthening the contact of the high-level leaders of the two countries.

During the period from April 5 to May 7, 2013, at the invitation of President Xi Jinping, the President of Myanmar – Thein Sein officially visited China and meanwhile attended the annual meeting of Boao Forum for Asia. The leaders of the two countries exchanged in-depth views with each other on the promotion of the relations between the two countries and the commonly concerned regional and international issues, and reached a wide consensus on continuously consolidating and strengthening the bilateral relations and jointly promoting the sound and sustainable development of the Sino-Myanmar strategic partnership.<sup>1</sup> According to the Joint Press Communique issued by China and Myanmar, both parties hereto believed that the long-term friendship between the Chinese and Burmese people would continuously promote the development of the relations between the two countries

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<sup>1</sup> *Talks between President Xi Jinping and President Thein Sein*, Chinanews. Com, April 5, 2013, <http://Chinanews.com/gn/2013-05/4704687.shtml>

and the friendly cooperation in various fields and make positive effort to maintain the regional peace and development. Meanwhile, the both parties also concerned the core benefits of the opposite party, and China restated to respect the independence, sovereignty and territorial integrity of Myanmar, supported Myanmar to safeguard the unity of the nation and the state, independently promote the domestic reform process under the condition of maintaining stability and step on the development road consistent with the national circumstances thereof. Furthermore, Myanmar also restated to firmly stick to one-China policy and regarded the Government of the People's Republic of China as the sole legitimate government on behalf of the whole China and Tai Wan as an indivisible part of Chinese territory as well as supported the peaceful development of the relations across the Taiwan Straits and the great cause of peaceful reunification of China.<sup>2</sup> On October 9, the Prime Minister of the State Council – Li Keqiang met President Thein Sein when attending the East Asia Summit held in Bandar Seri Begawan, Brunei. The both parties showed the wishes of jointly safeguarding the good neighborly and friendly relations, safeguarding the stability of the border regions of the two countries and promoting the development of the comprehensive strategic partnership.<sup>3</sup>

In 2013, other high-level leaders of the two countries also frequently met each other. On January 19, the Ambassador of GOC (Government of China) and Vice Minister of Ministry of Foreign Affairs – Fu Ying made an official visit to the President Thein Sein in Rangoon. On April 1, the Ambassador in Myanmar – Yang Houlan made an official visit to the Vice President of Myanmar – Sai Mauk Kham, and they exchanged the in-depth views on the issues regarding the relations between the two countries and the domestic development situation of Myanmar.<sup>4</sup> On June 23, the State Councilor of China – Yang Jiechi respectively held talks with the Vice President of Myanmar – U Nyan Tun Aung and the Chairman of the House of Representatives of the Federal Parliament – Shwe Mann in Naypyidaw. They mainly strategically communicated with each other upon the issues regarding how to improve the relations between the two countries, strengthen the good neighborly and friendly relations, expand the cooperation in the fields of people's livelihood and humanity, support the national reconciliation of Myanmar, practice the action plan for the comprehensive strategic partnership between the two countries, etc.<sup>5</sup> On July 1, the Minister of Chinese Ministry of Foreign Affairs – Wang Yi met the Minister of Myanmar Ministry of Foreign Affairs – Wunna Maung Lwin at Bandar

<sup>2</sup> Joint Press Communiqué of the People's Republic of China and the Union of Myanmar, Xinhua Net, April 5, 2013, [http://news.xinhuanet.com/2013-04/05/c\\_124543128.htm](http://news.xinhuanet.com/2013-04/05/c_124543128.htm)

<sup>3</sup> Li Keqiang Respectively Met President *Thein Sein*, *the Secretary of State and other Important Foreign Governmental Members*, Chinanews. Com, October 10, 2013, <http://www.Chinanews.com/gn/2013-10/5357265>

<sup>4</sup> The Ambassador in Myanmar – Yang Houlan Made an Official Visit to the Vice President of Myanmar – Sai Mauk Kham, website of Chinese Ministry of Foreign Affairs, April 1, 2013, [http://www.fmprc.gov.cn/mfa\\_chn/zwbd\\_602255/t1027421.shtml](http://www.fmprc.gov.cn/mfa_chn/zwbd_602255/t1027421.shtml)

<sup>5</sup> Talks between Yang Jiechi and the Vice President of Myanmar – U Nyan Tun Aung, Chinanews. Com, June 23, 2013, <http://www.Chinanews.com/gn/2013/06-23/4959347.shtml>

Seri Begawan, Brunei. On August 28, the Minister of Chinese Ministry of Foreign Affairs – Wang Yi met the Minister of Myanmar Ministry of Foreign Affairs – Wunna Maung Lwin again, who came to China to attend China-ASEAN Special Minister Meeting. Both parties communicated with each upon the issues of strengthening the major projects of China in Myanmar and the interconnection and interworking cooperation as well as jointly safeguarding the stability of the border regions of the two countries.<sup>6</sup> On December 11–12, the Vice Prime Minister of the State Council – Liu Yandong took the opportunity of attending the 27th Southeast Asian Games held in Myanmar to exchange in-depth views with the President of Myanmar – Thein Sein, the Vice Presidents – Sai Mauk Kham and U Nyan Tun Aung, etc. upon the issues of promoting the comprehensive strategic cooperation between the two countries, strengthening the cultural and educational exchanges, etc.

### ***8.1.2 Industriously Promoted Economic Cooperation***

Although Sino-Myanmar economic cooperation suffered from adverse effect in the past few years due to the change of the domestic and overseas factors of Myanmar and such effect really influenced some parts, both parties took positive measures to create economic cooperation opportunity in 2013 and especially grasped the large scale projects for the cooperation in the important fields, thus obtaining the fruitful results.

#### **8.1.2.1 Sino-Myanmar Economic Cooperation**

During the period from January to August, 2013, the total export-import volume was 12,943,000,000 U.S. dollars, with a year-on-year growth of 9.4 %, wherein the Sino-Myanmar trade volume was 3,850,000,000 U.S. dollars and ranked the first, with a year-on-year growth of 17.3 % and occupying 29.8 % of the total export-import volume<sup>7</sup> during the same period, Myanmar made use of foreign investment of 2,190,000,000 U.S. dollars, with a year-on-year growth of 200 %, wherein the top 4 investment countries were respectively Korea (620,000,000 U.S. dollars), Thailand (410,000,000 U.S. dollars), Singapore (400,000,000 U.S. dollars) and China (280,000,000 U.S. dollars) (including Hong Kong and Macao, similarly hereinafter). Additionally, the total contract amount of the utilized foreign

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<sup>6</sup>Wang Yi met the Minister of Ministry of Foreign Affairs of Myanmar – Wunna Maung Lwin, Xinhua Net, August 28, [http://news.xinhuanet.com/2013-08/28/c\\_117132057.htm](http://news.xinhuanet.com/2013-08/28/c_117132057.htm)

<sup>7</sup>*The Total Export-Import Volume of Myanmar in the First Eight Months Was about 13,000,000,000 U.S. Dollars*, Economic and Commercial Counselor's Office of Embassy in Myanmar, <http://mm.mofcom.gov.cn/article/jmxw/201311/20131100385858.shtml>

investment was 43,680,000,000 U.S. dollars, wherein the investment of China occupied 47.67 %, namely 20,820,000,000 U.S. dollars, thus making China rank the first.<sup>8</sup>

In order to enhance the Sino-Myanmar trade and promote the mutual investment, the two countries carried out various forms of business conference and investment introduction and marketing events in 2013. On June 7, the Vice Chairman of Federation of Myanmar Industry and Commerce – U Aung Lwin led his team to hold the “Sino-Myanmar Economic and Trade Cooperation Introduction and Marketing Event ” in Kunming and meanwhile explained the new Myanmar investment law in order to invite the Chinese enterprises to invest in Myanmar. During the period from November 12 to November 14, China Foreign Trade Centre (Group) and Shandong Committee of China Council for the Promotion of International Trade jointly held “2013 China- ASEAN (Myanmar) Trade Fair” in Rangoon. During the period from October 30 to November 1, Foreign Trade Development Bureau of Ministry of Commerce and the Department of Commerce of Yunnan Province jointly held 2013 (Myanmar) Chinese Industrial Products Expo in Rangoon.

The Sino-Myanmar border trade was also gradually recovered during the process of eliminating the conflicts between the Central Government of Burma and the ethnic armed force. According to the data from the Myanmar’s Border Trade Bureau, the total border trade volume of Myanmar reached 3,400,000,000 U.S. dollars in the fiscal year 2012 (April 2012 – March 2013), with a year-on-year increment of about 100,000,000 U.S. dollars. Therein, the border trade volume of Muse, Kambaiti, Qingshui River and Laiza was about 2,900,000,000 U.S. dollars and occupied 80 % of the total border trade volume. According to *News Week* of Myanmar, the trade volume of the border between Myanmar and Yunnan reached 8,94,000,000 U.S. dollars in fiscal year 2013 (April 2013 – March 2014) and occupied 78.9 % of the total border trade volume of Myanmar.

Myanmar gradually cancelled the commodity import and export limitations and cut down the commodity import and export licensing system, and such measures were favorable for promoting the Sino-Myanmar trade, and meanwhile the comprehensive opening door policy greatly promoted by the Central Government of China, including opening up to the western countries, and the foreign trade policy positively promoted by local governments would further promote the development of the trade towards Myanmar. The Bangladesh-China-India-Myanmar economic corridor was changed from double-track system into single-track system, and meanwhile the construction of China- Laos-Myanmar -Thailand “border trade circle” promoted by Xishuangbanna government, Yunnan would also boost the steady development of Sino-Myanmar trade.

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<sup>8</sup>The Total Utilized Foreign Investment of Myanmar in the First Eight Months Was about 2,200,000,000 U.S. Dollars, Economic and Commercial Counselor’s Office of Embassy in Myanmar, <http://mm.mofcom.gov.cn/article/jmxw/201311/20131100385859.shtml>

### **8.1.2.2 Infrastructure Cooperation**

After conquering various challenges in Myanmar and experiencing the international query, Sino-Myanmar natural gas pipeline project started to transport gas to China on July 28, 2013. The successful operation of the natural gas pipeline not only presented the primary precondition of cooperation – multilateral mutual benefit and reciprocity, but also presented the steady development of Chinese projects and investment in Myanmar after conquering the negative influence brought by the suspension of Myitsone hydropower station.

The leaders and the officers of the two countries all paid high attention to the major cooperation projects implemented and continuously promoted in the new period in order to improve the Sino-Myanmar economic cooperation and enhance the significance of the livelihood of the local people. In 2013, the Prime Minister of the State Council – Li Keqiang and the President of Myanmar – Thein Sein indicated in the talks held in Nanning that the acceleration of the development of southwest region in China and the in-progress economic reforms in Myanmar both provided a huge cooperation space for the major cooperation projects between China and Myanmar.<sup>9</sup>

### ***8.1.3 Frequent High-Level Military Leader Contact and Gradually Promoted Security Cooperation***

On October 16, 2013, the Chairman of Central Military Commission – Xi Jinping met the Commander in Chief of Myanmar's National Defense Forces – Min Aung Hlaing, and they both indicated that consolidating and deepening the comprehensive strategic partnership between China and Myanmar was favorable for promoting the international and regional peace and stability and also favorable for stabilizing the border between China and Myanmar. Furthermore, Min Aung Hlaing also showed that the Myanmar's military was willing to play a positive role in promoting the peace and stability of North Myanmar region and deepen the cooperation between the two countries in order to promote the development of the relations between the two countries and between the two militaries. This was the second time of such meeting between the two highest military leaders since 2011.<sup>10</sup> Meanwhile, during the visit to China, the Commander in Chief – Min Aung Hlaing communicated with the Vice Chairman of Central Military Commission – Fang Changlong upon the mutual beneficial cooperation and the stability maintenance of border between the two countries. On October 14, the Committee Member and the General

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<sup>9</sup>China and Myanmar Will Implement the Major Cooperation Project between the Two Countries, Xinhua Net, September 2, 2013, [http://news.xinhuanet.com/politics/2013-09/02/c\\_117196119.htm](http://news.xinhuanet.com/politics/2013-09/02/c_117196119.htm)

<sup>10</sup>Liu Hua: Xi Jinping Met the Commander in Chief of Burmese National Defense Forces – Min Aung Hlaing, Xinhua Net, October 16, 2013, [http://news.xinhuanet.com/politics/2013-10/16/c\\_117748104.htm](http://news.xinhuanet.com/politics/2013-10/16/c_117748104.htm)

Chief of Staff of Central Military Commission – Fang Fenghui talked with the Commander in Chief of Myanmar’s National Defense Forces – Min Aung Hlaing about the issues regarding officer training, joint exercise and training, border defense cooperation, etc. On January 20, the Vice Chief of Staff of the Chinese People’s Liberation Army – Qi Jianguo and the Vice Commander in Chief of Myanmar National Defense Forces – Min Aung Hlaing held the first strategic security negotiation in Naypyidaw, and both parties exchanged in-depth views upon regional security situation, North Myanmar issues, military relations, etc. After the deep communication, the main high-level military leaders of China and Myanmar indicated the significance of the communication and cooperation between the two militaries.

#### ***8.1.4 Flourish Development of Public Diplomacy and People-to-People Diplomacy***

In order to reduce or even eliminate the negative views of the Myanmar’s society on the Chinese citizens and enterprises in Myanmar and change the gradually declined image of China in Myanmar, China continuously strengthened the public diplomacy and people-to-people diplomacy towards Myanmar in 2013 and tried to promote the normal development of the relations between the two countries.

Firstly, in order to adapt to the development trend of multi-party system and political organizations, China strengthened the contact with political parties and various organizations of Myanmar. On May 15, 2013, Ambassador Yan Houlan met the Chairman of National Unity Party of Myanmar – Tun Yi in Rangoon, and they talked with each other about the Sino-Myanmar relations and trans-party communication, etc. On May 31, the Chairman of Sino-Myanmar Friendship Association and the former Myanmar Ambassador in China – U Sein Win Aung led the members of the Sino-Myanmar Friendship Association to visit China and met the Foreign Minister – Wang Yi. On July 2, the Member of Political Bureau of the CPC Central Committee and the Secretary of the Central Committee – Liu Yunshan met the delegation led by the General Secretary of Solidarity and Development Party of Myanmar – Maung Maung Thein in the Great Hall of the People in Beijing, and both parties reached a consensus upon strengthening the trans-party communication, consolidating and deepening the relations between the two parties and promoting the development of traditional friendship. During the period from October 27 to November 2, the senator delegation led by the Senator of the House of Representatives – U Ye Tun visited China at the invitation of China Association for International Friendly Contact, and during the visit, both parties showed the wishes of promoting the friendly contact of the two countries and expanding the cultural and educational exchanges. On October 30, the Chairman of the House International Relations Committee of Myanmar – U Hla Myint Oo led the delegation from Rangoon to visit China at the invitation of Foreign Affairs Committee of National People’s Congress. On December 8, National League for Democracy

(NLD) and the Central Executive Committee Member – U Nyan Win visited China at the invitation of Chinese People’s Institute of Foreign Affairs.

Secondly, in view of released free press in Myanmar, the news media had greater and greater influence on public opinion, so China also strengthened the media exchange. On August 20, 2013, Ambassador Yang Houlan met the Chief Editor of *Myanmar Times* (the largest English newspaper in Myanmar) – Dunkley, and they communicated with each other about the domestic situation, media industry development, issuing of Chinese newspaper in Myanmar, etc. Meanwhile, Director of China Radio International – Wang Gengnian met the Director of Myanmar Radio and Television Bureau – U Tint Swe on August 15, and they deeply discussed the issues of strengthening the communication and cooperation.

Thirdly, for the religion and cultural and educational exchanges: on February 7, 2013, The Buddhist Association of China donated three towers of gilding Buddha tooth dagoba copied in the scale of 1:1 in order to satisfy the belief demand of Myanmar believers and present the Sino-Myanmar friendship. On January 4, Chinese Overseas Exchange Association and the Chinese Embassy in Myanmar jointly held the artistic performance themed as “Cultural China·Charm Sinkiang” in the International Convention Center in Naypyidaw, the Vice President – U Nyan Tun Aung, and totally ten directors from Myanmar Ministry of Foreign Affairs, Myanmar Ministry of Culture, Myanmar Ministry of the Interior, etc. all attended this performance. On October 29, in order to show the cooperation sincerity of China to Myanmar and the sincere friendship to Burmese people, Yunnan Government denoted the broadcasting right of the TV play – *Legend of The Prince*, namely the first large TV play series fabricated jointly by China and Myanmar, to Myanmar Movie and Television Bureau. During the period from February 27 to March 2, the medical teams formed by the experts from the First People’s Hospital of Yunnan Province traveled to EENT Specialized Hospital in Mandalay, Myanmar to carry out the “Bright Travel” activity and freely provide the operative treatment for 200 local cataract patients. In September, after the dengue fever appeared in Dehong, Yunan, the relevant Chinese department contacted with the relevant Myanmar department through foreign affair communication in order to carry out joint defense and control. On August 28, the Peace Ark of Chinese Navy arrived at the 7th station of “Harmonious Mission – 2013” – Thilawa Port, Rangoon, Myanmar to carry out the friendly visit and medical service for 6 days.

Finally, China and Myanmar also cooperated in the aspect of joint enforcement. On May 15, the Chinese Ministry of Public Security and the Myanmar Police Force officially established the Third Sino-Myanmar Liaison Office for fighting the crimes of abducting and trafficking people in the old street at Nanshan Country. In September, the Chinese and North Myanmar policemen jointly successfully captured the primary object of China-Laos-Myanmar-Thailand “safe channel” drug elimination action – Liu Jun. On October 11 and 12, the two countries held the 11th Sino-Myanmar anti-drug cooperation bilateral meeting in Shanxi and meanwhile indicated that they would continuously consolidate and strengthen the comprehensive cooperation in the anti-drug field so as to fight the transnational drug crime activity and solve the “Golden Triangle” drug problem. Additionally, the 4th Sino-Myanmar



Enforcement Security Cooperation Ministerial Meeting was held in Beijing on November 13, and the Member of the State Council and the Minister of Ministry of Public Security – Guo Shengkun and the Minister of Myanmar Ministry of the Interior hosted the meeting. In 2013, the two countries also carried out nine times of joint patrol and enforcement around Mekong River region together with Thailand and Laos.

## **8.2 Challenges Brought by Domestic Political Development in Myanmar to Sino-Myanmar Relations**

Although the Sino-Myanmar relations were steadily developed in 2013 under the joint effort of the two countries, various factors, such as the uncertainty of the political transformation in Myanmar, the improvement of the relations between the western countries and Myanmar, etc., still brought impacts and challenges to Sino-Myanmar relations. Under present development trend, the impact of the improvement of the relations between the western countries and Myanmar on the Sino-Myanmar relations was gradually weakened, but the development of the domestic political transformation in Myanmar brought more complicated challenges to the Sino-Myanmar relations, and especially the domestic political factors of Myanmar, such as the change of the objectives of the main Myanmar's political organizations, the change of the public opinion situation, the contradictions and conflicts between the main ethnic armed force of North Myanmar and the Government, etc., would become the important factors influencing the Sino-Myanmar relations.

### ***8.2.1 Probable Influence Caused by the Change of the Objectives of the Main Myanmar's Political Parties and Organizations on the Sino-Myanmar Relations***

Foreign policy orientation and attitude of the hedging combination of various political forces in a country and various political parties, sectors and interest groups competing with each other for state power are the important factors that influence the foreign policy of this country. Therefore, the attitude of various political parties and organizations in Myanmar will be important factor that influences the future Sino-Myanmar relations.

Since the independence of Myanmar, the development of the political parties experienced four stages, namely, the parliamentary multi-party system at the beginning (1948–1962), the single-party system with the soldiers and ex-soldiers as the principal part (1962–1988), the multi-party system ruled by new military

government (1988–2010)<sup>11</sup> and the multi-party system at the period of the new democratically elected government (2010–till now).

Influenced by the political system of the colonization suzerain – GB, Myanmar implemented the “multi-party parliamentary democracy” system soon after its independence, but such democracy system soon faced various problems and the ruling league with united front property – Anti-Fascist People’s Freedom League (hereinafter referred to as League) was split. In detail, the Communist Party of Myanmar quitted from the League, and part of the minorities led by Kayin also joined the anti-government group on the pretext of national autonomy. Afterwards, such split caused by the power struggle among various factions in the League created the coup launched by Ne Win in 1962. After taking office, Ne Win practiced the single-party rule of the Socialism Programme Party and continued it till 1988. In September 1988, after launching the coup and taking over the state political power, the new military group<sup>12</sup> announced to cancel the single-party system and implemented the multi-party system due to the domestic democracy pressure. Then, the openness of the ban on the political parties induced the appearance of a large batch of democratic political parties, and 93 political parties participated in the election in 1990, and 27 political parties obtained at least above one seat (He Shengda and Li Chenyang 2009, p. 228). The NLD led by Aung San Suu Kyi unexpectedly obtained 392 seats among 485 seats and won the election in 1990, and the National Unity Party supported by the new military regime only obtained 10 seats. However, the new military regime refused to deliver the political power to the NLD and started to suppress the leaders of various democratic political parties and opposition factions. Before the election in 2010, only about 10 legal political parties which were suppressed by the Military Government for a long time were remained in Myanmar. According to the relevant political campaign laws and regulations, such as Law for Registration of Political Parties, totally 37 qualified political parties participated in the election in May 2010, and the Solidarity and Development Party supported by soldiers won the election (please refer to Table 8.1). In April 2012, the NLD that once resisted the election in 2010 participated in the parliamentary by-election and obtained 43 seats.

At present, the political parties active on the political arena in Myanmar can be basically divided into three types: the first type is the political parties with military background, such as Solidarity and Development Party, National Unity Party, etc.; the second type is the ethnic political parties which are usually named after state or nation, such as Shan Nationalities Democratic Party, Rakhine Nationalities Development Party, All Mon Region Democracy Party, Chin National Party, Chin Progressive Party, etc.; the third type is the democratic parties with the Burman nationality as the

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<sup>11</sup> Please refer to Myanmar, He Shengda and Li Chenyang (2009, p. 226).

<sup>12</sup> So far, two military coups occurred in modern Myanmar and two military regimes were established, namely, the military regime led by Ne Win during 1962–1988 and the military regime led by Saw Maung in early period and by Than Shwe in later period during 1988–2010. Therein, the later military regime is usually called new military regime or new military government.

**Table 8.1** Election results of 2010 Myanmar election for political parties<sup>a</sup>

SN	Political party	Upper house	Lower house	Province/region	Total	Percentage (%)
1.	Union Solidarity and Development Party	129	169	496	884	76.6
2.	National Unity Party	5	12	45	62	5.4
3.	Shan Nationalities Democratic Party	3	18	36	57	4.9
4.	Rakhine Nationalities Development Party	7	9	19	35	3.0
5.	All Mon Region Democracy Party	4	3	9	16	1.4
6.	National Democratic Force	4	8	4	16	1.4
7.	Chin Progressive Party	4	2	6	12	1.0
8.	Pa-O National Organization	1	3	6	10	0.9
9.	Chin National Party	2	2	5	8	0.8
10.	Phalon-Sawaw Democratic Party	3	2	4	9	0.8
11.	Kayin People's Party	1	1	4	6	0.5
12.	Taaung (Palaung) National Party	1	1	4	6	0.5
13.	“Wa” Democratic Party	1	2	3	6	0.5
14.	The Inn National Development Party	0	1	3	4	0.3
15.	Unity and Democracy Party of Kachin State	1	1	2	4	0.3
16.	Democratic Party (Myanmar)	0	0	3	3	0.3
17.	Kayan National Party	0	0	2	2	0.2
18.	Kayin Democracy and Development Party	1	0	1	2	0.2
19.	National Democratic Party for Development	0	0	2	2	0.2
20.	88 Generation Student Organization	0	0	1	1	0.1
21.	Ethnic National Development Party	0	0	1	1	0.1
22.	Lahu National Development Party	0	0	1	1	0.1
23.	Independent Candidates	1	1	4	6	0.5
	Total	168	325	661	1,154	

Note: Additionally, 14 political parties participating in the election didn't obtain any seat

<sup>a</sup>Transnational Institute, A Changing Ethnic Landscape: Analysis of Myanmar's 2010 Polls, Burma Policy Briefing, No. 4, December 2010, p 3

main part, such as NLD, 88 Generation Peace and Openness Association (88 Generation Student Organization), National Democratic Force, etc.

### 8.2.1.1 The Political Parties with Military Background

At present, the Solidarity and Development Party is the largest political party in Myanmar, namely the former Union Solidarity and Development Association established in 1993 and with the quantity of members thereof once reached 24,000,000. In detail, the Solidarity and Development Party supported by the Military was elected

as the ruling party in November 2010, wherein the tenet of this Party is to achieve permanent stability, independent sovereignty, national unity, peace and stability and flourish development of the country, protect the common people, improve people's livelihood, safeguard human rights and realize democracy. Meanwhile this Party also practiced the multi-party democracy system, the market economy system and the independent and positive foreign policy.<sup>13</sup>

The National Unity Party which was reorganized from Myanmar's Socialist Programme Party in September 1988 is the second largest political party. Once, this Party obtained 10 seats in the election in May 1990 and obtained 62 seats in the election in 2010. The new political program stipulated by Myanmar's National Unity Party includes two objectives and four fundamental principles, wherein the two objectives are: uniting people of all nationalities and achieving peace, stability and modernization of the state; the four fundamental principles are: strengthening the national unity, ensuring the fundamental rights of people of all nationalities, arousing the enthusiasm of enterprises to develop production, and referring to the experience and system of foreign countries to benefit people.

The Solidarity and Development Party and the National Unity Party are both the political parties with military background. Especially, the Solidarity and Development Party, which was established by the Military Government and controlled by the Military in order to protect the vested interest and ensure the future political position and effect as well as contend against NLD, is the political party similar to Golongan Karya. Therefore, the political program and the foreign policy of the two parties have little difference and basically present the administrative program and the foreign policy of the military group and the present democratically elected government, namely: always unswervingly defending and safeguarding the objective of non-division of the federation, non-facture of national unity and the stability of the sovereignty; propagating the social thought of fairness, freedom and equality, consolidating and safeguarding the peaceful and rich livelihood of the people of all nationalities; always making effort to safeguard the peaceful co-existence principles that focus on world peace and the friendly cooperation and communication between the countries.<sup>14</sup> The two parties always practice the independent and positive nonalignment foreign policy, safeguard the world peace and the friendly cooperation and communication between the countries and abide by the peaceful co-existence principles.<sup>15</sup>

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<sup>13</sup> *Country Profile of Myanmar*, People.cn, <http://politics.people.com.cn/GB/8198/243322/17856569.html>

<sup>14</sup> [Myanmar] Myanmar Propaganda Print and Book Distribution Company: Preface of *Constitution of the Union of Myanmar*, translated by Li Chenyang and Gu Longju, reprinted from Southeast Asian Studies, 1st Session of 2009, p 60.

<sup>15</sup> [Myanmar] Myanmar Propaganda Print and Book Distribution Company: Article 41 of *Constitution of the Union of Myanmar*, p 64.

### 8.2.1.2 Ethnic Political Parties and National Organizations

Myanmar's ethnic political parties and national organizations mostly hope to obtain equal national political rights and achieve high-level autonomy in the federal state framework, so most of them do not have nationwide political goals and rarely have clear ambitious goal for the foreign policy. According to the tenet or political program of the ethnic political parties that obtained many seats in the election in 2010, we can know that the political goals of the ethnic political parties participating in the present election system were still to safeguard their own national rights but not the overall ambitious political goals, without contribution to the foreign policy. For example, the tenet of the Shan Nationalities Democratic Party is to safeguard national unity so as to achieve the development of Shan Nationalities in the fields of economy, traffic, education, agriculture, etc. The political program of the All Mon Regions Democracy Party is to fight for democratic rights, implement national unity, eliminate corruption and bribery, promote social development and support free trade.<sup>16</sup> The tenet of the Rakhine Nationalities Development Party is to unite the national people, achieve democracy, promote the national political, economical and social development, protect the religious belief and the custom culture of Rakhine Nationalities and safeguard the national interest and federal interest of Rakhine Nationalities.<sup>17</sup>

However, as for the ethnic armed organizations still holding the major armed forces currently, their goals are to establish the federal system on the basis of the national equality according to the spirits of *Panglong Agreement*, or preserve the armed forces of their own nationalities to achieve national autonomy. At present, the main goals of these ethnic armed organizations are to obtain more rights of national autonomy, without clean goal and intentions for the foreign policy of the country. The national political goal of the United Wa State Army (hereinafter referred to as "UWSA") is to fight for "the national regional autonomy of the great Wa State" (Zhong Zhixiang and Li Chenyang 2004, p. 211). The national political requirements of the Shan National Democratic Alliance Army are to "achieve the domestic peace and establish a real democratic multi-party system coalition government" (Zhong Zhixiang and Li Chenyang 2004, p. 250). The national political goals of the Kachin Independence Organization have been changed from the past goals of "opposing the great Burman nationalism and establishing the independent Republic of Kachin" into the present goals of achieving "the real autonomy of Kachin Nationalities" (Zaw Oo and Win Min 2007). The political requirements of the Karen National Union have been changed from the independent establishment at the initial stage of independence into the high-degree national autonomy. Most of

<sup>16</sup>All Mon Regions Democracy Party Rolls out Platform, July 1, 2010, [www.mizzima.com/.../4075-all-mon-regions-democracy-party-rolls-out-platform.html](http://www.mizzima.com/.../4075-all-mon-regions-democracy-party-rolls-out-platform.html)

<sup>17</sup>Website of Embassy of the People's Republic of China in the Republic of the Union of Myanmar: Politics of Myanmar, <http://www.fmprc.gov.cn/ce/cemm/chn/ljmd/zjj/t924656.htm>

the ethnic armed organizations gather around the border of Myanmar and their existence can influence the Sino-Myanmar relations, but generally speaking, the ethnic armed organizations, especially the ethnic armed organizations around the border between China and Myanmar, do not adopt the hostile attitudes and acts to the neighboring countries.

### **8.2.1.3 Democratic Opposition Factions with Burman Nationality as the Main Body**

Among the political parties and organizations, the democratic opposition factions with Burman nationality as the main body may form great influence and challenges to the relations between the two countries, wherein such opposition factions mainly include NLD, National Democratic Force, 88 Generation Student Organization, etc.

The NLD which is the largest and most powerful opposition faction was established on September 29, 1988 and won the overwhelming victory in the election in 1990, but it failed to obtain the state power, because the New Military Government refused to hand over the power on the pretext of various reasons at that time. The leader of the League – Aung San Suu Kyi has become the democratic flag of Myanmar, with relatively high prestige and wide influence at home and abroad. The political program of this Party was to govern the country by law according to the democratic procedures of the United Nations Charter, give rights to people, safeguard human rights through constitutionalism, firmly oppose autocracy, implement the legislation, administration and judicature systems, enable all people to have equal rights before the law, etc. This Party still has no authoritative statement for the foreign policy thereof at present, so the statements and actions of the leader thereof become the important information source for inspecting the foreign policy of the Party in future. So far, Aung San Suu Kyi has the most powerful prestige and influence in the NLD, so we can have a restricted view on the policy and attitude of this Party towards China as well as the position of this Party in the relations between the two countries through researching and judging her statement and posture. In the past, many people believed that this Party would implement the foreign policy friendlier to the western countries after taking office. However, a series of speeches after she was released all indicated that in spite of various problems existing in the relations between the two countries, keeping normal and steady relations with China was important for promoting the economic and social development, the national security and the national reconsolidation of Myanmar and even the process of democratization. As analyzed by the Myanmar problems expert of University of Hong Kong – Ian Holliday, if Aung San Suu Kyi wants to participate in the politics of Myanmar, to some extent, she needs to obtain the support from China. Therefore, “this is a geopolitical problem that shall be advisably handled by her, and she does not want to be against Beijing” (Kyaw San Wai 2011). On the second day after she was released on November 13, 2010, she said that China was the important neighbor

of our country and we should not regard the Chinese people as our enemies.<sup>18</sup> During the talks among Aung San Suu Kyi, Hillary and reporters on December 1, 2011, she said that China was an important neighboring country of Myanmar and also the large neighboring country with most powerful influence on Myanmar, so I expected the two countries to keep good relations and also expected the Burmese to have happy and stable life under the assistance of China and U.S (Li Zhiqiang and Ge Yuanfen 2011).

At present, another democratic political party of Myanmar – National Democratic Force which won 16 seats in the election in 2010 is the fourth largest political party of Myanmar. The chairman of this Party is U Khin Maung Soe, and the important female vice chairmen of this Party are Than Than Nu, Cho Cho Kyaw Nyein, Nay Yee Ba Swe who are respectively the daughters of the former prime ministers of Myanmar, namely U Nu, Kyaw Nyein and Ba Swe. Politically, this Party pursues the achievement of the permanent freedom, justice and equal rights, etc. and striving for making all citizens enjoy basic human rights and political liberty, economic freedom, judicial freedom, thought and expression freedom as well as giving a play to the fine traditions of loving country and protecting country and people. Economically, this Party encourages the joint development of market economy, private enterprise, foreign-funded enterprise, joint venture enterprise and state-owned enterprise. Diplomatically, this Party follows the principles of mutually respecting state sovereignty and stability, opposing the military force invasion and the interference on the internal affairs of other countries, friendly and peacefully coexisting with other countries.

Another unconsolidated political organization with the Burman nationality as the main body is 88 Generation Peace and Openness Association. This organization was established in 2005 and called as “88 Generation Student Organization” at that time. Till now, this organization still cannot be regarded as a true political party, because most of the members thereof were once the political prisoners who were sentenced to be put into prison and played an important role in “Saffron” Revolution in 2007. Although this organization only obtained one seat in the election in 2010, it is always concerned by the public due to the radical political stand. Meanwhile, this organization requires political reform, democratization, national peace and reconciliation, but it is the political force with the most uncertain development direction. Additionally, the leaders thereof are the student leaders who once participated in the democratic movement in 1988, including Min Ko Naing, Ko Ko Gyi, etc., wherein Min Ko Naing is the most powerful leader of the opposition faction except Aung San Suu Kyi. Although there is an internal dispute upon whether to establish this organization as a political party, this organization still has a greater possibility to become a polity party able to participate in the election in 2015.

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<sup>18</sup> Ben Blanchard, *Difficulties Brought by the Release of Aung San Suu Kyi*. <http://cn.reuters.com/article/wtNews/idCNCHINA-3345320101116>

88 Generation Peace and Openness Association was one of the main political forces protesting Letpadaung copper mine and refused to participate in Letpadaung investigation committee led by Aung San Suu Kyi under the appointment of the President Thein Sein. Once the neutral investigation report compiled by the committee quieted down the protest of the local public, but 88 Generation Peace and Openness Association encouraged the local public to protest this report and oppose and resist the resumption of Letpadaung copper mine in order to improve the political influence thereof and gain the political capital. This organization again and again requested to reexamine the series of engineering contracts signed between the Military Government and China in the past in order to confirm whether these contracts had environmental pollution and corruption problems as Myitsone Dam and Letpadaung copper mine had.

Among the above political parties and organization, even facing the increasing pressures brought by the ethnic political parties and other democratic opposition parties in the election in 2015, the Solidarity and Development Party and the National Unity Party with military background still can continue the present internal affairs and foreign policies, trend to the moderate and stable political line, without radical political line and large changes on the foreign policy towards China, because the two political parties are the ruling party or the ally of the ruling party and have the first mover advantage and many available resources. The political goals of the ethnic political parties are still to focus on the national local affairs in a long term, so the influence thereof almost has locality and national characters and the foreign policy thereof cannot impose a great influence on the foreign policy in a short term. Meanwhile, the wide support of the NLD accumulated in the long-term fight with the Military Government and the confidence advantages thereof in the future power struggle both determine that the NLD does not probably put forwards the radical political line and anti-China slogan before the election in 2015. Therefore, the political force that can have greater adverse impact on the Sino-Myanmar relations may come from such political parties or organizations as 88 Generation Peace and Openness Association. These political parties and organizations were the opposition factions suppresses by the government during the period of the New Military Government, and were also the political groups marginalized during the democratic reforms period of Thein Sein Government. Under normal conditions, it is difficult for these political parties and organizations to surpass the NLD and Aung San Suu Kyi both in the aspects of organization influence and personal reputation, so the moderate political line is difficult to help them to take a place in the state power in future and greatly influence the state and the society in future. Then, the radical political slogan or activity may become the measures and methods for attracting the attention of the voters and the international society, wherein these methods include putting forwards some radical Burman nationalism slogan to attract the attention of the main nationality – Burman Nationality, and probably provoking the originally strong anti-China emotion to attract the attention of the country and the foreign countries in order to obtain the political score. Therefore, the political parties and organization that can have great adverse impact on the Sino-Myanmar relations is not



probably the present ruling party with the military background and the alliance parties thereof, ethnic political parties or main democratic opposition parties, but the marginalized democratic political parties or organizations, such as 88 Generation Peace and Openness Association. Although it is difficult for these marginalized political parties to become the ruling party of the country, the two countries still must pay high attention to and guard against the adverse impact on the Sino-Myanmar relations due to the promotion function of these political parties and organizations on the anti-China emotion.

## ***8.2.2 Impact of Public Opinion Change of Myanmar on the Sino-Myanmar Relations***

### **8.2.2.1 Impact of the Governmental Public Opinion Guidance on the Sino-Myanmar Relations**

The Government always tries to persuade the public to support its decisions and even controls the public opinions to serve the policy (Yan Yining 2009). After taking office, the President Thein Sein rapidly promoted the democratic reforms and adjusted the foreign policies. In the reform period, on the one hand, the democratically elected new government was subject to the opinion pressure from the public during the transformation period of the state and the society; on the other hand, the intentions of controlling the public opinion guidance to please the voters and further consolidate the legality of the new regime also exist in the process. In the past military regime period, the Government adopted the suppressive measures through the regime power to enable the main public opinions to serve the legality of the military regime and meanwhile help the military regime to achieve the foreign policy goals. For example, the new military regime defamed the sanction and isolation policies of the western countries towards Myanmar so as to demonize Aung San Suu Kyi who challenged the ruling position and the NLD led by her. As for China that provided the economic assistance and diplomatic protection and held the noninterference attitude towards the internal affairs of Myanmar, the new military regime also indicated to strengthen and continuously improve the traditional friendship between the two countries. For example, the leaders of China and the new military regime strengthened the mutual visit to strengthen the friendship between the two countries and meanwhile dominated the public opinion guidance thereby. In 1989, the Secretary General of the National Law and Order Recovery Committee (hereinafter referred to as Recovery Committee) – General Khin Nyunt visited China; in 1991, the Chairman of the Recovery Committee – Senior General Saw Maung visited China; in 1992, the Chairman of the Recovery Committee – Senior General Than Shwe visited China; and in 1994, the Lieutenant General Khin Nyunt visited China again. In 1996, Senior General Than Shwe visited China at the formal invitation of Jiang Zemin, and as the result, the two countries issued the Joint Declaration in order to strengthen the cooperation between the two countries and

enhance the traditional friendship between the two countries (Hnin Yi 2013). Therefore, even though the anti-China nationalism emotion appeared in such regions as Mandalay City and the public opinions that China involved in some predatory resource exploitation also started to appear in Myanmar during the new military ruling period, such public opinions adverse for the Sino-Myanmar relations did not form the scale effect and the political pressure due to the control of the government on the society and the guidance of the government on the public opinions. However, after taking office, Thein Sein Government suffered from increasing public pressure due to the openness of the democracy space and even had to internally and externally conform to the public opinions and please the voters in order to strengthen the legality thereof.

Actually, the President Thein Sein never gives up the effort for promoting the Sino-Myanmar relations. Although he announced to suspend Myitsone Dam and rapidly improved the relations with such western countries as U.S., the Government still occasionally presented the wishes of continuously promoting the Sino-Myanmar relations. During the visit of Thein Sein in China from May 26 to May 28, 2011, the two countries signed the *Joint Declaration Issued by China and Myanmar about Establishing Comprehensive Strategic Partnership* and various Agreements regarding economic and technical cooperation, concessional loan, infrastructure construction and other relevant fields (Hao Yalin and Sun Yi 2011). The suspension of Myitsone Dam on September 30, 2011 brought great impact to the Sino-Myanmar relations and resulted in the increasing anti-China emotion among the public, but afterwards, Thein Sein Government took the remedy measures after the suspension of Myitsone Dam instead of further stimulating the anti-China emotion of the public in order to prevent the further damage on the Sino-Myanmar relations. At the announcement of the suspension of Myitsone Dam, Thein Sein also indicated that the Government of Myanmar would friendly negotiate with the Government of China in order to prevent the damage on the bilateral relations and friendship between the two countries (Li Chenyang 2011). In order to prove that this event was not the inflection point of the Sino-Myanmar relations and meanwhile guide the domestic public opinions regarding the relations with China, the official media of Myanmar – *New Light of Myanmar* continuously issued four articles to indicate the significance of the normal and firm Sino-Myanmar relations for the political, economic and social development of Myanmar.

Furthermore, in order to correctly guide the public opinion, the Government of Myanmar not only continuously promoted the economic cooperation between the two countries, but also vigorously promoted the high-level mutual visit in order to strengthen the mutual trust and continuously send out the signal of the friendly Sino-Myanmar relations as well as strengthen the friendly public opinion atmosphere for the two countries. On November 28, 2011, the Government of Myanmar arranged Commander in Chief of National Defense Forces of Myanmar – General Min Aung Hlaing, and the two parties exchanged views with each other on the regional situation, the relations between the two countries and the two militaries and

other issues of common interest.<sup>19</sup> In order to pacify the foreign investors including China and domestically indicate that the Sino-Myanmar economic cooperation would not suffer from recession due to the suspension of Myitsone Dam, the Vice President of Myanmar – Tin Aung Myint Oo held talks with the State Councilor of China – Dai Bingguo who visited Naypyidaw and attended the 4th Leader Conference of Greater Mekong Subregion Economic Cooperation, and indicated that Myanmar firmly devoted to the development of the Sino-Myanmar comprehensive strategic partnership and was willing to work together with China to keep the high-level contact so as to positively promote the economic and trade project cooperation and benefit for the people of the two countries.<sup>20</sup> During the visit in China in November 2012, the Chief Political Consultant of the President of Myanmar – U Hlaing indicated that Myanmar cherished the friendship with China since the ancient times, and the Sino-Myanmar relations would be further deepened in the present reforms process in Myanmar as time went by (Qin Zhongwei 2012). When attending 2013 Boao Forum for Asia in Sanya on April 6, 2013, the President Thein Sein talked with the President Xi Jinping and indicated that the Sino-Myanmar relations could reach the comprehensive strategic partnership position through the long-tested friendship. Meanwhile, Thein Sein also thanked China for the firm support to Myanmar in the past more than 20 years and firmly believed that the Sino-Myanmar relations would promote the bilateral cooperation, and he also hoped that the responsible companies and investors of China should make efforts to win the trust of the Burmese.<sup>21</sup> The two countries indicated in the Joint Press Communiqué on April 5, 2013 that under the new situation, the strengthened strategic mutual trust, the firm cooperation and mutual benefits and the hand-in-hand joint development were the important guarantee for safeguarding the fundamental interests of the people of the two countries and achieving the steady and flourish development of the two countries as well as favorably promoting the peace, stability and prosperity of the regions. Both parties also decided to carry out various forms of cultural and educational exchanges in order to expand the public contact and enhance the friendship of the people of the two countries as well as strengthen the friendly exchanges and cooperation in the fields of media, non-governmental organization, education, health, etc.<sup>22</sup>

Therefore, although the Sino-Myanmar relations suffered from the public opinion pressure adverse for the normal development thereof during the process of the transformation of Myanmar to the democratic society, such adverse public

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<sup>19</sup>Li Xiaowei: *Talks between Chen Bingde and Commander in Chief of National Defense Forces of Myanmar – Min Aung Hlaing*, website of Ministry of National Defense of the People's Republic of China, November 28, 2011, [http://news.mod.gov.cn/headlines/2011-11/28/content\\_4320071.htm](http://news.mod.gov.cn/headlines/2011-11/28/content_4320071.htm)

<sup>20</sup>*Talks between Dai Bingguo and the Vice President of Myanmar – Tin Aung Myint Oo*, Xinhuanet, December 20, 2011, [http://news.xinhuanet.com/2011-12/20/c\\_1224484493.htm](http://news.xinhuanet.com/2011-12/20/c_1224484493.htm)

<sup>21</sup>“China has committed to sharing its development with regional countries”, *New light of Myanmar*, 7, April, 2013, <http://www.myanmar.com/newspapers/newspaper-archives.html>

<sup>22</sup>*Joint Press Communiqué Issued by the People's Republic of China and the Union Of Myanmar*, website of the Central People's Government of the People's Republic of China, April 5, 2013, [http://www.gov.cn/jrzq/2013-04/06/content\\_2370914.htm](http://www.gov.cn/jrzq/2013-04/06/content_2370914.htm)

opinions appearing in the society of Myanmar did not severely influence the normal Sino-Myanmar relations due to the efforts made by Thein Sein Government to guide the public opinions. However, since Myanmar is now in the social transformation period and has various sharp social conflicts, the Government of Myanmar may make some actions adverse for the Sino-Myanmar relations in the aspect of public opinions due to the present great pressures. Therefore, it is necessary for the leaders of the two countries to keep periodic mutual visit and strengthen communication and mutual trust. Furthermore, in order to promote the normal and steady development of the Sino-Myanmar relations, the two countries shall make great effort to take relevant measures to prevent the Sino-Myanmar relations from being damaged by such anti-China events, etc. appearing in the middle 60s of twentieth century due to the public opinion guidance deviation of the Government of Myanmar.

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# Chapter 9

## Sino-India Bilateral Relations: Review and Prospects

Yishuang Yang

**Abstract** The Sino-India relation is the most important and the most complicated bilateral relations in the Indian Ocean region. With the rise of global strategic status of the Indian Ocean and the “double rise” of two countries, the common interests between China and India are growing, but the competition is intensified. On the one hand, with the enhancement of the economic and trade exchanges between the two countries, mutual visits of prime ministers of both countries and the signing of border agreement have witnessed the increasingly matured relationship; while on the other hand, in addition to boundary and territorial disputes, issues such as trade imbalance and geopolitical competition in the Indian Ocean region has been gradually become the new factors that leads to divisions between China and India. In all, there is no fundamental transformation in political mutual trust and communication on both sides. This trend can be hardly avoided for common rise of two major powers of strategically neighboring space, but the two countries ought to break the traditional mindset of zero-sum game to avoid confrontation and promote dialogue and cooperation, which is in accordance with the common interests of both China and India.

**Keywords** Sino-India relations • Competition between India and China • Cooperation between India and China

On October 22, 2013, Indian Prime Minister Singh has arrived in Beijing to visit China. It is the meeting of prime minister between the two countries once again five months after China’s Prime Minister Li keqiang’s visit to India, also the realization of initial annual exchange of visit between two prime ministers of China and India after exchange visit between prime ministers of Zhou enlai and Nehru. After a joint statement was proposed by India and China to jointly initiate BCIMEC

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(Bangladesh-China-India-Myanmar Economic Corridor) in May, two sides signed again the nine bilateral cooperation documents of transportation, energy, culture, education, local exchange etc. in October. During the visit of Prime Minister Singh, a Chinese foreign ministry spokesman pointed out that consensus between China and India is greater than the differences; common interest existed greater than the problems.<sup>1</sup>

Under the new tendency of international environment and regional development, China and India now must face up to the importance and strategic position of each other. India has always regarded China as a frame of reference and the competition in the international system for a long time; while with strategic balance between Asia and Indo-Pacific increasingly taken into consideration as India's promotion of "Look East Strategy", India has to view China in distinct ways as well. In 2012, India's "The Nonaligned 2.0: Non Alignment: A Foreign and Strategic Policy for India in the Twenty First Century" denoted that: "India must integrate into Asia, and China is an indispensable part of Asia." But for China, in the past, India is not an object of priority in China's foreign policy, because India is neither China's close neighbor, nor a "comprehensive and mutually trusted partner with common strategic interests", however, nor the enemy of irreconcilable contradiction and comprehensive opposing at the same time (Zhao Gancheng 2009). However, while India's importance is growing in the global and regional affairs, bilateral interests of China and India overlaps with increasingly complex geopolitical entanglements and competition; China must reconsider India's status in diplomatic strategy, no matter in economic, political and regional affairs. Comments from China's official media also pointed out that Prime Minister Li Keqiang chose India as the first stop of official visits in May 2013 after he took office which in itself indicated the importance of India in China's diplomatic decision-making.

Nevertheless, this does not mean that the bilateral relations between China and India are as right as rain in 2013. At the beginning of this year, the Sino-India border stuck into continuous tension of "Tent Confrontation", which has caused a deterioration in the bilateral relationship (The Official Xinhua News Agency 2013).

India has repeatedly accused that China's market access policy is chiefly to be blamed for a huge trade deficit, resulting in decline of bilateral trade volume; although the two prime ministers realized exchange visits within 1 year, strengthening cooperation on global governance and regional affairs, competition of both sides has intensified in the Indian Ocean and Asia. The twists and turns reflect the status of Sino-India bilateral relations: Both China and India have to acknowledge the position and the importance of the other side in the global and regional affairs; while paradox has to be envisaged that while mutual interest and mutual dependence are on the rise on the one hand, competition and differences between the two countries are also rising on the other hand. As pointed out by China scholars, the current relationship between China and India is the coexistence of "four C" (that is, Cooperation, Competition, Conflict and Coordination) (Ye hailin 2013). China and

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<sup>1</sup> "The Ministry of Foreign Affairs: The consensus between China and India is greater than the differences", [http://news.Xinhuanet.Com/world/2013-10/22/c\\_\\\_117827052.Htm](http://news.Xinhuanet.Com/world/2013-10/22/c_\_117827052.Htm)

India will not fall into antagonism, while it is also difficult to build a more intimate partnership, overcoming obstacles of the lack of mutual trust and the interests of the goal conflict in a short term. In the Indian Ocean era, how to deal with relationship between China and India is the important issue which will require diplomatic and strategic wisdom of senior leaders of the two countries.

## 9.1 Regional Competition and Cooperation

For decades, China and India has been competing regional powers, but in recent years, this competition has intensified with the rise of the two countries. Just as John Garver said, in recent years, the form of Sino-India relations is profound and lasting geopolitical competition, because both sides “have strategic ambitions to play a key role in new political, economic and security architecture in Asia” (Ghoshal 2013a). With rise of two big neighboring developing countries at the same time, geopolitical competition resulted from the strategic space overlap is an inevitable phenomenon. The strategic space overlap has concentrated in the Indian Ocean region in recent years, for “this area is where interests of China and India” intersect, which is an inevitable consequence of “double rise” (Malik 2011). However, on the other hand, on, the two countries have had huge common interests than ever before in the regional cooperation, requiring two countries to cooperate to achieve win-win situation.

### 9.1.1 India “Look East” and China “Go West”

In the process of the rise of China and India, the adjustment of strategic pattern, the strong demand for resources and leadership of regional affairs of both sides, have destined to generate competition between the two countries. Since the twenty-first century, India’s implementation of “look east policy” has enhanced its political and military cooperation with ASEAN and China’s neighboring countries. While China seeks for the new strategic breakthrough to avoid direct conflict with the United States, diverting more attention to South Asia and the Indian Ocean region in recent years, and the tendency of entering range of influence of each other over the past years have deepened the bilateral strategic space overlap.

“Look East Policy” formulated by Rao government is a vital strategy for India to reshape its diplomatic status after the cold war, of which first phrase is to strengthen economic ties with Southeast Asian countries and the Asia-Pacific countries. Over the years, Sub-regional cooperation between India and The association of south-east Asian nations (ASEAN) and the Asia-Pacific region has indeed enhanced the strength of the economic integration of India and Southeast Asian countries, from which India benefits a great deal. But since 2003, India’s “Look East Policy” has entered the second stage, the scope far exceeding the scope of Association of South-East



Asian Nations (ASEAN) and the economy field, into the category of political, security and military cooperation, and its fundamental purpose has been India's spatial extension of strategic interests. In India's "Look East Policy", there is no doubt that China is an important factor. On the one hand, India will take "Look East Policy" as the responding measures to balance China's influence in Asia, and to conduct "soft restriction" to China (Sun Xianpu 2012); on the other hand, out of concerns of the rapid ascension of China's power and concerns of relying too much on China, some China's neighboring countries divert their attention to India gradually, implementing the "Power Balance", which is a reason of continuous promotion of India's "Look East Policy" in recent 2 years.

After South China Sea Clash between China and Vietnam, despite of China's protests and opposition, India has strengthened the cooperation with Vietnam in the field of oil and gas field and military security. On December 5, 2012, the Indian navy Chief of Staff Josh even claimed that India prepared to send warships to the South China Sea for its own sake directly, involving in Nansha islands sovereignty disputes. In November 2013, during visit of Central committee general secretary of Communist Party of Vietnam (VCP) Nguyen Phu Trong to India, both sides signed eight agreements, covering sector of education, national defense and energy. Among them, in agreement signed between Vietnam's state oil company and Subsidiary Corporation responsible for overseas development in India's oil and natural gas Company, Vietnam offers seven oil blocks in the South China Sea for exploration to India. Although the concrete block (17, 41, 43, 10, 11-1, 102, and 106/10 block) is not in the disputed area, some Indian media claimed that "this is the counterattack to China". After the escalation of Diaoyu Islands conflict between China and Japan, political and military cooperation in an all-round way between India and Japan are also rising. On May 28, 2013, during Indian Prime Minister Singh's visit to Japan, he said that in respects of growing Marine safety cooperation and promoting the stability of the region, India and Japan shared strategic interests, are "natural partners". On 30th November, the Royal couple of Japan conducted a week-long historic visit to India. After the initial joint military exercise between Japan and India navy held in Sagami Bay near Tokyo in 2012, two sides conducted joint exercise once again in December 2013. Senior military officials in South Korea and India also held the first strategic defense dialogue between the two countries on December 23, 2013, discussed how to promote bilateral military relations and expand defense industry cooperation. In June 2013, Indian defense minister A.K. Antony visited Singapore, Australia and Thailand. In a joint statement of Australia and India, both sides indicated that naval exercises would be held in 2015, in order to improve the level of defense cooperation relations, and at the same time to strengthen bilateral strategic cooperative partnership.

India medias claimed that these frequent political and military cooperation results from the fact that "there are more and more voices from Asian-Pacific region to ask India to deal with China by acting as 'balance'", which has deepened the impression that India on the one hand strengthens competition with China in the area of energy, and on the other hand contains China through the enhancement of cooperation with neighboring countries. Therefore, there are also voice of concerns



in China, holding that as rise of Hindu nationalist sentiment, India may finally abandon the non-aligned foreign tradition (Li Yibo 2008).

At the same time, India feels nervous about China's increasing involvement in the Indian Ocean and South Asia. In 2012, the Chinese scholar Wang Jisi proposed "go west" strategy, namely, to ensure the future of China's energy security through establishment of controllable onshore and offshore energy channels, to establish all-round opening pattern for neighboring countries in the Indian Ocean, to increase the output of underdeveloped south central Asia utilizing China's capital and technology, so as to accelerate regional economic integration. For China, "the sea areas in between from the Korean Peninsula to India are the most important geopolitical environment, which determines success or failure of the rise of China. In a sense, "none trifles in neighboring diplomacy" indicates neighboring friendship is quite precious" (Sun Xingjie 2013). However, based on the "concentric circles" theory of India's diplomacy, India has always been taken South Asia and the Indian Ocean as backyards of his own, therefore been very alert of China's growing influence in South Asia. China and Pakistan's "all-weather" partnership has been the main factor to India's uneasiness for a long time, as Zbigniew Brzezinski says: "The Close military cooperation between China and Pakistan ... limits India to set up regional hegemony in South Asia so as to be rivaled with China in geopolitics" (Brzezinski 1998). In 2013, during Mr. Sharif's visit to China, he signed a contract to China to buy two large nuclear reactors from China, which discontent India very much. In addition to making a protest against China through the nuclear suppliers group, India's foreign minister Salman Khurshid expressed "serious concern" about expanding nuclear relations between China and Pakistan in his meeting with the Chinese press delegation; India's former foreign minister even regard China selling nuclear reactions to Pakistan as the primary reason for the reduced strategic mutual trust between the two countries (Ghoshal 2005). China supports Pakistan's claims to India's sovereign of Jammu and Kashmir region, relaxing the Kashmir resident visa restrictions, which upsets India as well. In addition, since 2009, Sri Lanka's closer relation with China after the end of civil war also has made India uncomfortable. China assists Sri Lanka to build infrastructure like multiple ports, highways and power stations and so on, which includes Colombo South Harbour officially open on October 5, 2013. Primarily funded and constructed by China Merchants Group, Colombo South Harbour has so far been the biggest deep water port in South Asia, and India have long suspected that the port will be used for military purposes.

Obviously, either the promotion of India's "Look east" strategy, or the extended influence of China on South Asia, has brought certain pressure and the influence to each other. Both China and India considered that geopolitical strategy and security of military cooperation imply intentions against the other side. In the foreseeable future, competition between China and India also will become more intense in the region. However, both China and India should realize that in the current situation, to deliberately exclude each other in their so-called traditional sphere and regional cooperation mechanisms are neither realistic nor helpful to solve the problem. India does not want to be demoted to a regional country that could only compete with Pakistan and China also doesn't want neighboring situation and diplomatic

environment continue to deteriorate in the process of its rise. The way to solve the problem is not to block each other's strategic space, but to admit the facts and trends of strategic spatial overlap, so as to take rational and positive measures to deal with it. China and India do not expect any confrontation, but competition, thus both sides need to strengthen bilateral dialogue and regional cooperation to avoid strategic competition raised to unnecessary geopolitical conflict.

### ***9.1.2 Competition Between China and India in the Indian Ocean***

The Indian Ocean is a vital part for the bilateral relations. Indian Ocean, as the inter-lacing point of the interests of the two countries, has stand out as geopolitical strategic position in recent years, which also amplifies the strategic deficiency in trust and different interests for China and India. But, given the current situation, direct conflicts between China and India are unlikely to occur because of the Indian Ocean. "China's entry into the Indian Ocean" is an important part of China's Marine development strategy, also a fait accompli, though from a purely geographical sense, China is not the Indian Ocean countries. Since the twenty-first century, the change of international situation and the Indian Ocean's growing importance for China, have put China in the way of becoming "two foreign countries" of Pacific and Indian oceans. The Indian Ocean is China's major trade routes and trade channels, also one of energy lifeline in China. In order to ensure their own legitimate interests, and to maintain strategic channel of peaceful rising, China needs to increase the activities in the Indian Ocean.

China's ascended actions and naval power in the Indian Ocean upsets India. India has always been the traditional dominance in the Indian Ocean, and the Indian Ocean is taken as "Indian Ocean" and core national interests of the place. As a result, India regards China's entry into the Indian Ocean as a strategic challenge of China to Indian Ocean. In addition to worrying the Chinese action of navy force in the Indian Ocean region, which weakens the hegemony of India in the Indian Ocean, the cooperation between China and other countries in the Indian Ocean perturbs India too. In 2013, Pakistani navy held joint naval exercises with China, which were closely followed by the Indian army immediately. India will also take China's escalated ocean conflicts with Vietnam, the Philippines and Japan and other countries recently as "evidence" for China to seek power and influence in the Indian Ocean region. India will also interpret China's participation in the construction of national port in Bangladesh (Chittagong), Myanmar (Shi Dui port and cocoa island), Sri Lanka (hambantota), Pakistan (Gwadar), Tanzania (Bhagwat moyo port) etc. as encirclement of India. In February, 2013, Chinese companies took over operation power Pakistan's Gwadar port in southwest, which let the Indian media start making a big fuss again on "the strategy of pearls". As a result, India on the one hand speeds up the pace of upgrading naval power, strengthening maritime defense cooperation

with US, Japan and other countries; on the other hand, it aims to check, balance and contain China by closer ties with the Indian Ocean in regional mechanism. In Indian Ocean union meeting held on November 1, 2013, India, Indonesia and Australia invited the United States as the dialogue countries to participate in the meeting, which is obviously likely to create the national dialogue mechanism of US and the Indian Ocean region, and to contain China action intention by agreement agreed by all parties.

However, the reason why the Indian Ocean has been another potential hot issue in Sino-India bilateral relations following the border issue and trade disputes lies not completely in conflicts of marine strategic goals of the two countries who try to compete for strategic advantage. In contrast, nowadays, although China and India naval forces have made considerable progress, objectively speaking, the two sides do neither have enough sea power to achieve strategic objectives, nor anyone can build up the real strategic advantage in the Indian Ocean. In fact, the key words in the Indian Ocean in bilateral relations are not so much a “strategic”, as “uncertainty” and “concern”. China’s main concern derives from the Indian trade and energy security, but also from blocked important throats of the strait of Malacca, the strait of Hormuz and Mandela channel and so on, while India’s main concern, as mentioned above, consists in Other countries’ (including China) expanded influence and pursuit of power in the Indian Ocean, and India’s encirclement led by the so-called “Strategy of Pearls”. In addition, the outside power’s intervention especially the American in the Indian Ocean complicates the geopolitical situation in this region even more. Although enhanced cooperation between the United States and India in the Indian Ocean has been extremely intensified, America does not expect the scene of India’s strengthened growth to weaken the influence of it, so as to control the whole Indian Ocean alone, and there are also contradiction, differences and competition between the two countries in the Indian Ocean. This on the one hand makes India want to use the United States to contain China, and on the other hand, it unwilling to simply serve as the chess pieces of United States checks and balances strategy. These factors complicate still more the geopolitical landscape in the Indian Ocean, which also makes it hard to get to know the game and the bottom line of the strategy. And although China has been taking a cautious and cooperative attitude, in fact it is not a well-shaped strategy in the Indian Ocean with unclear definition of the core interests. So, despite China has repeatedly assured that primary goal is to ensure the safety of the logistics network and trade in the Indian Ocean, rather than the pursuit of power and overseas military bases, India is not been convinced. It is these uncertainties that lead to unnecessary speculation, strategic miscalculation and disturbance of “imaginary” naval arms race in terms of Sino-India relations in the Indian Ocean.

However, these uncertainties and concerns alone are not enough to constitute conflict and confrontation between China and India. The two countries have common interests in maintaining the trade routes and the regional peace and order in the Indian Ocean. The countries surrounding the Indian Ocean region have the property of “broken zone”, and namely, the Southeast Asia off the coast of Indian Ocean,

the Middle East and east African countries are mostly small in size, lack of unity as a geopolitical entity, which are group powers of countries (Liu Xinhua 2010). At present, Indian Ocean alliance has been the only pan-regional multilateral organization in the Indian Ocean, and since it was founded in 1997, its actual role is limited. At the same time, riparian states of the Indian Ocean concentrate a large number of “failed states”, suffering from disturbances of armed conflict, terrorism, piracy, political risk, maritime territorial disputes, illegal firearms smuggling, trafficking in drugs and human trafficking (Pandya et al. 2011). In addition, the interest relations in the Indian Ocean are complex, and in addition to countries of China, India, America, Japan and so on, other countries like Russia and France also eye covetously the Indian Ocean. Therefore, although India is trying to control the Indian Ocean, to rule out other countries’ involvement in the region as far as possible, merely reliance on India is hard to maintain the balance of power in this region with peace and stability. As pointed out by scholars Manmohan Singh, starting a new fight in the Indian Ocean is neither in China’s interest, nor conforming to the interests of India. At present, more than 85 % of China’s oil imports need to pass sea lanes near the Indian navy deployment. Similarly, more than 50 % of the India’s trade needs pass through the Strait of Malacca. The fact should be the basis for the two countries to maintain sea stability, rather than the root of the conflict. In today’s economic interdependence, management of “the Indian Ocean-Pacific” waters requires the participation of all countries in the region and any nation cannot be ruled out (Singh 2013). There is possibility of cooperation between China and India on the issue of maintaining trade channel security, and bilateral cooperation can balance each power in the Indian Ocean region, while Indian Ocean alliance also needs big power like China to promote regional cooperation. In recent years, both China and India has actually taken cautious measures, to avoid amplification of hostility and misunderstanding. In May 2013, for example, India announced his retirement from the United States the United States-Japan trilateral naval exercise, in order to avoid further stimulus in China. During Indian prime minister Manmohan Singh’s visit to China in October 2013, he said in a statement after the prime minister talks: “As neighboring countries following the independent foreign policy, India and China’s relations with other countries can’t let the other party concerned, which is our strategy to ensure.

China and India will also definitely have a long-term run-in period in interests in the Indian Ocean, and in this process, both sides should try to find common interests and cooperative way or platform, because a peaceful Indian Ocean is in the interests of both China and India. Despite the differences are inevitable, to strengthen dialogue and communication can reduce the gratuitous misreading and speculation. In addition, China may also need to have a more clear strategic intent and goal in the Indian Ocean issue, not being too passive, but to follow the process of “take action – misrepresented – clarified – misunderstood by further clarification”, and should be more actively involved in the area of communication and dialogue, and ought to more clearly define and claim their legitimate rights and interests in the Indian Ocean region.

### ***9.1.3 Regional Cooperation and the “Economic Corridor of China, India, Myanmar and Bangladesh”***

In bilateral relations between China and India, regional cooperation is a potential field, in which although there is competition between China and India, more common interests emerge. Competition mainly refers to the association of south-east Asian nations (ASEAN), and China has “10+1”, “10+3” and the ASEAN free trade areas; India has “10+6”, also the India – ASEAN free trade areas in the negotiation process. As mentioned above, on the one hand, this is one of the embodiments of space overlapping interests after strategic adjustment between Sino-India, also competitive powers in the multilateral mechanism of two sides, but on the other hand, currently both China and India need to seek for a new breakthrough in the regional and multilateral cooperation.

In recent years, China has obvious suffered in the process of promoting multilateral cooperation in east Asia, thus free trade areas including China, Japan and South Korea in negotiation or brewing and the RCEP regional economic cooperation are difficult to make substantive progress at the moment (Gaocheng 2013). For India, economic cooperation between South Asian countries and South Asia remain to be a standstill after establishing a south Asian association for regional cooperation, in terms of which India has been disappointed. While as to Southeast Asia region noticed by both sides papers multiple regional and multilateral organizations congestion: the region is also the target of “Asia-Pacific rebalancing,” Japan value-oriented diplomacy, India “Look East Strategy” and China’s diplomatic strategy of neighboring countries of good neighborly and friendly relations. Competitive entrance of multiple mechanisms and a variety of forces into Sub-regional cooperation leads to mechanical congestion, even mutual competition and conflict. Therefore, China and India has been trying to establish a new breakthrough in regional cooperation mechanisms.

In this case, in May 2013, during China’s prime minister Li Keqiang visits to India, construction of “economic corridor of Bangladesh, Sino-India and Myanmar” under the jointly initiative of both countries leaders adds strong impetus into sub-regional cooperation led by China and India, which is also the important breakthroughs in the regional economic cooperation among China, India, Myanmar and Bangladesh, which has long been slow to develop and has stayed in the academic level since 1999. In December 2013, meeting for the first time of four sides joint working group in economic corridor of BCIM (Bangladesh, China, India and Myanmar) have accomplished the agreement of concept paper and meeting minutes of economic corridor of BCIM, and the four government agencies to promote cooperation are officially set up, so as to promote the economic working mechanism of the construction of the corridor. It is expected that by the end of 2014 the third work conference will be held in India, and eventually cooperation framework is formed.

In addition to Yunnan province China, directly related area in economic corridor of BCIM, with a total area of some 1650,000 km<sup>2</sup> and a population of 440 million,

covers northeastern states, such as Myanmar, two countries of Bangladesh, West Bengal India, Bihar and so forth,. In these regions, infrastructure construction is terribly bad, which severely restricted the development of local economy and the improvement of people's living standards, thus generating some social problems. The introduction of related investment will be of great help to the infrastructure construction in the region, also benefiting a lot to southwest of China and northeast of India. In addition, there is a great deal of non-traditional security cooperation between the two countries in the region, such as terrorism, energy, water, combating transnational crimes, environmental issues, etc. Therefore, the real meaning of economic corridor of BCIM is to seek for the common interests of regional cooperation in the process of adjusting the policy, which is also the starting point of the new economic cooperation between China and India.

## **9.2 Political Mutual Trust and Border Dispute Between the Two Countries**

The year of 2013 has witnessed frequent exchanges between high-level officers of China and India. Qi Jianguo, Deputy Chief of General Staff of Chinese People's Liberation Army visited India in late March and Indian foreign minister Salman Khurshid paid a official visit to China from May 9th to 10th. In early July, during visit of Indian defense minister Antony to China, he implemented the military exchange plan of the third Army Joint Exercises, which was suspended for 5 years. But the most progress for the relations between China and India are the first exchange visits for the two countries' premiers in that year since exchange visits of the Chinese premier Zhou Enlai and Indian premier Nehru in 1954. It has been an important symbol of bilateral relations since defining bilateral relations between China and India as long-term constructive partnerships in *Declaration on Principles for Relations and Comprehensive Cooperation between China and India*, which makes it possible for them to witness the efforts of increasing political mutual trust between high-levels of both India and China. The main obstacle of the development of China and India relations are border and territorial disputes, which was proved by "Tent Confrontation" again in 2013. Agreement on Border Defense Cooperation signed by the two countries in October was not a breakthrough but a strong proof of settling border questions by politics ways.

### ***9.2.1 The Efforts Made in Increasing Political Mutual Trust***

The Chinese premier Li Keqiang visited India in May 2013. After the talk with the India premier Manmohan Singh, China-India stressed in joint statement that "China and India regard each other as mutually beneficial partners, rather than competitors". China and India signed eight bilateral agreements including sewage

treatment, water resource management, book translation and the twinning of cities. The joint statement added that discussions covered areas such as expansion of civil nuclear energy programs, enhancement of cooperation in maritime security, demonstration of joint military exercises, and simplification of visa procedures. During the visit, Mr. Li said China and India need to “work hand in hand across the Himalaya Mountains” to promote Asia as an “anchor for world peace” in Hindu, a leading Indian newspaper (Li Keqiang 2013).

After the talks between Chinese premier Li Keqiang and Indian premier Manmohan Singh on October 23, they signed nine cooperation documents including defense cooperation, road transportation, cross-border rivers, electric power equipment, cultural exchanges, Walter Savage Landor university and the twinning of cities. Singh said in a statement after the talks in Beijing that: “we agree that the prosperity and development of Chinese and Indian 2.5 billion people is the key factor of Asian rejuvenation and global prosperity and stability. As the re-risen leaders of great powers, we should search for the developments of society and economy in the global environment of rapid changes and instability and we are determined to keep our promise of full commitment and keep our friendly relationship. This is our strategic vision.

The efforts made in increasing the political mutual trust between India and China are on basis of both the interests of the two countries. Now, being great developing countries, China-India primary goal is to develop the economy, to promote self-strength and rise peacefully, thus a stable international environment and the surroundings are their mutual appeal. The rises of the two countries are facing the similar constraints of changing roles to be the active participants of global affairs and taking on more international responsibilities in the course of entry into international system and seeking for the suitable international status. On the other hand, they need to face the alert and pressure from the western powers. The two countries both want to build up a fair international system in favor of trade and development. It is essential to cooperate with each other for the purpose of this goal.

### **9.2.1.1 International Order**

On one hand, as BRICs and newly-developing countries, China and India want to maintain the security and stability of the overall surrounding environment thanks to benefit from the current international order. On the other hand, China and India want to establish a more fair international order in order to decrease the external drag in the course of rise. In the international order and global affairs, India was more inclined to participate in multilateral mechanisms instead of Chinese bilateral form. Now, China and India start to seek for new international order through the establishment of new multilateral mechanisms. For example, the multilateral mechanisms of establishing the BRICs development Banks and emergency reserve library in the fifth the BRICs summit in 2013 were an attempt to build up international orders for emerging market countries. The understanding and trust between China and India were the important basis of promoting this mechanism.

### 9.2.1.2 Global Governance

China and India have the similar position of owning the right to speak in a peaceful manner and increasing countries' interests in terms of energy security, trade rules, and non-traditional security. This is a basis for China and India to cooperate with each other, which makes them possible to cooperate in an all-round, multi-level way. The typical examples are their similar standpoints and mutual benefits in Chinese and Indian UN Framework Convention on Climate Change and Kyoto protocol in terms of different responsibilities between the developed and developing countries. Since the Climate Change Conference was held in Copenhagen in 2009, the BASIC, headed by China and India, has cooperated to avoid the impact of trade barriers and carbon emissions reduction targets, for the developed countries had shirked their historic responsibilities on the issue of future greenhouse gas emissions reduction targets and had been lacking in political willingness to fulfill their promises and providing funding and technology to developing countries. In the UN annual fifth round of negotiations on climate change in Barcelona, Spain in 2009, the Indian representative, Prodipto Ghosh, even said: "we are so consistent that you cannot distinguish who (Chinese representatives or Indian representatives) is in speaking if you do not look at our faces."<sup>2</sup> On the Warsaw convention in 2013, European and American countries tried to "kick out" the principle of "common but differentiated responsibilities" from the new agreement, which was strongly rejected by the developing countries led by China and India. China and India finally gained a compromise solution in terms of the developed and developing countries' different responsibilities in emission reduction.

#### 9.2.1.3 Regional Security Issues, Counter-terrorism and Non-traditional Security Issues

The constant development of the relations between China and India in respect of regional security issues could counterbalance the effect of American and Japan Union in East Asia. Likewise, there is a considerable scope for collaboration in counter-terrorism and non-traditional security issues. China and India negotiated about issue of Afghanistan for the first time on April 18, 2013. Possessing the most investment in Afghanistan, China and India must embody their ability of managing regional order on the issue of Afghanistan due to western countries' withdraw from Afghanistan. In fact, China and India had held a series of bilateral and multilateral dialogue on the issue of Afghanistan before this negotiation. In the 12th meeting for Indian, Chinese and Russian foreign ministers held in New Delhi in November, the ministers from India, China and Russia affirmed the partnerships on the Afghan problem and would jointly crack down upon the regional terrorism.<sup>3</sup> China and

<sup>2</sup>"India supports Chinese climate position", Netease finance and economics, October 30, 2009.

<sup>3</sup>"After RIC meeting, China backs Pak on terror", *The Hindu* on November 23, 2013, <http://www.thehindu.com/news/international/after-ric-meeting-china-backs-pak-on-terror/article5342608.ec>.



India governments wanted to increase mutual understanding through holding anti-terrorism joint training, in November 2013.

## ***9.2.2 Border and Territorial Disputes Are Still the Glaring Problems in the Relations Between China and India***

Since the establishment of Sino-India special representative talks of border issue in 2003, China and India government had always tried to fade away border disputes and avoid escalation of the situation in order to build up a smooth development of mutual trust. However, the “tents confrontation” events that took place in early 2013 proved once again that the biggest disputes in Sino-India relations were border and territorial problems.

### **9.2.2.1 Tents Confrontation**

On April 15, 2013, Indian authorities and the media said 50 Chinese soldiers set up an outpost in Himalayan area of Ladakh about 10 km from the border and held a slogan in both English and Chinese: “this is Sino-India territorial line of actual control, and you have entered into China now.” This event caused uproar in India. Indian chief of the general staff inspected the border area and the secretary of defense said that we must defend the territory and sovereignty and it was reported that mountain combat troops moved to the confrontation areas.

Not having gained anything from many times of “national flags talks”, the armies continued stalemate between the two countries. Tents confrontation lasted for more than 20 days till their armies pulled back to the front of the confrontation of the origin on May 5.

Located in border of Aksai chin area in China and the Ladakh, the area of Tents confrontation was friction hotspot of the two armies due to the different understanding of actual control border. Indian media said that their road constructions in Ladakh were stopped and obstructed by the Chinese army in 2009 before tents confrontation. Although tents confrontation has been considered as one of the most serious stand-offs since 1987, it did not come to sensational status of “close to the outbreak of war”. When compared with attitudes from media and folk, Chinese-Indian governments kept calm and restrained after tent confrontation. China clearly conveyed two piece of information: China respect and abide by the actual control line in China-India boundary; the Chinese frontier forces did not go over the actual control line. The Indian government has repeatedly said that the issue could be solved peacefully. Although border armies were at loggerheads, the official contact has never been ended. China and India kept a close communication and consultation through the relevant mechanisms, diplomacy, border meetings and these made it possible for them to solve the problems peacefully, which paved the roads for both Li Keqiang’s visit to India and India’s foreign minister’s visit to China. In June

2013, special representative on the China-India boundary disputes the 16th rounds of meeting held in Beijing. This was the first time for establishment of Chinese new government to negotiate with India on China-India boundary disputes.

What we should stress is that no matter how serious the outside world to render the China-India boundary disputes, the disputes of Chinese and Japanese Diaoyu Island are quite different with the border disputes between China and India in nature.

In general, the current disputes and differences could be solved by political ways and mutual understanding and accommodation. But why situation of “tents confrontation” was exaggerated to be so serious?

First, “tents confrontation” reflects the complexity of Chinese and Indian border disputes. Since Wen Jiabao’s visit to India in 2005, the settlement of the China-India boundary question political parameters and guiding principles had been signed by China and India, and established basic framework and action principles of border disputes. Also it had built up the basis of political solution and assured the peace on either side of actual control line. Besides the normal diplomacy, China and India opened many special dialogue mechanisms including the China-India boundary question second-tier official talks and the China-India boundary question joint working group meetings. During the 15th Special Representatives’ Meeting on the China-India Boundary Issue, China and India government signed the agreement of the government of the People’s Republic of China and the government of the republic of India on the establishment of Sino-India border affairs consultation and coordination mechanism, which was led by the two countries’ department bureau class officials and formed by the two sides of diplomatic and military officials. Nevertheless, China-India border disputes could not be solved by the determination of the political guiding principles and the basic direction. This marked that the China-India boundary talks finished the first phase of the work. The second phase of the work was to draw a framework to solve the problem of boundary and the third phase of the work was to draw the actual demarcation. The definition of the core interests between the two countries, the disputes of historical problems and many complicated factors would be involved in the latter two phases of negotiations. Although as Singh said in the statement, there is a consensus on the issue of maintaining peace and tranquility in border areas and the two sides agreed that the border disputes should not influence the overall development of China-India relations. It is an important mutual political understanding basis of solving the border problems. Covering nearly 130,000 sq. km of territory, border disputes are a matter of core interests between the two countries and cannot gain a breakthrough due to too much complicated historical and political factors. In fact, having conducted 16 rounds of negotiations, both China and India have taken a tougher attitude and position than ever before since 2006 on account of the influence of external factors. It also proved that its works were even harder than that of the first phase of work.

Secondly, the solution of the border disputes was influenced by the political pressure in the two countries. But, comparatively speaking, India faced even great

domestic pressure that China. On one hand, the border disputes involved the Knot of The Sino-India border war in 1962. The image of China in Indian people's hearts was affected by the disastrous defeat in 1962. Mistrust of China is deeply rooted in Indian mind. From the politicians to the ordinary people in India, many of them surely thought China was antagonism and combative and would take the United States of military force for its goals (Ghoshal 2013b). On the other hand, Chinese state power and military power has been increasing in recent years. The increasing Chinese influence in regional and global affairs makes political decision makers and the public in India worrying. As for the challenge to its interests, the Indian were overly sensitive and they even thought China caused problems to India on purpose from energy supply, a seat in the United Nations and Pakistan's problems (Chellany 2009). China's peaceful rise is also interpreted as a "threat" (Mehta 2011) which likely to makes the India exaggerates the threat of China by mistake. In addition, with economic growth 4.4 % in the first quarter of 2013–2014 fiscal year (from April to June): the lowest one since 2008, India's economic had been in dispirited status in the past 2 years and the inflation had been going up, which led to serious affection of people's living standard. Under the undesirable circumstance, the dissatisfaction of the public could be easily changed to vent for looking for nationalism (Janyala 2013). India's domestic opposition party and media such as Gujarat chief minister Mr Modi, seized the chance, hyped, treated tent confrontation as the tools of putting pressure on the ruling party and getting political interests, and bitterly attacked the government's attitude of keeping clam in the course to China was its weakness. When Indian prime minister Manmohan Singh spoke on border issues on April 27, 2013, he has to repeated warn the media and opposition party not to hype and provoke China-India relations due to their deeds to fan the flame. Under this domestic political and public opinion circumstance, the Indian diplomacy is subjected to domestic affairs.

Under domestic pressure, the Indian authorities lacked mutual compromise and spirit over the border issue, but they should keep to their stance as vested interests party, thus making both sides unable to agree on package agreement.

Finally, the basis of Chinese and Indian mutual political trust was considered to be not firm through this event. On one hand, China and India signed BDCA; on the other hand, their military capability is enhanced in the border area. Infrastructures near the disputed border were enhanced by China, while by contrast, the border defense had been increased by India in order to make up the shortage of infrastructure since 2006. In July 2013, the Indian government formed a combat troop of 50,000 persons in Ladakh and planned to build a new air force base. This shows that India would be highly alert to China and would strengthen the military guard of China in the future. With his visit to so called "Arunachal Pradesh" in November, the Indian president had been the second leader who paid a visit there since the former president Patil's visit in 2009. The Indian current premier Singh inspected "Arunachal Pradesh" in January 2008. Regardless of Chinese outcry, India agreed with the Dalai Lama's visit to Davan. These events have repeatedly shaken the basis of mutual trust between China and India.

In general, although the relations between China and India are in a smooth status, the border disputes are still the biggest uncertain factors in China and India relations. The border disputes could be influenced continuously by the problems left over by history and geopolitical trends. With a possibility of similar events of “tents confrontations”, the unsolved border disputes would influence and hinder the development of Chinese-Indian relations.

### **9.2.2.2 Signing of Agreement on Border Defense Cooperation**

In October 2013, China and India signed an *Agreement on Border Defense Cooperation* during the bilateral talks. It was another important agreement on border issue signed by China and India after *Agreement on Maintenance of Peace and Tranquility along the Line of Actual Control in the China-India Border Areas* in 1993, *Confidence Building Measures in the Military Field along the Line of Actual Control in the China-India Border Areas* in 1996 and *Agreement on Political Guiding Principles to Solve China-India Border Issues* in 2005.

This agreement was proposed for the first time by China during the China-India Bilateral Defense Dialogue. At first India was negative. However, after the event of *Tent Confrontation*, from Cabinet Committee on Security to the relevant institutions such as Ministry of National Defense, Ministry of Foreign Affairs and so on, India made a wide deliberation and intensive discussion on the agreement and finally made an agreement with China after four rounds of consultations. This agreement restated the previous promises done by both countries in order to ensure the patrol along the unclear line in the border area would not be upgraded to be a military confrontation. The important contents include:

1. Both armies should timely exchange the information of military training and so on, and should take the corresponding measures to ensure the peace, stability and transparency for the line of actual control.
2. Both armies should regularly hold meetings by the relevant military personnel and departments of military operations of both armies in order to ensure the implementation of border defense cooperation.
3. In order to provide convenience for the contacts and talks for both sides, to enhance the exchange visits for border defense delegation and increase the talks and meetings frequency for border defense personnel, it should discuss and determine the increased places for talks and meetings and should set up telephone and telegraph connections on both sides along the line of actual control and hot-line between the head offices of both armies.
4. If both armies set up a confrontation situation along the disagreed line of actual control in the China-India border areas, both should maintain the maximum restraint to avoid from force.
5. Both armies should avoid from tracking each other, to try its best to decrease the confrontation.

We can see it from the contents that the contents of this *Agreement on Border Defense Cooperation* basically are the supplement and implementation on the agreements signed in 1993 and 1996, which more emphasizes the crisis control. Although there were many analysts' evaluation on the Agreement on Border Defense Cooperation was not high that they thought it had played on the same old tune, this agreement showed that Sino-India relations indeed already tends toward a maturity stage: except for the traditional diplomatic channels, both sides decided to pay more attention on the confidence building in the military field and to emphasize the self-control for armies; Meanwhile, the agreement also showed that China and India prefer to solve the issues on border and territory through the talks, communication, consultation and weigh. But on the other hand, this agreement generating and existing also proved from another side that the specific implementation for the previous China-India bilateral border agreements has not done well. As the expert on Sino-India Issues, Mr. Srikanth Kondapalli said that if this agreement working or not depended on the bilateral relations situation.<sup>4</sup>

Likewise, the border issues also continue affecting the normal development in other fields for Sino-India relations. During the visit to China in October of 2013, the Premier Minister of India Manmohan Singh had planned to sign Memorandum of Understanding on Relaxing the Restriction of Visa that Chinese Citizens Travel to India, to change the restriction on business visa from *Valid for 6 Months, Staying within 90 days* to *Valid for 1 year, Staying within 6 Months*, meanwhile, to complete the processing on *Project Visa* (that be responsible by the Ministry of Home Affairs of India) within 1 month. However, before Manmohan Singh's trip, India unilaterally called off signing this MOU and imputed it to China with the reason that China had issued *Stapled Visa* to two shooters from Arunachal Pradesh ago then caused their travel to China for competition obstructed. In view of this *Disputed Status*, the facilitation on visa was also delayed.<sup>5</sup> Chinese experts on Indian issues thought that if in general it was visa issue for business and culture that could not be disconnected with border and territory issue, then *India's so-called comments that welcome China to invest in India, willing to set up Chinese Industry Parks in India and so on, certainly would be empty talk.*<sup>6</sup> However, in the foreseeable future, so long as the domestic background in both countries don't change fundamentally, the border issues necessarily connect with the communication in other fields in Sino-India relations and continue to affect on the normal bilateral economic contacts and cultural communication.

<sup>4</sup>“China Signed Agreement on Border Defence Cooperation with India”, *The Wall Street Journal*, dated Oct 24, 2013, [cn.wsj.com/gb/20131024/bcn101030.asp](http://cn.wsj.com/gb/20131024/bcn101030.asp).

<sup>5</sup>“Arunachal stapling: India calls off signing visa deal with China”, <http://www.indianexpress.com/news/arunachal-stapling-india-calls-off-signing-visa-deal-with-china/1184468/>.

<sup>6</sup>Siwei Mao. “Visa Story between China and India”, <http://www.glocal.org.hk/articles/32568>.

### 9.3 Current Situation and Prospect of Sino-India Economic Relations

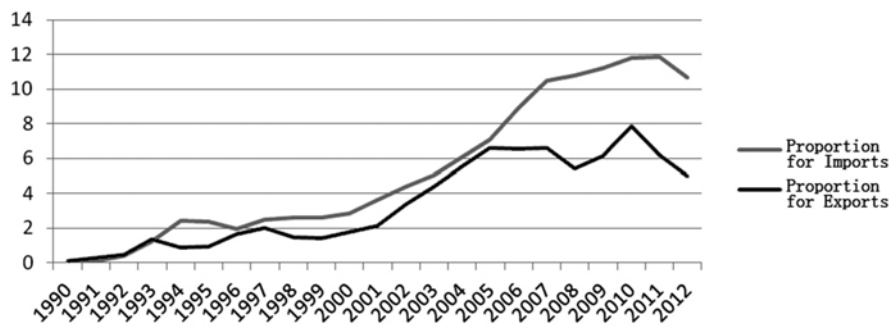
To strengthen the overall bilateral economic relations is a big trend since 2005. Trade barrier decreasing and both economic growth enable the bilateral relations great developments in the fields of trade, investment and economic technology. On August 8, 2013, India's KMPCL 6×600 MW unit, the largest power station project between China and India, as well as the largest power engineering project of one-time investment and construction in the world at present, with contract value of 2.7 billion dollars, succeed in one stroke for grid-connected. This proved an important truth: compared with the situation of value of trade with billions of dollars per year in the 1990s and low interdependence, now China and India support in a great degree to develop the economy of each other. Compared with it in 20 years ago, although now it suffers from multiple factors such as territorial disputes, security strategy differences, defense competition and so on, Sino-India economic relations is the most critical factor to maintain the stable bilateral relations.

However, with the rising of economic relations, the new problems emerged also. The 10 years that value of trade between China and India rapidly increases was also the 10 years that India's trade deficit with China rapidly increases and trade disputes continuously increases. The asymmetry in the bilateral economic relations is loom large, which has been a political and diplomatic issue. Since the year 2012, due to the depression of the world economy and influence of India's economic growth slowing, the economy and trade between China and India fell a lot, presenting down on year-on-year base for several months, which considered it had entered into a bottleneck stage. Although both China and India wish to increase the mutual trust through strengthening the cooperation and decreasing the trade imbalance, both sides need more efforts to implement this good prospect.

#### 9.3.1 *A Falling Tendency in Merchandise Trade Is Obvious*

With rapidly economic growth in China and India since the year of 2000, Sino-India economic relations have also made significant progress. In 2002, the bilateral trade value between China and India was around 5 billion dollars only and rose to a historic record of 73 billion dollars in 2011, which rose 19.71 % on year-on-year base (increased 42.66 % over the year before the last, which created the largest increase in its history). During the time less than 10 years, China has been India's second major trade partner, exceeding the United States, Canada and Japan, and India is China's first major trade partner in South Asia area.

During Chinese Premier Minister Li Keqiang's visit in India in May 2013, China and India agreed to try their best to implement the target of bilateral trade value of 100 billion dollars in 2015 set for two countries during the Chinese Chairman Hu Jintao's visit in India in 2010.



**Fig. 9.1** Proportion China occupied in India's Foreign Trade (the percent of the total amount) (Source: IMF)

However, in contrary to the good prospect, the bilateral trade volume dropped sharply in 2012. According to the statistics by Ministry of Statistics and Programme Implementation of India and Department of Commerce of India, India's bilateral trade value of goods with China was 68.79 billion dollars in 2012, which down 7.6 % compared with the value in 2011, including, India's export to China was 14.85 billion dollars which down 22.3 %; India's import from China was 53.94 billion dollars which down 2.5 %.<sup>7</sup> This is extremely rare in China's bilateral trade tendency with major economies in the world in recent years. The falling tendency of bilateral trade volume was continued in 2013. During January to September, Sino-India bilateral trade volume for goods were 47.88 billion dollars, a decline of 8.6 %, including, India's export to China was 9.48 billion dollars which down 18.5 %; India's import from China was 38.40 billion dollars which down 3.2 %.<sup>8</sup> The overall proportion that China occupied in India's foreign trade also fell (see Fig. 9.1). However, although the falling tendency was obvious, China still was India's the largest source of imports during January to September in 2013.

As far as trade structure concerned, the products that India export to China still mainly were raw material and minerals, including, cotton, minerals, copper and its products, organic chemicals are main products India export to China. These items individually accounted for 18.0, 14.8, 6.9 and 4.1 % of the India's total export volume to China in 2012.<sup>9</sup> However, the main exported products such as minerals and

<sup>7</sup>Ministry of Commerce of the People's Republic of China. "Overview on India's Goods Trade and Sino-India Bilateral Trade in 2012", [http://countryreport.mofcom.gov.cn/record/view110209.asp?news\\_id=32986](http://countryreport.mofcom.gov.cn/record/view110209.asp?news_id=32986).

<sup>8</sup>Ministry of Commerce of the People's Republic of China. "Overview on India's Goods Trade and Sino-India Bilateral Trade during January to September 2013", <http://countryreport.mofcom.gov.cn/record/qikan110209.asp?id=5802>.

<sup>9</sup>Ministry of Commerce of the People's Republic of China. "Overview on India's Goods Trade and Sino-India Bilateral Trade in 2012", [http://countryreport.mofcom.gov.cn/record/view110209.asp?news\\_id=32986](http://countryreport.mofcom.gov.cn/record/view110209.asp?news_id=32986).

copper products had begun to decline sharply since 2010. In 2012, the export volume individually descended 41.7 and 32.6 % on year-on-year base, and till 2013, the export volume descended 54.0 and 43.4 % again on year-on-year base respectively, which is also one of the major reason caused Sino-India bilateral trade volume down (see Table 9.1).

In contrast, what India imported from China mainly were manufactured goods. In 2012, India imported five categories of goods such as mechanical and electrical products, machinery and equipments, organic chemicals, cultural relic articles and manures from China, 34.92 billion dollars in total, which accounted for 64.8 % of total imported volume from China, in which the most important was India imports of power equipment from China. Since Chinese electrical manufacturers massively entered into in the Indian market in 2004, among the 76,000 MW installed capacity that has been started from 2012 to 2017, more than 60 % of the equipments were provided by the Chinese manufacturers. At present, main thermal power equipment suppliers in China including Shanghai Electric, DEC, Harbin Electric and so on, have entered into India's market and became the important suppliers of Indian privately-owned electric power groups such as Reliance, Adani, Jindal and so on. Besides the above products, the main goods India imported from China include jewellery and articles of precious metals, iron and steel, ships and boats, optical instruments, articles of plastics, furniture, textiles and so on (see Table 9.2).

From the previous data we can find that there are no big changes in Sino-India bilateral trade structure since 2005. India exported raw materials to China, while China exported to India manufactured products such as electronics, mechanical products and so on. Compared with the goods that India exported to China, the goods China exported to India have more value added. In fact, the increasing of trade volume between China and India was China's huge demand for the raw materials like iron ore and so on, also India's domestic market and industrial departments' demand for manufactured products, which just embodied the different features and economic structures in the stage of rapid development for two countries.

Sino-India trade volume falling was caused by multiple reasons.

Firstly, it was affected by the general trend of external macroeconomics. The development of bilateral trade was encumbered by the factors such as sluggish economic environment, inflation in India, slow economic growth caused by stagnation of reforms and so on.

Secondly, India started to enhance the restrictions on domestic raw materials exports step by step, which caused large negative impact on Sino-India trade volume growth. This was due to India's increasingly domestic demand for raw materials, plus the influence of nationalist sentiment (India's domestic public opinion thought that China's importing raw materials from India and exporting manufactured products to India was a *neocolonialism* (Si Leru 2013)). The exports of iron ore, copper and cotton suffered the restrictions from India, and especially iron ore were severely impacted. Since 2010, India has already taken three ways at least to euphemistically restrict exporting iron ore to China and has increased the export tariff of iron ore again and again, due to the main reason that first of all, it needed to meet the demand of steel industry in domestic market for the output of iron ore in



**Table 9.1** The main products and trade volume India export to China

Categories	2010 year	2011 year	2012 year	2013 year (Jan to Aug)
Ores, slag and ash	5,570.04	4,767.11	4,614.72	1,897.67
Cotton	1,265.67	1,891.02	4,020.71	3,410.51
Copper and articles thereof	544.67	2,679.53	2,019.93	2,010.97
Mineral fuels, mineral oils and products of their distillation; bituminous substances and so on	101.96	825.14	1,173.19	326.08
Organic chemicals	509.62	701.81	901.95	1,019.64
Plastics and articles thereof	312.22	399.72	616.95	629.05
Iron and steel	307.14	748.61	581.28	300.43
Salt; sulfur; earths and stone; lime and cement	276.80	371.74	481.92	608.15
Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	305.48	312.62	381.64	434.85
Animal or vegetable fats and oils; animal or vegetable waxes; Prepared edible fats	175.04	234.57	344.54	378.32
Motors, electric, audio video equipments and components	232.09	272.07	303.28	244.58
Lac; gums, resins and other vegetable saps and extracts	31.40	53.36	204.03	275.35
Fish and other aquatic invertebrates	213.26	273.72	176.08	170.52
Prepared feathers & down & articles made of feathers or of down; artificial flowers; articles of human hair	87.67	100.67	173.91	159.87
Residues and waste from the food industries	101.62	244.40	127.75	5.57
Miscellaneous chemical products	96.23	93.51	121.17	123.12
Optical, photographic, medical apparatus; parts and accessories thereof	104.60	85.53	118.48	140.27
Precious, precious metals and articles thereof, imitation jewellery; coin	434.80	83.18	118.20	87.69
Inorganic chemicals	109.99	169.35	107.82	41.79
Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	29.34	50.62	106.90	91.47

Source: Ministry of Statistics and Programme Implementation of India  
Unit: Million U.S. Dollars

**Table 9.2** Main goods India imported from China and trade volume (from the year of 2010 to August 2013)

Categories	2010 year	2011 year	2012 year	2013 year (Jan to Aug)
Motors, electric, audio video equipments and components	9,667.06	11,857.72	14,183.07	13,984.34
Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	6,173.98	7,699.90	10,143.52	10,007.00
Articles of special trade	2,107.46	3,181.56	5,062.51	3,708.82
Organic chemicals	3,009.97	3,853.42	4,384.81	4,946.74
Fertilizers	401.17	1,517.44	2,596.01	2,999.70
Iron and steel	814.44	1,986.38	1,855.49	1,495.32
Articles of iron or steel	858.19	1,178.18	1,543.59	1,476.78
Ships, boats and floating structures	407.96	1,213.39	1,380.07	682.81
Plastics and articles thereof	517.88	855.71	1,057.69	1,133.91
Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	473.58	733.65	993.32	969.19
Optical, photographic, medical apparatus; parts and accessories thereof	443.90	655.40	941.53	999.66
Precious, precious metals and articles thereof, imitation jewellery; coin	279.56	685.02	935.42	197.53
Mineral fuels, mineral oils and products of their distillation; bituminous substances and so on	382.36	654.30	791.87	295.45
Inorganic chemicals	452.64	533.45	776.64	687.17
Furniture	258.45	401.30	560.89	589.22

Source: Ministry of Statistics and Programme Implementation of India

Unit: Million U.S. Dollars

India was decreased. In December 2013, ASSOCHAM still appealed to their government to collect 30 % as export tariff on iron ores and spherical ores in order to ensure the supply of sufficient raw materials for domestic steel mills (ASSOCHAM 2013). Meanwhile, India also *investigated strictly the illegally mined ores exported to China* (TNN 2013). India's average annual consumption was about 600,000 tons of copper, so the majority of copper were exported to China. In March 2013, the largest copper smeltery in India Sterlite Industries was shut down. In October 2012, the system of cotton export registration implemented in India also made the cotton export decreased. Although the export of copper and cotton decreased not so much as that of iron ore caused by restrictions, in general, it also affected the growth of Sino-India trade volume.

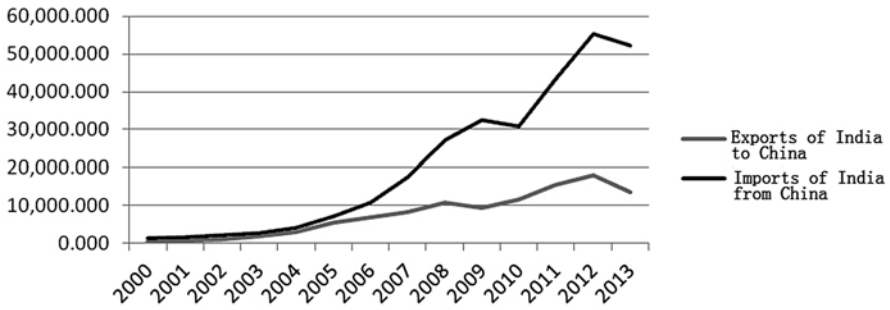
### 9.3.2 Trade Deficit with China Becomes a “Political Issue”

As stated earlier, over the past 10 years, India's trade deficit with China had grown together with Sino-Indian bilateral trade volume. According to statistics from China India's trade deficit with China had reached \$28.87 billion in 2012, a rise of \$1.79 billion over the previous year.<sup>10</sup> While India claimed that India's trade deficit with China was \$39.09 billion in 2012, a rise of 8.0 %. By September 2013, India's trade deficit with China had been \$28.92 billion, a decrease of 1.1 %, which was still more than 30 times of the level a decade ago (see Fig. 9.2).<sup>11</sup>

It should be noticed that China is not the only country with wider trade deficit with India. In India's fiscal year from 2012 to 2013, the total trade deficit was \$191.6 billion, with total trade export of \$300.3 billion, and total import of \$491.9 billion. There were trade deficits with 80 nations, which include China, Australia and Iraqi. Among them, the top ten countries accounted for 76.5 % of the total trade deficit amount, including China, Switzerland, Saudi Arabia, Iraq, Kuwait, Qatar, Venezuela, Nigeria, Australia and Indonesia. However, trade deficit is currently the main cause of India's widening current-account deficit. According to the Indian government's estimation, the country's current-account deficit for the last fiscal year accounted for around 5 % of gross domestic product (GDP), which directly caused that Rupee's depreciation against the United States Dollar hit fresh lows again and again, and it brought great pressure to India in attracting investment. India claimed that, “it is difficult to last such unbalanced trade in the long term” (Mehdudia 2013). Because Sino-India economic and trade contact matters the basis of building trust between the two countries, the widening gap has become a “political issue”, which was also an important issue discussed for many times in the bilateral talks of the two countries in 2013. Prime Minister Li Keqiang once said during an official visit to India that China had no intention to pursue trade surplus, and only dynamic balance of trade is a sustainable practice for the two countries.

<sup>10</sup>China's Ministry of Commerce, <http://data.mofcom.gov.cn/channel/trade/trade.shtml>.

<sup>11</sup>Ministry of statistics and programme implementation of India.



**Fig. 9.2** Sino-Indian trade growth and trade deficit from 2000 to 2013 (Source: CEIC)

The direct cause of the expanding trade deficit between China and India was that India tightened the export restrictions on raw materials and resource products to China (particularly iron ore), which led to decline in total exports; on the other hand, despite there is a decline trend in China's exports to India, it is relatively stable in general.

However, from the viewpoint of India, the root cause that the trade deficit couldn't shrink was because that China had set too many restrictions on the market access to IT, pharmaceutical and other products over which India had advantages; At the same time, China bought commodities from India and then sold high value-added manufactured good back to India, which caused that India could neither upgrade its export structure to China nor ascend its export scale. Therefore, in the recent talks between the two countries, India has repeatedly urged China to import more Indian products, which include software, pharmaceutical and agricultural products. China and India have also signed many agreements on promoting economic and trade exchanges in the information industry, etc. However, the reason for the huge exports of products made in China to Indian market was ultimately because "China is considerably powerful in terms of its manufacturing sector and it is hard for India to compete", as the former senior economist of World Bank Louis Kuijs put it (Sharma 2012).

For now, in order to change the status quo of trade imbalances between China and India, there are several ways. The first way is that India expands its exports to China. If India releases its restrictions on the export of its resource products, while increasing production capacity, exports value can be obviously improved in a quick manner. However, in the policy environment that India strictly limits its exports to China at present, it is very difficult to achieve this. In other fields, the structure of goods manufactured in China and India is similar and do not have much of complementarity; and India's traditional industries, such as textile industry, lack competitiveness and cannot produce products with advantages on price or quality compared with Chinese products, Chinese market also lacks interest and cognitive for India's products. While the space for rapid growth of India's promising fields such as pharmaceutical and information outsourcing, is limited in the short term. Though large information technology outsourcing companies such as Tata Consultancy Services could quickly open the market in China, to improve India's exports to China and

restore the trade balance through imported drugs and software outsourcing, etc., which obviously is not realistic.

Another way is to reduce China's exports to India and restore the trade balance by force through policy means, which is one of the methods adopted by India at present actually. In recent years, the trades remedy cases initiated by India to China have been involved in steel, chemical, textile, machinery, auto parts, photovoltaic products and many other fields, and the means tended to be diversified.

After taking safety review as the reason to prohibit India operators in the country to buy China's telecommunication equipment in 2010, its telecommunication department has suggested to limit the cooperation with China to telecommunication manufacturing industry in the drafted strategic cooperation report in August 2012, and at the same time reserved critical businesses such as infrastructure and broadband network for "non-controversial countries" such as the United States, Japan, South Korea, etc. as well as increased scrutiny of Chinese telecommunication equipment manufacturers.<sup>12</sup> Besides, the large amount of imports of Chinese electric power equipment caused great pressure to the local power equipment enterprises, as a result, at the beginning of 2013, India imposed additional 20 % tariff on power equipment from China, which seriously hit China's power equipment's exports to India.

At present, both China and India are trying to advocate and promote the third way, which is to strengthen bilateral investment and balance the trade, especially by increasing China's direct investment in India, i.e. local production or local sales, to reduce the deficit and to promote the upgrading of India's manufacturing industry; India also can attract China's investment by the way of "special district". This is the means often used in industrial countries to balance trade, which was usually welcomed by the countries with trade deficits, too. However, if China wants to open Indian market, multiple obstacles in policies and investment environment also exist at present.

Therefore, in order to change the status quo of Sino-India trade imbalances, we cannot simply create trade barriers through mutual accusations and policy means. Trade imbalances originate from the two countries' product structures, industrial development levels and comparative advantages, rather than just being a question of market access. Compared with India's domestic manufacturing industry which is trapped in insufficient infrastructure and investment, China's industrial products are superior in both quality and price. This situation cannot be fundamentally reversed before the Indian manufacturing industry get more fully developed. To change the status quo, India should not increase import barriers, but first of all make great efforts to reduce the barriers to increase exports. For example, foreign investment can be introduced by lowering investment thresholds and labor laws and regulations are reformed in order to improve the competitiveness of manufacturing industry, to elevate the added value of the products and to enrich the structure of export products.

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<sup>12</sup> *Report of Indian telecommunication department expressly limited Chinese companies while welcomed American, Japanese and Korean companies, the Global Times, August 29, 2012, <http://world.huanqiu.com/exclusive/2012-08/3078280.html>.*

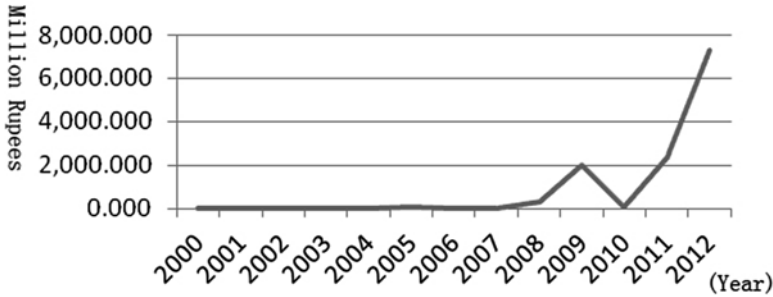


Fig. 9.3 China's direct investment in India (Source: CEIC)

### 9.3.3 *It Is Difficult for Direct Investment to Change the Unbalanced Status Quo in the Short Term*

Compared with bilateral trade between China and India, although China's direct investment in India is growing rapidly, the overall scale is not immense. In 2012, China's non-financial direct investment stock in India was \$725 million, an increase of only about \$154 million, which was even less than 1/16 of Japan's investment in India in 2012 (see Fig. 9.3). India set up 800 non-financial investment projects in China and the actual investment stock was \$486 million. In 2012, India invested newly established 77 enterprises in China, with a decline of 40.8 % year on year. The actual foreign amount used was \$44.06 million, a rise of 4.5 % in the same period of last year (Fig. 9.3).<sup>13</sup>

Compared with the current situation of the trade structure between China and India, China and India seem to be more promising in the field of direct investment and can realize high-speed development through the two countries' resource endowment and complementarity of the industrial structures. In recent years, China's foreign direct investment has been developing at a surprising speed. China has gradually transformed from foreign capital invested country to capital export country. With the trend of rising labor costs and trade protectionism, China's state-owned enterprises and private enterprises also hope to seek resources, technology and new markets overseas. India has a young huge population and abundant labor reserve, which is the ideal destination for China to shift its manufacturing industry and to expand overseas market; Through constructing production bases in India, Chinese companies can also avoid the trade barriers, which is very attractive to enterprises such as telecommunication, electric power equipment and other industries, which have been suffering from India's attack.

<sup>13</sup>China's Ministry of Commerce: Introduction of China and India (n)'s Economic and Trade Cooperation, <http://yzs.mofcom.gov.cn/article/t/201302/20130200029082.shtml>.

Compared with this, India is still in the stage of wanting of more foreign capital in order to improve the economic structure and to promote economic development. Because of the slowing pace of growth and stagnation of reform, India has been suffering from the pain of the deteriorating economic environment over the past 2 years and it is in extreme demand for overseas investment. At the same time, the Indian infrastructure also faces the shortage of funds and technology, and in the next 5 years, India plans to invest \$1 trillion in infrastructure department, which include roads, electricity facilities and highway construction, while they are exactly the fields in which Chinese enterprises have rich experiences. In addition, the Indian government currently is promoting a “national manufacturing industry policy”, striving to improve the proportion of manufacturing industry to the gross domestic product (GDP) from the current 16–25 % in 2025, as well as to create 100 million jobs. In China and India investment seminar held in February 2013, India’s ambassador to China Jaishankar said that Chinese companies can take advantage of this goal (PTI 2013).

Seen only from the analysis on paper, China and India have good prospects in carrying out direct investment cooperation. And with the enlargement of the India’s trade deficit with China, attracting more Chinese enterprises to invest in India is considered by both China and India as one of the important measures to solve the trade deficit. Prime Minister Li Keqiang visited India in May and suggested to set up a Chinese industrial park to attract Chinese investment in India. Meanwhile, India also expressed its hope to improve India’s manufacturing capacity, to reduce its dependence on Chinese goods and the trade deficit with China through the introduction of China’s investment.

At present, there are already some Chinese enterprises which have invested and have set up factories in India, which include Sany Heavy in the western city of India Pune and power equipment manufacturer TBEA in Gujarat, etc. In 2012, China’s National Development and Reform Commission officials once led 200 Chinese government officials and business representatives and hosted a Sino-India strategic economic dialogue in New Delhi, the capital of India. The key was to increase the investment in India. Optimistic view was that following this wave, it is just a matter of time for Chinese enterprises to enter India in large scale; because China’s leading companies of Huawei, ZTE, Haier, etc. carried out significant investments in India a few years ago, and thus accumulating valuable experiences and lessons in India. With the improvement of investment environment in India, and with the encouragement of Indian government to directly invest infrastructure department, “the growth rate of China’s direct investment in India could probably soon surpass the Sino-India bilateral trade growth rate” (Pai and Hassan 2013).

However, for China’s enterprises, although there are needs and desires to invest in India, India’s investment policy environment is not satisfactory. With the substantial depreciation of the Rupee and the opening of the foreign direct investment in various industries to the outside world, although India has become the most attractive destination for foreign investors, surpassing the United States and China according

to a report published by Ernst and Young recently,<sup>14</sup> this is not the thoughts of many Chinese companies.

First, although the FDI policy implemented in some industries was released, because of the interference from the domestic political pressure and interest groups, further reform is in a state of struggling. Not long ago, India's urban development department requested to release the 50 % limit on foreign investment in order to promote housing construction, but the proposal was also put on hold by the Indian government (Kumar 2013). And in terms of the implementation of specific policies in attracting foreign investment, the progress has been slow due to several reasons, such as the low executive ability of the local government, bull management of the government departments, regulatory uncertainty and others.

Secondly, in many fields, India has high alert psychology toward investment from China and the artificial obstacles interfere with the normal conduct of the investment. For example, Chinese communication companies such as Huawei, ZTE frequently encountered Indian security department's investigations. Because of "security reasons", a lot of Sino-India cooperation and investment plans cannot be executed, and the promoters of the Indian side were often criticized as being weak toward China and were even referred to as "selling India's interest" to China; when disputes arose and the Sino-India bilateral relations were tense due to the boundary disputes or trade deficit issue, Chinese enterprises faced even more adverse public opinions and investment atmosphere, which made both China and India have to hesitate and think twice before making investment choices.

Thirdly, for Chinese enterprises, India's lack of infrastructure, limitations by strict labor laws and the low efficiency of bureaucracy also reduced the level of attractiveness of India as an investment destination. In addition to the states of Gujarat, West Bengal and Tamil Nadu which have relatively good infrastructure and efficient government, many regions in India are actually not ready for foreign direct investment in both aspects of hardware and software. According to the theory of OLI, it is difficult for enterprises to ensure three advantages – ownership, internalization and location in this environment and do not have motives to choose direct investment, which leads to the phenomenon that "many Chinese said that they wanted to invest and did investigation in India on the surface but turned out that they only wanted to do business actually" (Tencent Finance and Economics 2013).

Finally, at present, establishing special districts or industrial parks to attract Chinese investment has remained ideas of blueprint only. It needs detailed implementation work of both parties in a great many elements, such as specific places for cooperation, lands, labors, docking departments, industries and specific preferential policies to attract enterprises, etc.. If it is difficult to solve the detailed problems, then realizing the complementary advantages of China and India will ultimately remain empty talk.

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<sup>14</sup>EY. "India emerges most attractive investment destination", *The Economic Times of India*, [http://articles.economictimes.indiatimes.com/2013-11-25/news/44452116\\_1\\_attractive-investment-destination-investor-outlook-ey](http://articles.economictimes.indiatimes.com/2013-11-25/news/44452116_1_attractive-investment-destination-investor-outlook-ey)



Therefore, in the short term, it is not realistic to expect China and India to balance the trade by promoting bilateral investment of both sides, but it is a direction worth the effort. China needs to increase the understanding of the Indian market, the government should also encourage more enterprises to invest and set up factories in India through policy means and establishing cooperation platforms.

Nevertheless, India should also improve the investment environment and reduce the interference of political factors on the investment. Both China and India should make more efforts to increase mutual trust, to reduce disagreements, and to carry out the cooperation details, rather than to stay on the commitment and vision. Only in this way can Chinese enterprises play a greater role in the job creation, in infrastructure projects and upgrading of manufacturing industry for India.

## 9.4 Conclusions and Outlook

The Sino-India relations experienced ups and downs in 2013. As the most important bilateral relationship in the Indian Ocean region, the common interests of China and India are increasing. For example, as developing countries, both China and India request the acceptance of international system, seek the change of the international rules, maintain regional peace and stability, promote regional cooperation, etc. The economic and trade interdependence which was relatively weak in the past is being enhanced, which brings a new good momentum for the development in bilateral relations. But on the other hand, with the rise of Indian Ocean's position in the global strategy, China and India's competition for strategic interests in the region is increasingly fierce day by day; In addition to the boundary problems left over by history, the trade deficit, wrestling of new geopolitical interests, competition for the controlling rights over the regional cooperation and other issues also gradually become the important factors that affect Sino-India bilateral relations.

Although the high officials of both sides achieved the significant diplomatic breakthrough within the year, but in the end, there was not any fundamental shift in the insufficiency of political mutual trust and communication. This kind of trend of the synchronous rise in common interests and strategic competitive factors is something difficult to avoid if two great powers with overlapping strategic spaces rise at the same time.

In addition, the unbalanced status of the two countries in the international system, the upcoming India's election in 2014 and the influence of foreign great powers also become uncertain factors in the Sino-India relations.

The unequal status of the two countries in the international system refers to that although India received more preferential treatments than China in terms of being accepted by the international society and participating in multilateral mechanisms, China was one step earlier than India in becoming a global great power, and its economic power and influence are far beyond India at the same time. This caused two results. First of all, since China has been the object to compare with by India, India shows more urgent willingness to compete with China's in global affairs;

second, China has become a global great power, and its responsibility and obligation in fact is beyond the scope of the developing countries, thus its attitude towards the international affairs and position also changes which does not have to be the same with India. A typical example is that, China and India shared the same action and position on the negotiations with World Trade Organization and had similar views until 2009; while in the Bali meeting in 2013, India was tough on the food and agricultural subsidy issue and not willing to give in, but China had shifted its position. It firstly claimed to give up assistance requirements on trade facilitation issues and then actively promoted the success of the negotiation (Sidhartha 2013). This kind of imbalance tends to be bigger in recent 10 years actually, which also caused India to be more cautious at China's "threat" and at the same time even suspected that China tried to prevent the rise of India.

For example, Indian media frequently blamed China's refusal to allow India to join Shanghai Cooperation Organization and that it did not support India to join the UN Security Council, etc. This formed the image of arrogance and perfidy of China in the Indian people and officials, which weakened the foundation of mutual trust between the two countries.

The upcoming India's election in 2014 may also become a variable of Sino-India relations. Candidate from the people's party Modi who is favored by many voters have once claimed that "We cannot allow China to dominate India in foreign policy matters" (Panda 2013).

But no matter who ultimately wins the election, according to India's election tradition and status of India's domestic nationalist sentiment, China will most likely be the hyped factor in the election, and more comments and ideas which advocate being tough to China will also appear. Although the author believes that the final elected power eventually will take a pragmatic approach to deal with the relationship between China and India for practical considerations, it may hinder the development of Sino-India relations in the short term; for example, some cooperation plans of both parties cannot be completed on time or be further promoted.

Other great powers have always been the important factors affecting Sino-India relations, especially the U.S. The United States has been trying to develop the U.S.-India relationship in order to balance China, strengthening cooperation with India in the Indian Ocean, regional cooperation and military defense field, as well as supporting the idea that India's "look east" policy can play a more important role in the Asia-Pacific region, which also make the Indian media relish the "strategic alliance" relationship with the U.S. However, based on foreign tradition, India has always been a strong pursuit of strategic autonomy and independence and also has its own strategic target, unwilling to just become a part of the U.S.'s construction of the re-balancing system, even more reluctant to have direct confrontation with China because of the United States. The U.S. put stress on India to participate in the sanctions against Iran, which caused the fuel and monitoring scandals in India and the issue that India's female diplomat had been humiliated recently. All of these could distance India from the United States, re-examine the disagreements with the United States, consider the necessary costs of keeping close relationship with the United States and think again over the triangle interaction of China, India and the United States.

However, when discussing Sino-India relations, a very critical fact is that two neighboring big developing countries of India and China with such large population scales rise almost at the same time, which is the phenomenon that never happened before in the history record of the world. It surely will lead to a huge impact on the bilateral relations of the two countries and the international political system. And understanding the fact of “being unprecedented” is the key to the interpretation of Sino-India relations, because it means that no matter the great powers out of the Indian Ocean region or China and India themselves, they all need to explore this unprecedented bilateral relations; for both China and India, correctly handling the relations between each other is a challenge.

In the era of the Indian Ocean, India and China should break through the zero-sum mindset in the traditional international politics, cooperating together to remove obstacles in cognition and mutual trust, because China and India’s common rise is in line with the mutual interests of both sides.

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## Chapter 10

# US-Myanmar Bilateral Relations: “Constant Variables” and “Independent Variables”

Peng Liu

**Abstract** US-Myanmar relationship has been affected by “constants variables” and “independent variables”. The impact from “constant variables” factors on US-Myanmar relationship is relatively stable while that of “independent variables” on the US-Myanmar relationship is uncertain. Both of “constants variables” and “independent variables” constitute the “function” which exerts US-Myanmar relationship. US-Myanmar relationship “constants variables” include interest demands in America’s Myanmar policy and interest demands in Myanmar’s American policy. Specifically speaking, interest demands in America’s Myanmar policy include: preventing Myanmar from developing nuclear weapons; Aung San Suu Kyi’s release and participation in the political process, realizing American-style democracy in Myanmar; protecting American economic interests in Myanmar; avoiding Chinese single strength alone in Myanmar and drawing ASEAN. Interest demands in Myanmar’s American policy include: maintaining the sovereignty and independence of Myanmar; safeguarding national unity and national unity in Myanmar; pursuing international recognition, asking for support from the United States and promoting domestic development; Chinese factors in Myanmar’s American policy. The “independent variables” in US-Myanmar relationship include: the attitude of Aung San Suu Kyi and the reform process of Myanmar democracy; solving issues on local armed forces and domestic peace.

**Keywords** US-Myanmar relationship • “Constants variables” • “Independent variables”

Since 2009, US-Myanmar relationship has stepped into the path of normalization quickly far from hostility and the amazing changing speed was beyond many people’s “expectations.” We believe that the transformation of US-Myanmar relationship needs to study and dates back to long time ago. Only by this way can

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we have a more comprehensive understanding of the changing background of US-Myanmar relationship; besides, the attempt to construct a theoretical framework affecting US-Myanmar relations is quite necessary for us to learn the current US-Myanmar relations and prospect for the future development trend. For the sake of this, this paper aims to resort to interest demands in US-Myanmar relationship as “constants variables” which influence US-Myanmar relations and the uncertainties affecting US-Myanmar relationship as “independent variables” so as to build a framework for a preliminary analysis of US-Myanmar relationship.

## **10.1 Review of US-Myanmar Relations After World War II**

US-Myanmar relationship after “World War II” goes through three different stages of development, namely, 1947–1988, 1988–2009, 2009–now.

### ***10.1.1 1947–1988: Fluctuations Under the Normalization of US-Myanmar Relations***

From 1947 to 1988, Myanmar stayed in two different stages: before 1962, Myanmar was basically in the period of parliamentary democracy under U Nu government; from 1962 to 1988, it stayed in regime period under Ne Win military. During the 41 years, the United States just went through eight governments, namely Democratic Party Truman period (1945–1953), the Republican Party Eisenhower era (1953–1961), Democratic Party Kennedy era (1961–1963) Democratic Party Johnson era (1963–1969), Republican Party Richard Nixon era (1969–1974), Republican Party Ford era (1974–1977), Democratic Party Carter era (1977–1981), Republican Party Reagan era (1981–1989). In the period, US-Myanmar relations was basically in a state of normalization.

In January 1947, *Aung San-Attlee Agreement* was signed and Britain agreed that Myanmar was completely independent. In January 1948, Myanmar was formally independent. In September 1947, the United States and Myanmar established diplomatic relations before its formal independence and set up an embassy in Yangon, Myanmar. After the establishment of diplomatic relations between the two countries, the United States had been providing assistance to Myanmar in three areas: economic aid, military aid and anti-drug aid. Given that Myanmar leftist communist forces were more powerful, the main objective of America on Myanmar policy aimed to prevent the Myanmar into a socialist country; In the meantime, America targeted at preventing Chinese communist penetration into Myanmar. The American initial goal of economic aid to Myanmar tended to prevent political and ideological expansion from China. A document from Far East Command of America put forward clearly that “if the outside world will not provide effective assistance to

Myanmar, then Myanmar, a weak link for anti-communist in Southeast Asia may fall into the influence of the communist force”.<sup>1</sup> In 1950, U.S. economic delegation visited Myanmar for the first time, and then they advised and offered to aid 12,000,000 dollars in Burmese economic. With the founding of New China and establishment of diplomatic relations with Myanmar, the United States believed that the aid seemed more urgent. From 1948 to 1952, the United States supplied for Myanmar a total of 1,190,000,000 dollars in economic aid and 24,100,000 dollars in military aid.<sup>2</sup>

From 1948 to 1953, the Truman reign period, the United States did not only provide assistance to Myanmar, but also secretly supported the Kuomintang army in Myanmar. Kuomintang troops tried to anti-attack the mainland with the northern Myanmar as a base. Myanmar was not in favor of the existence of the Kuomintang army into Myanmar in that there was a worrying that People’s Liberation Army came into Myanmar to wipe out the Kuomintang army. To deal with this situation, Myanmar imposed military control on the Kuomintang army in some areas of Tanbang in the country; Diplomatically, Myanmar asked the United States to stop aid projects in Myanmar in March in 1953 and submitted the Kuomintang army issues in Myanmar to the UN Security Council. The strong opposition from Myanmar drove the United States to adjust the policy on Myanmar. From 1953, the majority of Kuomintang army withdrew to Taiwan. Subsequently, the United States resumed assistance to Myanmar in 1954. From 1953 to 1964, the United States increased the intensity of assistance to Myanmar, during which the United States provided a total of 4,627,000,000 dollars economic aid and loans for Burmese. The amount of foreign economic aid accounted for 2.98 % of the total foreign aid over the same period, the proportion peak of American aid to Myanmar; in addition, the United States also supplied Myanmar 2,505,000,000 dollars in military aid, the amount of foreign military aid accounting for 1.99 % of the total military aid over the same period, the proportion peak of American military aid to Myanmar as well, during which the numbers of Burmese military officers trained each year in the United States amounted to more than 1,000 (see Table 10.1).

In 1962, after military coup succeeded in Myanmar, Myanmar started to implement the so-called socialist system and set up the party of a socialist program. In the aspect of diplomacy, the military regime continued to maintain the policy of neutrality in the period of U Nu government. In order to eliminate the doubts that Myanmar may fall into one of two camps in the international community, the military junta reaffirmed to adhere to diplomatic policy of neutrality doctrine on the day of the coup on March 2nd in 1962.

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<sup>1</sup> US Army far eastern command, intelligence digest, No. 13, 17 Dec. 1951.

<sup>2</sup> USAID Economic analysis and data services, US overseas Loans and grants: standard country report (greenbook), Washington, DC; US government printing office, 2012, <http://gbk.eads.usaidallnet.gov/>

**Table 10.1** U.S. economic aid and military aid to Myanmar (Unit: millions of U.S. dollars)

Aid projects		1946–1948	1949–1952	1953–1961	1962–2007	
Economic aid	Total amount of foreign economic aid	109,368.30	141,721.60	15,542.30	903,226.00	
	The economic aid to Myanmar	43.6	75.7	426.7	578.8	
	Percentage (%)	0.040	0.053	0.298	0.064	
Military aid	Total amount of foreign military aid	3,955.20	73,944.30	125,825.10	458,723.30	
	The military aid to Myanmar	–	24.1	250.5	266.2	
	Percentage (%)	–	0.033	0.199	0.058	
Aid Projects		2008	2009	2010	2011	1946–2011
Economic aid	Total amount of foreign economic aid	34,323.80	35,728.70	38,143.00	31,725.60	1,449,659.30
	The economic aid to Myanmar	86.5	29.1	31.7	29.6	1,337.80
	Percentage (%)	0.252	0.081	0.083	0.093	0.092
Military aid	total amount of foreign military aid	16,844.80	14,877.60	14,832.50	17,867.50	726,870.40
	the military aid to Myanmar	–	–	–	–	540.8
	Percentage (%)	–	–	–	–	0.074

Source: It is translated and comes from USAID Economic Analysis and Data services, US Overseas Loans and Grants: standard country report (Greenbook), Washington DC: US Government Printing Office, 2011 <http://gbk.eads.usaidallnet.gov/>

Notes: The above data were calculated in terms of constant US dollars of 2011

An active win-win neutrality policy on Myanmar and the world was pursued continuously and faithfully.<sup>3</sup> When Myanmar's military coup occurred, the United States suspended assistance to Myanmar. After observation, when America found that the Myanmar Ne Win military government tried to really keep a neutral stance, it restored assistance to Myanmar again. But in 1964, Myanmar's military required initiatively that the U.S. government should stop economic aid, thus the United States was forced to stop economic and military aid in Myanmar. In the same period, the Burmese Government did not fully accept the economic assistance provided by China and the Soviet Union. In 1964, "Gulf of Tokyo event"<sup>4</sup> which exerted influence

<sup>3</sup>Li Chenyang: "Research on the military regime and Burmese modernization process (1962 to 2006)", the Hong Kong Social Sciences Publishing House Ltd.

<sup>4</sup>On August 1st, 1964, the U.S. destroyer, "Maddox" declared to be attacked by North Vietnamese torpedo boats during patrol in the high seas in the northern Gulf. On August 4th, the United States warship once again claimed a second attack by North Vietnamese torpedo boats, which is called the "Northern Gulf event". Before "Northern Gulf event", the United States was in the "special



on Vietnam War happened. U.S. Johnson Administration upgraded war in Vietnam from “special war” to “local wars” and the United States began to involve indirectly in the Vietnam War. American attention in Southeast Asia was mainly concentrated in Vietnam as well, without time to attend to the situation in Myanmar. Thus, the United States just maintained normal diplomatic relations with Myanmar from 1964 to 1974, Ne Win’s military junta also maintained a “passive neutrality”<sup>5</sup> policy between China, America and the Soviet Union and only reacted when the outside world intervened in affairs of Myanmar. The United States also respected Myanmar’s non-aligned policy.

With the Vietnam War ending,<sup>6</sup> the United States resumed assistance to Myanmar in 1974, but the main aid focuses on humanitarian aid, military personnel training and anti-drug cooperation. In 1974, U.S. and Myanmar signed anti-drug aid agreement. From 1974 to 1983, the United States provided a total of about 47,000,000 dollars in anti-drug aid for Myanmar, including 24 helicopters and pilots training. In 1979, the United States began to re-assess and provide financial assistance to Myanmar under the request of the Government of Myanmar, In April 1979, the U.S. ambassador in Myanmar claimed that the United States was willing to resume assistance to Myanmar in Tokyo Consultative Organization Meeting on aid in Myanmar (Zhu Xiongbing 2010a, p. 13). In 1980, the United States provided 9,500,000 dollars grants for Myanmar, leading to bilateral economic aid recovery. At this point, the ruler in the United States was the Democratic president Jimmy Carter, known as “Mr. Democracy”. Although Myanmar was in the period of military junta ruling of dictatorship, yet the United States failed to adjust Myanmar policy because of democracy and human rights. Moreover, CIA also cooperated with the Government of Myanmar in order to provide training and assistance for the Burmese military (Steinberg 2010a, pp. 175–176).

Generally speaking, despite fluctuations of US-Myanmar relations from 1947 to 1988, the United States and Myanmar maintained normal diplomatic relations on the whole in that the United States provided a certain amount of Myanmar economic and military aid and Myanmar also maintained in neutral stance between China, America and the Soviet Union.

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war” phase in Vietnam war, that is, the United States provided financial, material and consultant for the South Vietnamese regime, helped the South Vietnamese regime to fight against with the North Vietnamese and did not directly involve in the war; after the “Northern Gulf event”, the U.S. Congress passed “Gulf of Tokyo resolution” on August 7th, in 1964, authorizing the President to take necessary measures against North Vietnam; America started to participate directly in the Vietnam War. With the war expansion, the numbers of American bombing of North Vietnam and ground forces increased, the war upgrading to “local wars”.

<sup>5</sup>In this period, Ne Win government neutrality is considered to be negative neutrality, completely without intervening external affairs and only reacting when the outside interfered in Myanmar. The details on this issue could be found in Alamgir (1997, pp. 333–350).

<sup>6</sup>Vietnam cease-fire agreement was signed in 1973 and the United States began to withdraw from Vietnam. In 1975, the entire territory of South Vietnam was occupied by North Vietnam and the Vietnam War ended.

### ***10.1.2 1988–2009: Deterioration of US-Myanmar Relations***

From 1988 to 2009, US-Myanmar relations continued to deteriorate with over-weight sanctions against Myanmar and crackdown on democracy by Myanmar. In the meantime, Myanmar went through Saw Maung government period (1988–1992), Than Shwe reign (1992–2007), Thein Sein period<sup>7</sup> (2007–2009). In the same period, the United States government had gone through four sessions, namely the Republican Party Reagan’s reign (1981–1988), Republican Party George Bush’s reign (1989–1992), Democratic Party Clinton’s reign (1993–2000), Republican George W. Bush’s reign (2001–2009).

In 1988, several large-scale protests broke out in Myanmar and the situation was almost out of control after the “August Storm”.<sup>8</sup> On September 18th, Myanmar Defense Forces commander Saw Maung staged a coup, announcing to establish State Law and Order Restoration Council (short for SLORC). Thus Myanmar entered the military regime – “the second season”. In 1988, another far-reaching event was the return of Aung San Suu Kyi. In March in 1988, she returned Myanmar home to take care of her seriously ill mother, and from then on, Aung San Suu Kyi became a new important variable which affected Burmese politics and US-Myanmar relations. In 1989, Myanmar was renamed Myanmar by National Committee to restore law and orders. Aung San Suu Kyi was arrested and the military promised to hold elections and hand over power. On May 27th, 1990, the first general election was held in Myanmar since 1960, and National League for Democracy (NLD for short) led by Aung San Suu Kyi won, but the military refused to hand over power and arrested Aung San Suu Kyi in a house. United States stopped economic and military aid to Myanmar immediately, closed the local office of USAID in charge of foreign aid and reduced the level of diplomatic relations. Burmese repression against democracy movement and “second coup” first aroused dissatisfaction of the U.S. Congress, so the U.S. government stopped economic aid to Myanmar and

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<sup>7</sup>About the relations between Thein Sein and the Burmese military chief Than Shwe, someone believed that Thein Sein was a “puppet” and “mouthpiece” of Than Shwe, someone also held the view that Thein Sein was not fully subject to Than Shwe. Regardless of their relations, Thein Sein’s taking office as Prime Minister in 2007 marked his status “establishment” as the Heads of Government of Myanmar, so this paper will list his reign separately from 2007 to 2009. In 2003, Than Shwe resigned from Prime Minister of Myanmar, changing from the stage into the background; Thein Sein served as the first Secretary-General of Myanmar State Peace and Development Council (SPDC Commission) in 2004. In May 2007, he served as acting prime minister of the Union of Myanmar and in October, he was appointed as prime minister by SPDC Commission. In 2010, he was appointed as Chairman of Myanmar Union Solidarity and Development Party (referred Solidarity and Development Party) and in 2011, took part in the election on behalf of Solidarity Development Party and was elected president of Burma.

<sup>8</sup>In March 1988, the police killed two students in dealing brawl and triggered mass protests and Ne Win government suppressed protests. Demonstrations throughout the country broke out in Myanmar in June and Ne Win resigned in July. In August 1988, Myanmar democracy protests spread from Yangon to the whole country, the junta started to brutally pull down democracy movement, resulting in the death toll to thousands. This event was called “August storm”.

suspended military aid and anti-drug cooperation in Myanmar. This was the first round of sanctions against Myanmar by America.

After the suspension of Constituent Assembly in Myanmar in 1993, the U.S. Congress reduced the United States embassy in Myanmar to charge d'affaires level. Under the pressure of the U.S. Congress and public opinion, Clinton administration signed No. 13047 Act and took measures for further sanctions against Myanmar in May in 1997 which included a ban on new investment of American citizens and businesses in Myanmar, refusing to granting visas for senior executives and their families. In November 1997, Myanmar SLORC was renamed the State Peace and Development Commission (short for CST). It joined the ASEAN, which made the external environment around Burmese military government eased.

On May 30th, 2003, the NLD headquarters was attacked (the precise news was when Aung San Suu Kyi carried out political activities in the country, supporters with military background attacked his convoy and caused casualties), Aung San Suu Kyi was confined to a house again. The event aroused strong dissatisfaction in Western countries. With the adjustment to the Cabinet by the Burmese junta, the military “Big brother” Than Shwe was relieved of prime minister, changing from the stage into the background, served as Chairman of Myanmar Peace and Development Committee; The original secretary Khin Nyunt was appointed as prime minister in Myanmar. Later, Burmese military announced a roadmap to democracy in need of seven-phase implementation.<sup>9</sup> Although the official of Myanmar made adjustments to some extent, the United States still increased the intensity of sanctions against Myanmar, President Bush signed the “Burmese Freedom and Democracy Act” (BFDA) and No. 13310 Executive Order to ban the import of Burmese products, including textiles imports with the view of the financial sanctions on Myanmar. Although the two sides maintain diplomatic relations, the relation had reduced to charge d'affaires level and the two sides did not exchange ambassadors for a long time or did not get each other’s approval even they had sent ambassadors.

In September 2007, monks protest and “saffron revolution”<sup>10</sup> broke out in Myanmar. In October, President Bush signed No. 13348 Executive Order and fur-

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<sup>9</sup>The first step aimed to reconvene National Assembly in the adjourned state since 1996; the second step tended to establish a genuine, rule-based democracy system gradually based on the successful convening of the National Assembly; the third step targeted to draft a new draft constitution in accordance with the basic principles and detailed principles formulated by the National Assembly; the fourth step was to hold a referendum and adopt draft constitution; the fifth step aimed to form parliament according to fair parliamentary elections held by the new constitution; the sixth step oriented to convene the Legislative Council joined by Parliament according to the new constitution; the seventh step aimed at state leaders and parliament and other central organs elected by Parliament to lead the nation to go on the modern, developed and democratic path.

<sup>10</sup>In mid-August in 2007, the Myanmar government announced that gasoline prices rose by two-thirds and diesel prices doubled. Because of too much increase on the price affecting people’s lives, protests emerged in a number of cities such as Yangon, Mandalay and so on. In September, protests scale gradually expanded. On 23rd in September, led by thousands of monks and nuns, 100,000 people in Myanmar’s capital Yangon paraded in the streets. Marchers wore crimson ribbons standing for robes on clothing to express support for the monks. Due to massive size, foreign human rights organizations began to call it “saffron revolution” (Saffron Revolution).

ther expanded the scope of sanctions, so that jade and rubies originally produced in Burmese even processed in a third country were also banned for imports. In 2007, domestic politics in Myanmar had also undergone major changes. Myanmar Prime Minister Soe Win resigned as prime minister due to leukemia in May in the year. Then Thein Sein succeeded as Acting Prime Minister, and was appointed as prime minister after “Saffron Revolution” in October in 2007.

In April 2008, President Bush signed Executive Order No. 13464, to further expand the scope of the sanctions, thus assets belonging to about 110 individuals and groups were frozen; meanwhile the sanctions extended to multilateral international organizations that the United States opposed any multilateral international organizations to provide assistance to Myanmar.<sup>11</sup> In May 2008, President Bush signed an order granting Suu Kyi the Congressional Gold Medal. On May 2nd, 2008, Myanmar was attacked by “Nargis hurricane”, causing nearly 30,000 people killed. Hence, Myanmar was in an urgent need of international assistance. On May 12th, the U.S. Treasury Department allowed for remittances for Myanmar owing to humanitarian reasons.

Changes in US-Myanmar relations from 1988 to 2009 involved in both of international context of the Cold War ending and changes in American domestic politics and personal influence from Aung San Suu Kyi. On the whole, the basic characteristics of American policy on Myanmar in this period rested in sanctions to promote reform and willing of overweight on sanctions to change the internal politics in Myanmar while the Burmese government policy on the United States was forced to change from the previous neutrality into dependence on China as well as the perimeter and joining ASEAN to defuse American pressure. In Myanmar’s domestic politics, Myanmar gradually advanced according to the seven-step road map to democracy since 2003. On May 12th, 2008, Myanmar held a constitutional referendum and completed the first four steps of the seven-step roadmap.

### ***10.1.3 2009 to Now: Sharp Alleviated US-Myanmar Relations***

The US-Myanmar relations from 2009 could be described with “ever-changing”, which was beyond many people’s expectations. In this period, Myanmar was in U Thein Sein period (Prime Minister from 2007 to 2011, president from 2011 to now) while America was just in Democrat Obama reign (2009–present). We can sort out US-Myanmar relations roughly in terms of two lines in this period, namely America’s “offensive” in Myanmar and Myanmar transition and adjustment.

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<sup>11</sup>“Timeline: US-Burma/Myanmar Relations”, Contemporary Southeast Asia, Vol. 32, No. 3 (2010), pp. 434–436.

American’s Myanmar offensive since 2009 began from foreign policy adjusted by the United States President Barack Obama in his taking office.<sup>12</sup> In January 2009, Obama declared to be American president. In August, Xiweibu, Chinaman of U.S. East Asian and Pacific Affairs Subcommittee of Senate Foreign Relations Committee visited Myanmar and talked with Senior General Than Shwe and Prime Minister Thein Sein. With exception, they met Aung San Suu Kyi under house arrest and brought American citizen Yetuo, who suffered from 7 years’ sentence in Myanmar. In September that year, the United States would re-examine policy on Myanmar, and strived to maintain a balance between “economic sanctions” and “pragmatic contact”.<sup>13</sup> In November 2009, Special Envoy Assistant Secretary of State in charge of Burmese issues in the United States visited Myanmar. Since then, a lot of State Department executives and senators visited Myanmar one after another in 2010. In April 2011, the United States appointed Derek Mitchell as Special Envoy and Policy Coordinator for Myanmar.<sup>14</sup> In November that year, the United States Secretary of State Hillary Clinton visited Myanmar. A year later, Obama visited Myanmar on November 19th after his re-election on November 7th, 2012, becoming the first American president to visit Myanmar. In addition to high-level exchanges, the United States lifted some sanctions on Myanmar and restored some aid to Myanmar. So far, Myanmar campaign by the United States culminated and the US-Myanmar relations turned normal from hostile in less than three years.

The contrast with Myanmar offensive of the United States was huge changes in Myanmar. In August 2009, the Burmese military launched the “Guogan event”<sup>15</sup> on August 8th one week before American special envoy Webb’s visit to Myanmar and Burmese military controlled Guogan areas with a strong offensive. On November 7th, 2010, parliamentary elections were held in Myanmar excluding NLD. Myanmar Union Solidarity and Development Party (short for Solidarity Development Party) on behalf of Myanmar military won the election and U Thein Sein served as president. After the smooth progress of the presidential election on November 13th,

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<sup>12</sup>On American policy on Burma and American sanction effects against Burma, American academia and think tanks always hold a different view. They proposed to adjust the United States policy towards Myanmar, but adjustment was not done until Obama’s coming into power. Similar documents can be found in Ian Holliday (2005, pp. 603–621; Thawngnhmung and Sarno (2006, pp. 40–63).

<sup>13</sup>The detailed discussion about “pragmatic engagement” policy of the United States towards Burma, domestic scholars have specifically discussed in details which can be found in Shi Aiguo, “Analysis and Evaluation on “pragmatic engagement” policy of the United States towards Burma”, “International Forum” 2012 1st edition.

<sup>14</sup>In May 2012, Derek Mitchell was appointed United States Ambassador to Burma.

<sup>15</sup>A military conflict happened in Guogan in August 2009 in Myanmar with one warring party Myanmar National Democratic Alliance regime’s army who was loyal to Peng power and the other Myanmar government. The military confrontation on August 8th triggered waves of refugees, known as “double-eight event”. Two weeks later, war broke out and the mutinous military was collapsed ultimately under the Myanmar military junta’s advantage. Burmese junta controlled Guogan areas.

Aung San Suu Kyi was released and began restructuring the NLD. In September 2011, 2 months before the Secretary of State Hillary Clinton visited Myanmar, the Government of Myanmar halted Myitsone hydropower station. Subsequently, the Myanmar Government began to release political prisoners in a large-scaled manner, opened media, modified various laws and NLD was registered as a legal political party. In early 2012, Myanmar Government participated in parliamentary elections, winning 43 seats and Aung San Suu Kyi was elected as a member of the House of the people in Myanmar.

### ***10.1.4 US-Myanmar Relations in 2013***

In 2013, US-Myanmar relations continued to improve and the relations between the United States and Myanmar gradually stepped into “normalization”. In February, the United States Assistant Secretary of State Jose Fernandez led trade delegation of 50 people to visit Myanmar to explore American investment opportunities in the Myanmar; In the same period, the United States Treasury Department lifted the sanctions against four banks in Myanmar. In May, Myanmar President Thein Sein visited the United States which was first visit by the President of Myanmar after a span of 47 years since 1966. American officials also gave positive response to the issue and in Myanmar call, took “Myanmar” instead of “Burma”. After Thein Sein’s visit to the United States, the export to America from Myanmar was rising slightly. In December 2013, arms trade between North Korea and Myanmar promoted the United States to list three companies in Myanmar again and one military general as new sanctions objects. On December 31st, 2013, President Thein Sein made good on the promise and announced the release of all political prisoners.<sup>16</sup> In 2013, US-Myanmar relations kept the developing trends since 2009 and bilateral relations became normal gradually.

From the description above, we can see that the relations between the United States and Myanmar from 2009 started to engage in frequent interaction and the United States depended on limited support for the Myanmar government and the lifting of sanctions to exchange for political change in Myanmar’s current government, democratization process and the return of diplomatic neutrality. At present, both sides adhere to the principle of so-called “action for action”. Although since 2009, the relations between the United States and Myanmar came into a rapid change, the United States sanctions against Myanmar had not been fully lifted until 2013. From 2009 to 2011, America did not give any economic and military aid to Myanmar (see Table 10.1).

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<sup>16</sup>Myanmar release all political prisoner welcomed by HCDH, people. cn, <http://worls.people.com.cn/n/2014/0101/c157278-23996563.html>

## 10.2 Interest Demand of US Foreign Policy Towards Myanmar

In order to understand the interest demand of US foreign policy towards Myanmar, it is necessary to firstly understand the US national interest defined by itself, because US national interest is the starting point of the US foreign policy towards Myanmar.

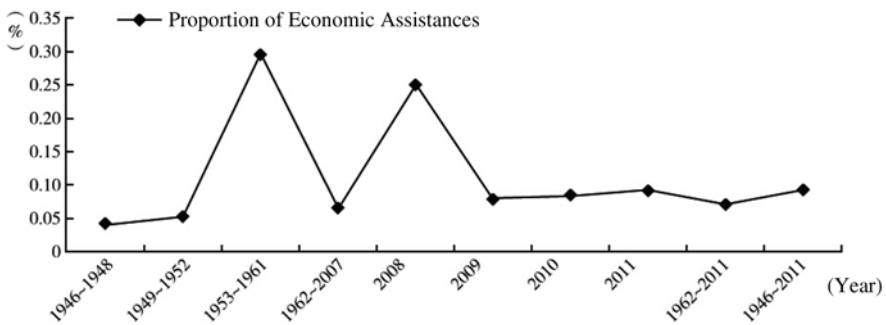
The overall US national strategy is to establish the US leadership system in the world, and this point is clearly described not only in the official documents but also in various reports of the think tank. In 2010, the US Government issued *National Security Strategy* to clearly regard security, prosperity, values and international order as the long-term US national interest. Specifically, security refers to the security of US, US citizens, US allies and US partners; prosperity refers to that the US economy remains the strong growth and the international economic system keeps the open state in order to promote the opportunity sharing and prosperity; values refer to that the universal values can be domestically and globally respected; international order refers to the international order which is established under the US leadership and can be used to cope with global challenges in order to promote peace, security and opportunity sharing through cooperation (United States of America 2010, p. 17). In that report, US Government also detailedly listed the national interests in above four aspects. The US national interests in the security field included the following six aspects: strengthening the domestic security, improving the domestic ability of responding to the security issues; collapsing, suppressing and defeating the Al-Qaeda and the branches thereof in Afghanistan, Pakistan and other regions in the world; avoid the diffusion of nuclear weapons and chemical and biological weapons to ensure the security of nuclear materials; safeguarding peace and security in large Middle East regions; providing assistance to improve the national economic strength and governance capacity of US partners; ensuring the network security. The US national interests in the prosperity field included the following five aspects: improving the education and human capital level; promoting the scientific and technological development and innovation; achieving the balance and sustainable growth; accelerating the sustainable development; reasonably using the tax revenue. The US national interests in the values field included the following three aspects: strengthening the force of example thereof; promoting democracy and human rights in foreign countries; satisfying the basic demand for human survival and presenting human dignity. The US national interests in the international order field included the following three aspects: establishing the closed alliance system; establishing the cooperation relationship with the countries having important influence in twenty-first century and strengthening the cooperation mechanism; maintaining the wide cooperation in the major global issues field. The US Government clearly indicated in the *National Security Strategy* issued in 2010 that the long-term objective of US was to maintain the US leadership in the world, and the most urgent objective of US in short term was about to prevent the diffusion of the weapons of



mass destruction, especially prevent the rogue countries and the extremists from obtaining the weapons of mass destruction (United States of America 2010, p. 4).

The election team of the US President – Obama said in the election in 2009 that the Myanmar issues was a “boutique issue” for US (Steinberg 2010a, pp. 175–176), and “small, special and popular” were the features of the boutique. From this view, it was suitable for US to regard the Myanmar issue as the “boutique issue”, because the Myanmar issue was not a very important issue in the global view of US. Meanwhile, in the human rights field and among the exile people, the Myanmar issue was a popular issue, and generally speaking, only the people who concerned the overseas good governance might pay more attention to the Myanmar issue (Steinberg 2010a, pp. 175–176). From the quantity of the assistances provided to foreign countries, we could know that the Myanmar issue was not a very important issue for US, and during 1946–2011, the quantity of the economic and military assistances provided by US to Myanmar never exceeded 3% of the total quantity of the economic and military assistances provided by US to foreign countries (please refer to Fig. 10.1); during the same period, the economic assistances provided by US to Myanmar only occupied 0.74% (please refer to Table 10.1); additionally, US provided relatively more economic assistances to Myanmar during 1953–1961, but such economic assistances provided by US to Myanmar only occupied 2.98% of the total economic assistances of US.

According to the description of the US national interests in *National Security Strategy* and the actual data of the economic and military assistances provided by US to Myanmar, the Myanmar issue was not the key point of the US global strategy. The high concern of the Myanmar issue in China was determined by the signifi-



**Fig. 10.1** Proportion of Economic Assistances Provided by US to Myanmar in the Total Economic Assistances Thereof (Note: Along with the increasing economic sanction towards Myanmar after 1988, the US Government gradually stopped the economic assistances to Myanmar, and till the middle and later 90s of twentieth century, the US Government completely stopped the assistances provided to the Military Myanmar Government but mainly provided the humanitarian aid and the assistances to the Myanmar refugees at the Thailand-Myanmar border. Source: Translated and collected from UASID Economic Analysis and Data Service, *US Overseas Loans and Grants: standard Country Report (Green book)*, Washington DC: US Government Printing Office, 2011, <http://gbk.eads.usaidallnet.gov>)



cance of the Myanmar issue in the global strategy of China, because the transformation of Myanmar had great influence on the interests of China. The author believed that error judgement could be easily made according to the research on the US foreign policy towards Myanmar from the aspect of the complicated US-Myanmar diplomatic contact due to the influence of the short-term events, and although the Obama Administration and the Bush Administration adopted entirely different methods for the Myanmar issue, the policy objectives of the two were the same (Kipgen 2013, pp. 203–216); however, the basic tendency of the US foreign policy towards Myanmar could be accurately mastered according to the research on the US foreign policy towards Myanmar from the aspect of the national interest demand of the US foreign policy towards Myanmar.

According to the definition of US national interests and the practice of the US foreign policy towards Myanmar, the interest demand of the US foreign policy towards Myanmar mainly included the following aspects.

### ***10.2.1 Prevent Myanmar from Developing Nuclear Weapons***

The primary US national interest is the national security, and the weapons of mass destruction are one of the major threats for US and the US citizens. The US Government clearly indicated in the *National Security Strategy* issued in 2010 that the most urgent objective of US in short term was about to prevent the diffusion of the weapons of mass destruction, especially prevent the rogue countries and the extremists from obtaining the weapons of mass destruction (United States of America 2010, p. 4). The third item of the US national security interest listed in the report was the diffusion prevention of the weapons of mass destruction. US always doubted that Myanmar intended to develop the nuclear weapons and kept the cooperation with Korea for the nuclear weapons. When attending the ASEAN Forum in July 2009, the former US Secretary Hillary indicated that US seriously concerned the military cooperation between Korea and Myanmar, and especially worried about the nuclear technology transfer from Korea to Myanmar.<sup>17</sup> During the visit in Myanmar in November 2012, the US President – Obama appealed to the Myanmar Government to cut off the military relations with Korea and required the Myanmar Government to accept the examination of the International Atomic Energy Agency.<sup>18</sup> Finally, the Myanmar Government signed a supplemental agreement with the International Atomic Energy Agency on September 16, 2013 and allowed the examiners of the United Nations to examine the nuclear facilities of Myanmar without providing any notice in advance (Sun Guangyong 2012a). The denuclearization of Myanmar has created the conditions for US to adjust the foreign policy thereof towards Myanmar.

<sup>17</sup>Zhou Guoxiang, Li Chenyang: *The Western Countries Purposely Hyped the Nuclear Issue of Myanmar*, *World Knowledge*, 17th Session of 2009, p. 65.

<sup>18</sup>*Obama Appealed to Myanmar to Cut off the Military Relations with Korea*, *Global Times*, December 20, 2012, <http://news.163.com/12/1120/09/8GOAT2NG00014JB6.html>

## 10.2.2 Myanmar Achieved American Democracy

### 10.2.2.1 Release of Aung San Suu Kyi

Aung San Suu Kyi was born in Myanmar, and her father General Aung San was attacked by an assassin when she was 2 years old. Afterwards, she was educated in UK and worked or lived successively in India, Japan, US and UK. In 1988, she returned back to Myanmar and was put in house arrest for several times, totally 15 years. Due to her unlucky experiences and the wide western background as well as her house arrest caused by her persistence in democracy for years, she enjoys a high reputation in western countries and especially has wide influence among the western democratic and human rights factions. It can be said that Aung San Suu Kyi herself originally stands for the experiences of the universal values in Myanmar. Therefore, Aung San Suu Kyi was successively awarded with the Nobel Peace Prize and Sakharov Prize. Additionally, US also awarded Aung San Suu Kyi with the Congressional Gold Medal, which is the top prize of US for civilians. The third aspect of the US national interests is the universal values and the promotion of democracy and human rights in foreign countries. Therefore, one of the interest demands of the US foreign policy towards Myanmar was to request the Myanmar authority to release Aung San Suu Kyi and meanwhile allow her to participate in the political process of Myanmar.<sup>19</sup> On the basis of analyzing the US sanction policy towards Myanmar, we can find that each house arrest implemented by the Myanmar authority on Aung San Suu Kyi would cause the strong disagreement of US and then US would implement stricter sanction to Myanmar. After 1997, besides the sanction implemented by the US Federal Government to Myanmar, some local governments, university and academic communities also implemented various kinds of sanctions to Myanmar,<sup>20</sup> and such situation only appeared in the period of opposing the South African racial segregation in 80s of twentieth century. No matter what's the real reason for US to promote the universal values, but the universal values are really one of the US diplomatic objectives. During Bush period, US called Myanmar, Korea, Iran, Libya, etc. as rogue states or tyranny outposts. In 2006, the State Department clearly indicated in one document that the objectives of the US foreign policy towards Myanmar included establishing constitutionalism and democracy, respecting human rights and religious freedom and instantly releasing all political prisoners including Aung San Suu Kyi (Bureau for East Asian and Pacific Affairs 2006). Since 2009, even during the house arrest period of Aung San Suu Kyi, the visits of the officers and senators of the State Department in Myanmar have inevitably included one determined procedure – namely, meeting Aung San

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<sup>19</sup> Before 2003, US always requested the authority of Myanmar to accept the result of the election of Myanmar in 1990, namely requesting the authority of Myanmar to hand over the power to the NLD led by Aung San Suu Kyi; after 2003, such objective was adjusted as requesting the authority of Myanmar to allow Aung San Suu Kyi to participate in the political process of Myanmar.

<sup>20</sup> Please refer to Zhu Xiongbing's (2010b).

Suu Kyi. It can be said that if Aung San Suu Kyi was not released, the foreign policy of US not only could not justify itself, but also could not respond to the huge pressure from the country and the congress.

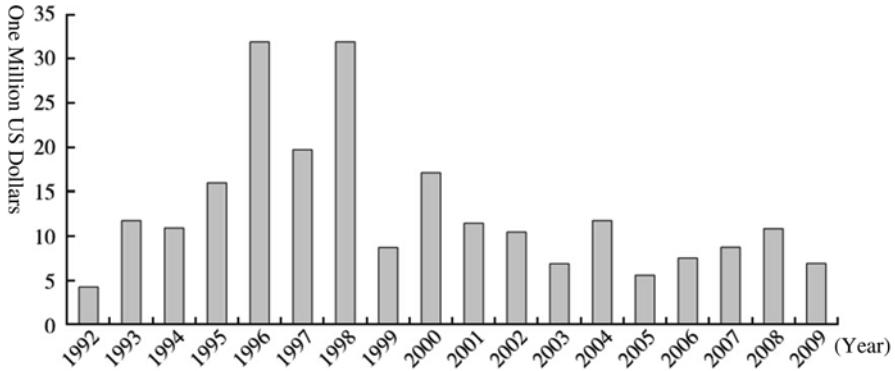
### **10.2.2.2 Aung San Suu Kyi Participated in the Process of Democratization in Myanmar**

The release of Aung San Suu Kyi and her participation in the political process of Myanmar were closely related to the political democratization of Myanmar. Her powerful influence as well as the strong support and coordination from western countries enabled her to generate huge influence on the Myanmar politics once she participated in governmental and political affairs. Even though the NLD led by her could not take office temporarily, the legal participation of a strong opposition party in the political process of Myanmar was the significant progress of the democratization of Myanmar. Actually, it was the new victory of US universal values and democracy.

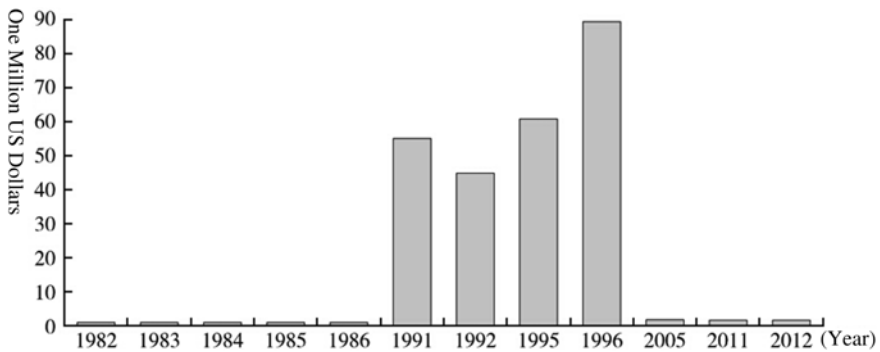
In order to achieve this objective, even though the US-Myanmar relations were gradually improved in 2009, the policy of US Government was to keep contact not only with the present Government, but also with other democratic organizations, social organizations, ethnic organizations and non-governmental organizations and continuously support the refugee organizations at the Thailand-Myanmar borders (Asia Society 2010, pp. 9–10). At present, US Government only adjusts the strategy towards Myanmar in the contact with the Military Government, but never changes the objective of achieving the American democracy in Myanmar.

### **10.2.3 Economic Interests of US Foreign Policy Towards Myanmar**

The general objective of the US national interests is to rebuild the US leadership in the world, and in order to achieve this objective, the present US task focus is to revive the US economy (United States of America 2010, p. 2). The second objective of the US national interests in *National Security Strategy* issued by the White House is to achieve prosperity, including achieving the national interests – balance and sustainable growth. In this aspect, five specific interests involved were listed in the document, mainly including: increasing deposit, expanding export and overseas demand, opening the overseas markets for US products and services (United States of America 2010, pp. 31–33). Obviously, the US Government has already recognized that the economic depression will severely threaten the US leadership in the world. Myanmar is the second largest population country in Southeast Asia and the least developed country in the world, but the large amount of populations and the wide territory as well as the advantageous physical geography and resource



**Fig. 10.2** Volume of commodity export from US to Myanmar (Source: Collected from Foreign Trade Department of US Census Bureau, <http://www.census.gov/foreign-trade/balance/>)



**Fig. 10.3** Direct investments of US to Myanmar (Source: Bureau of Economic Analysis of US Department of Commerce, <http://www.bea.gov/itable/index.cfm>)

conditions enable Myanmar to have great developing potential. During 2000–2009, the volume of the commodity export from US to Myanmar was declined from 17,000,000 US dollars from 6,900,000 US dollars, and even in 1998, the volume of the commodity export from US to Myanmar was only about 30,000,000 US dollars (please refer to Fig. 10.2). Restricted by the US sanction to Myanmar, US only had a small amount of direct investment in Myanmar. According to the statistical data from the Bureau of Economic Analysis of US Department of Commerce, except in 4 years during the 30 years from 1982 to 2012, the direct investment of US in Myanmar in most years was only about 1,000,000 US dollars, and the largest investment was about 90,000,000 US dollars in 1996 (please refer to Fig. 10.3), but such investment only occupied 0.64% of the direction investment of US in Asian-Pacific

region.<sup>21</sup> Therefore, from the view of reviving the US economy and rebuilding the leadership of US economy in the world, Myanmar is the market that US is about to develop, and meanwhile developing the US-Myanmar relations is also one of the interest demand of the US foreign policy towards Myanmar.

#### ***10.2.4 China and ASEAN Factors in the US Foreign Policy Towards Myanmar***

When discussing the US foreign policy towards Myanmar, the domestic scholars usually mention that US drew Myanmar over to its side under the “Asia-Pacific rebalance” strategy to constrain China and they also believe that this is one of the important reasons for US to adjust the foreign policy towards Myanmar.<sup>22</sup> The US national interests lie in maintaining the leadership thereof in the world, and if China as the challenger / revolutionary attempts to challenge the present international system under the leadership US, it can be predicted that US will suppress China. However, according to the *National Security Strategy* of US, US did not regard China as the challenger but regarded China as one of the regional force centers in twenty-first century and expected to develop and maintain a positive, constructive and comprehensive relationship with China (United States of America 2010, p. 44). According to the time hierarchy of the Sino-Myanmar relations and the US-Myanmar relations after “Second World War”, we can find that no obvious relevance exists between the two (please refer to Table 10.2). Additionally, as for the question whether the interest demand of the US foreign policy towards Myanmar includes the factors for constraining China, we can search the clue in the US-Myanmar relations since 2009. On August 8, 2009, the military of Myanmar launched the “Kokang event” and controlled the Kokong region mainly including the Han people by the strong offensive thereof, thus causing over 30,000 refugees to rush into Yunnan of China. After one week, namely on August 14, the US Special Ambassador and the Chairman of the East Asian and Pacific Affairs Sub-committee of Senate Diplomatic Relations Committee – Webb visited Myanmar, thus opening the door for the contact between the high-level leaders of the two countries. In September 2011, the President of Myanmar –Thein Sein announced to suspend the Myitsone Dam 8 months after taking office, and 2 months later, the present US Secretary – Hillary visited Myanmar. Objectively, the improvement of the relations between Myanmar

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<sup>21</sup>The total direct investment of US in Asian-Pacific region was 139,548,000,000 US dollars in 1996, and the data is sourced from the Bureau of Economic Analysis of US Department of Commerce, <http://www.bea.gov/itable/index.cfm>

<sup>22</sup>Papers holding similar thesis: Liu Aming: *Adjustment of US Foreign Policy towards Myanmar and the Prospect Thereof*, *Modern International Relations*, 2nd Session of 2010; Shi Aiguo: *Analysis on US “Practical Contact” Policy towards Myanmar*, *International Forum*, 1st Session of 2012; Du Lan: *US Adjusted the Foreign Policy towards Myanmar and the Constraints Thereof*, *International Issues Studies*, 2nd Session of 2012.

**Table 10.2** Time hierarchy of US-Myanmar relations and Sino-Myanmar relations

Political authority of Myanmar	Time hierarchy of Sino-Myanmar relations	Time hierarchy of US-Myanmar relations
U Nu Government Period during 1947–1962	Sino-Myanmar relations were established in 1950	US-Myanmar relations were established in 1947
	Peaceful coexistence during 1948–1961	Normal diplomatic relations were maintained between the two countries
Ne Win Military Regime Period during 1962–1988	Sino-Myanmar relations were worsened during 1962–1970	
	Sino-Myanmar relations were improved during 1971–1988	
Saw Maung - Than Shwe Military Regime Period during 1988–2009	The Myanmar Government only leaned to China during the period from 1988 to later 90s of twentieth century	During 1988–2009, the US Government continuously intensified the sanctions to Myanmar
Thein Sein Period from 2009 till now	The Myanmar Government speedily developed the diplomatic relations with India, ASEAN, etc. while maintaining the friendly relations with China from later 90s of twentieth century till now	After 2009, the US-Myanmar relations were gradually normalized

and US really enables Myanmar to return to the neutral position. Therefore, although there is no any US official announcement, the US foreign policy towards Myanmar should include China factor.

The ASEAN factor is also considered in the US foreign policy towards Myanmar, wherein the significance of ASEAN in the US interests is mainly presented in the following aspects: firstly, ASEAN includes the US allies, namely, the Philippines, Thailand, and the prospective ally, namely, Singapore. The US national security, the regional security and the global security are based on the relations between US and the allies thereof, so the security obligations to the allies thereof are unshakable (United States of America 2010, p. 41). Thailand which borders on Myanmar is a US ally most greatly influenced by Myanmar issue. Secondly, Indonesia of ASEAN is regarded by US as one of the emerging countries in the world, and Indonesia is the fourth largest population country in the world and the member of G20 as well as the largest population Islamic state having achieved the secular democracy, and meanwhile, Indonesia is also one of the countries with which US strives for establishing the better diplomatic relations. Thirdly, ASEAN itself is the most effective multilateral organization in East Asian region, so establishing the close relations with ASEAN is also one of the key points of US diplomacy in Asia. After Myanmar joined ASEAN in 1997, difference always exists between the foreign policies of US and ASEAN towards Myanmar and such difference is also one of reasons for causing the conflicts between the two. Solving the Myanmar issues in the US-ASEAN relations not only can enable US to establish closer relations with ASEAN, but also can reduce the worries of the US ally Thailand and meanwhile create the conditions for US to establish closer relations with Indonesia.

The above four aspects can be regarded as the interest demands of the US foreign policy towards Myanmar and such demands are determined by the US national interests, so they are relatively stable in a certain period. Therefore, these factors can be regarded as the “constant variables” in the US foreign policy towards Myanmar. However, these constant variables cannot completely explain why US issues such foreign policy towards Myanmar at this time and in this place, because the specific measures, the opportunity selection, the issue field, etc. regarding the adjustment of the US foreign policy towards Myanmar are not only related to the “constant variables”, but also related to such “independent variables” as regional situation, internal affairs of Myanmar, sudden event, etc. The “pragmatic engagement” policy implemented by US towards Myanmar since 2009 can be regarded as the superposition of the above mentioned “constant variables” and “independent variables”.

### 10.3 Interest Demand of Myanmar Foreign Policy Towards US

It is more difficult to research the interest demand of Myanmar foreign policy towards US than to research the interest demand of US foreign policy towards Myanmar. US Government never minds talking about its national interests and periodically discloses the definition of the national interests thereof in a form of government document. In order to research the interest demand of Myanmar towards US, it is necessary to firstly know the interests of Myanmar and the definition thereof. However, the Myanmar Government does not issue any similar official document to explain these international interests and the definition thereof. Generally, the constitutions of various countries all intensively reflect the interest demands and the basic systems of the country itself, so this article aims at concluding the Myanmar foreign policy towards US on the basis of the Myanmar constitution<sup>23</sup> (2008 Version) and the Myanmar diplomatic practice towards US. Although the Myanmar constitution of 2008 Version was stipulated under the guidance of the Military Government, it still can partially reflect the Myanmar international interests defined by the Myanmar authority. Therein, the Myanmar constitution of 2008 Version totally includes 15 chapters, 457 articles and 5 annexes, and the Chinese translation includes over 100 pages. According to the Myanmar constitution and the Myanmar diplomatic practice towards US, the interest demand of Myanmar foreign policy towards US shall include the following contents.

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<sup>23</sup>After the independence of Myanmar, the Government of Myanmar successively issued three constitutions, wherein one is the *Federal Constitution of Myanmar* stipulated in 1948, one was the *Socialist Constitutions of Myanmar*, and the current constitution is the third constitution stipulated in 2008, namely *Constitution of the Union of Myanmar*.

### 10.3.1 *Safeguard Sovereignty and Independence of Myanmar*

Safeguarding the sovereignty and independence of Myanmar is not only the interest demand of the Myanmar foreign policy towards US, but also the interest demand of the Myanmar foreign policy towards other countries. As a small country suffering from colonial aggression, Myanmar is always especially sensitive to the sovereignty and independence issues in the diplomacy with the big powers. It is clearly specified in the foreword of the constitution of Myanmar that the state sovereignty was completely lost in 1885 due to the aggression of the imperialist colonizers; people of all nationalities made concerted efforts to fight against imperialism and strive for the correct national liberation with blood and life, and finally reestablished the state sovereignty on January 4, 1948.<sup>24</sup> According to Article 1 of the constitution, Myanmar is a country with independent sovereignty.<sup>25</sup>

During 1947–1988, Myanmar maintained a normal diplomatic relations with US. Since this period was just the US-Soviet Cold-War period, many middle and small countries chose to “lean to some countries” according to their ideology, but Myanmar maintained neutral among the three big powers – China, US, Soviet as the foreign policy during this period. After the independence of Myanmar, Thein Sein Government maintained a good relation with socialistic China at the beginning of the ruling period thereof, but the consideration thereof was the sovereignty and independence of Myanmar other than the ideology. Although Thein Sein contacted Marxism at early period and once translated parts of the Marxism-Leninism works including *Das Kapital* (Li Chenyang 2009, p. 119) as well as wrote the article “I am a Marxist”,<sup>26</sup> Thein Sein still opposed communism and believed that the communism violated the decree of gods.<sup>27</sup> During 1947–1962, Thein Sein Government claimed Myanmar as a capitalist country but still kept friendly relations with such socialist countries as China and Soviet and meanwhile advocated and put forwards “the Five Principles of Peaceful Coexistence” together with China. In 1953, due to the Nationalist Party issue in the army of Myanmar, Thein Sein Government actively requested the capitalist country US to stop the economic assistance to Myanmar and meanwhile submitted this issue to the United Nations Security Council. After the coup in 1962, Ne Win military regime as the ruling party announced to establish the socialist country and meanwhile issued the socialist constitution, but this regime deteriorated the relations with the socialist China during 1962–1970 and maintained the normal diplomatic relations with capitalist US (please refer to Table 10.2). In order to safeguard the sovereignty and independence thereof and avoid intervening

<sup>24</sup> *Constitution of the Union of Myanmar* (2008), translated by Li Chenyang, Gu Longju, *Southeast Asian Studies*, 1st Session of 2009, p. 60.

<sup>25</sup> *Constitution of the Union of Myanmar* (2008), translated by Li Chenyang, Gu Longju, *Southeast Asian Studies*, 1st Session of 2009, p. 61.

<sup>26</sup> He Shengda (1992, p. 392), quoted from Li Chenyang’s (2009, p. 119).

<sup>27</sup> Zhao Weiyang: *Introduction of Thein Sein*, *Southeast Asian Studies*, 3rd Session of 1982, p. 95, quoted from Li Chenyang’s (2009, p. 119).



in the war among China, US and Soviet during 1948–1988, Myanmar actively requested US to stop the assistances thereto for several times. Although US increasingly intensified the sanction to Myanmar after 1988, Myanmar did not yet change the foreign policies due to the US sanction thereto. Myanmar believed that the non-aligned and neutral foreign policy was the best way to safeguard the sovereignty and independence of Myanmar, so Myanmar not only adhered to this policy during the diplomacy to US, but also adhered to this policy during the diplomacy to other countries. Moreover, the constitution of Myanmar also clearly regulates that this state pursues the independent and positive nonaligned foreign policy, devotes to safeguarding the world peace and the friendly contact and cooperation with various countries as well as pursues various principles of peaceful interstate coexistence.<sup>28</sup>

### ***10.3.2 Safeguard Myanmar’s National Unity and Reunification***

Myanmar includes 135 official nationalities, and the nationality issue thereof is one of the essential issues troubling the peace and development of Myanmar. Article 1 of the basic principle in the constitution of Myanmar is that the state will safeguard the non-division of the federation and keep the integrity of the national unity.<sup>29</sup> On this basis, whether in the Thein Sein period or in the military government period, Myanmar always sought to solve the minority problems therein. After 2009, in spite of the opposition of US, Myanmar still successively solved the Kokang issues by the use of forces and heavily fought against the diehard KIA with the Christianity as the main belief thereof. Although the so called “federal system” has been implemented in Myanmar, it is still clearly regulated in the constitution of Myanmar that all the state territories of the Union of Myanmar, such as provinces, states, federal territories, national autonomous areas, etc. shall not be separated from the country at any time.<sup>30</sup> The important objective of Myanmar foreign policy towards US is to enable US not to support the separatist activities of the local armed forces in the territory of Myanmar, and meanwhile the national unity is also one of the objectives. Since 2011, various violent confrontations have occurred between the Buddhists and the Muslims of the Rakhine State, thus causing over 100 injuries and deaths (Sun Guangyong 2012b). Although some persons concerning the human rights requested US to impose pressure on Myanmar and requested Myanmar to protect the Muslims therein, the US Government did not yet seriously mention this.

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<sup>28</sup> *Constitution of the Union of Myanmar* (2008), translated by Li Chenyang, Gu Longju, *Southeast Asian Studies*, 1st Session of 2009, p. 64.

<sup>29</sup> *Constitution of the Union of Myanmar* (2008), translated by Li Chenyang, Gu Longju, *Southeast Asian Studies*, 1st Session of 2009, p. 61.

<sup>30</sup> Article 10 of *Federal Constitution of Myanmar*, refer to *Constitution of the Union of Myanmar* (2008), translated by Li Chenyang, Gu Longju, *Southeast Asian Studies*, 1st Session of 2009, p. 62.

However, when interviewed by British Broadcasting Corporation, Aung San Suu Kyi also denied the violence from Buddhists to Muslims and believed that such violence was unfavorable for the national unity.

### ***10.3.3 Pursue Myanmar's International Recognition***

The object recognized in the international relations is state act or foreign policy behavior, and the identification of the representation right/qualification in the international organization and the national development way and the state politics.<sup>31</sup> Although the actual effect of the US sanction to Myanmar did not reach the sanction objective thereof, such sanction still made Myanmar face the international recognition crisis even after the Democratic Party replaced the ruling position of the Military Government. If such issue could be relieved during the Cold War through the neutrality among China, US and Soviet, then US would become a unique super-power after the Cold War and the US attitude of refusing to recognize Myanmar was not only its own attitude, but also represented the attitude of most western countries and most main international organizations in the world. The recognition in the international relations includes three aspects: sovereignty (space) recognition, system recognition and identity recognition.<sup>32</sup> US established the diplomatic relations with Myanmar in 1947 and recognized Myanmar's sovereignty, but along with the US policy change in 1988, US was not willing to give the expected system recognition and identity recognition to Myanmar. The basic reason for the countries to pursue the recognition lies in the recognition of the state and regime legality. If the significance of the Myanmar Government could not be internationally recognized, then such non-recognition would gradually weaken the domestic legality of the Myanmar Government. For example, the Military Myanmar Government obtained its ruling power through coup, so this Government itself could not remove the legality crisis, and the international non-recognition would further collapse the domestic ruling legality. Therefore, both the democratically elected Thein Sein Government and the Military Myanmar Government need to obtain the internal recognition, and in case of not obtaining the international recognition from US in the unipolar world after the Cold War, the Government will have a very difficult situation in the world.

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<sup>31</sup> Zhao Jun: *Recognition in International Relations: Legality and Audience Cost, World Economics and Politics*, 4th Session of 2011, p. 86.

<sup>32</sup> Space/sovereignty recognition is especially presented in the interstate diplomatic recognition, and the diplomatic recognition is the basic condition for the state to enter the international society; the system recognition is mainly presented in the attitudes of the country towards the international system and the systems of other countries, and involves the cognition of the countries on the fairness of the system; the identity recognition refers to the self-identification of the country on the molding measures. As for the detailed information regarding this issue, please refer to Zhao Jun's *Recognition in International Relations: Legality and Audience Cost, World Economics and Politics*, 4th Session of 2011, p. 86.

### ***10.3.4 Seek for Support from US to Promote the Domestic Development***

One of the basic functions of the modern countries is to provide necessary public products for the economic development and the improvement of people’s livelihood therein, wherein such public products not only include the good infrastructure and the perfect public services in the country, but also include the open international commodity, capital and technology market. Meanwhile, the constitution of Myanmar also regulates that the economic system of the country is the market economy system, the country devotes to improving people’s livelihood and promoting the growth of various investments, and the country will make full efforts to provide technologies, capitals, equipment, raw materials, etc. in order to promote the prosperous development of the industries.<sup>33</sup> Myanmar had a very slow development for years, and became the least developed country in the world in 1987. After the Second World War, the development level of Myanmar was equal to that of Thailand, but in 2012, Myanmar has fallen far behind Thailand. In 2012, the GDP of Thailand was 6.9 times of that of Myanmar, the GDP per capita of Thailand was 7.4 times of that of Myanmar, the average life span of the people in Thailand was 8.45 years longer than that of the people in Myanmar, and the average education years of the people in Thailand was 3 years longer than that of the people in Myanmar. However, the poverty population of Myanmar was 4.2 times of that of Thailand, and 32.7 % of the people in Myanmar lived under the low-income level (please refer to Table 10.3). Therefore, developing the domestic economy and improving people’s livelihood became the urgent task of Myanmar. As the largest economy in the world, US is the essential external condition for the development of Myanmar, so the capitals, technologies, markets and assistances needed for the development of Myanmar are greatly influenced by US and the Myanmar foreign policy towards US also includes seeking the support from US in order to develop the domestic economy thereof. Actually, US really provided a lot of assistances in the past. For example, at the valuation of the constant US dollars in 2011, US provided the economic assistances and loans totally valued at 1,338,000,000 US dollars during 1947–2011 to Myanmar, including the funds for drug control and essential assistances. Meanwhile, US also provided the military assistances valued at 541,000,000 US dollars to Myanmar (please refer to Table 10.1). Besides the assistance and market blockage relief promises from US, Myanmar also obtained the debts exemption and the new assistances and loans from European countries, Japan and Korea under the acquiescence of US after the improvement of the US-Myanmar relations in 2009. Meanwhile, the World Bank, Asian Development Bank and other international organizations also resumed the assis-

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<sup>33</sup> Articles 30, 35 and 36 of *Federal Constitution of Myanmar*, refer to *Constitution of the Union of Myanmar* (2008), translated by Li Chenyang, Gu Longju, *Southeast Asian Studies*, 1st Session of 2009, pp. 63–64.

**Table 10.3** 2012 Myanmar – Thailand index comparison

Country	GDP per capita	GDP (one hundred million US dollars)	Percentage of poverty population	Average life span (years)	Average education year (years)
Myanmar	531.4	1400	32.7	65.6	9
Thailand	3656	10300	7.8	74.05	12

Source: Collected from CIA The World Bank, <http://www.cia.gov/library/publications/the-world-factbook/goes/bm.html>

tances and loans to Myanmar. Since 2009, a large number of capitals, technologies and transnational corporations have started to enter Myanmar, thus enabling the economic development of Myanmar to be gradually recovered.

### ***10.3.5 China Factor in Myanmar Foreign Policy Towards US***

Although there is no official document describing the influence of China factor in the Myanmar foreign policy towards US, the constitution of Myanmar and the diplomatic practice of Myanmar after the Second World War both indicate that Myanmar pursues the independent and positive nonaligned foreign policy.<sup>34</sup> According to the collection of the foreign policies of Myanmar after the Second World War, we can find that Myanmar pursued the neutral and balanced foreign policies at most periods. Myanmar's strategy towards China developed due to the sanctions of US and western countries after 1988 was only a strategic choice, and actually, Myanmar started to positively develop the relations with India and other countries after join ASEAN in 1997. During Cold War, Myanmar attempted to keep the balance among China, US, Soviet all along. At the present, the equal diplomacy with China and US can not only meet the diplomatic traditions of Myanmar, but also meet the national interests of Myanmar. Therefore, no matter who firstly presents the olive branch, the positive response of the opposite party is reasonable.

## **10.4 “Independent Variable” of US-Myanmar Relations**

As mentioned above, respective interests of both America and Myanmar are decided by national interests of their own, making up “constant variables” of affecting the relations, while there are some important “independent variables” affecting the relations between America and Myanmar at present. These “constant variables” and “independent variables” constitute together the “function” influencing their relations.

<sup>34</sup>Article 41 of *Federal Constitution of Myanmar*, refer to *Constitution of the Union of Myanmar* (2008), translated by Li Chenyang, Gu Longju, *Southeast Asian Studies*, 1st Session of 2009, p. 64.

### ***10.4.1 Aung San Suu Kyi and Myanmar’s Democratic Reforms***

Although Myanmar has become a democratically elected government nominally after ending military rule in 2010, the ultimate goal of the current leaders and the junta still remain unknown, and in addition, it is unknown who is in the coordination of the country’s political and economic reforms. The junta’s top leader, general Than Shwe on paper is no longer in power, but it is hard to make people believe that he has left the power center and no influence. Myanmar has passed through by the new constitution in a referendum in 2008, parliamentary elections held in 2010, in most people’s eyes which is just the junta’s intention to establish a democratic and civilian government. The recent moves such as release of Aung San Suu Kyi, greater political space for National League for Democracy etc. make part of people think that Myanmar may gradually become a democracy. But this kind of judgment is not a mature one, the real purpose of Myanmar’s military government is likely to build a situation can be accepted by both Myanmar and the outside world – to end isolated Myanmar sanctions of no real democracy.

Aung San Suu Kyi’s attitude is also an important variable to influence the relations between them. Changed attitudes of Aung San Suu Kyi towards the present Burmese government and her judgment on Myanmar’s political process would affect U.S. policy toward Myanmar. This is because in addition to Aung San Suu Kyi, there never was a foreigner to have such a big influence on American foreign policy (Steinberg 2010b, p. 35). From 1988 to 2009, what Aung San Suu Kyi encountered in Myanmar has always caused strong reaction in the United States, and the overweight sanctions of U.S. against Myanmar since 1988 are corresponding to Aung San Suu Kyi’s encounters in Myanmar (see Table 10.4). Aung San Suu Kyi itself has been widely supported in the American public and the congress, her image in the western media and the public deified, in 1995, and her experience has been set in to adapt into a popular movie “Beyond Rangoon” in the west; directed by the French famous director Luc Besson, with investment of nearly RMB 200 million, combined filming by both Britain and France of biography “The Lady” began in 2011, released throughout the world in 2012. In addition, Aung San Suu Kyi also has a broad impact on congress in the United States. According to David I. Teinberg’s statistics, from 1989 to 2010, there are more than 130 copies of the congressional record file about Myanmar and Aung San Suu Kyi, and at the same time, Aung San Suu Kyi has been referred to for 1,598 times in the congressional record; she is also mentioned by 44 Senators, 64 House of Representatives. United States congress subordinate of Congressional Research Service has submitted 34 research reports successively on Myanmar and Aung San Suu Kyi in 1992–2005; both houses of the U.S. has passed or put forward 48 resolutions or bill successively in 1989–2010 (Steinberg 2010b, p. 45).

Enormous impact of Aung San Suu Kyi on the United States will make the relationship between America and Myanmar and America’s policy of Myanmar face new variables, two cases in the following will make the problem more complicated:

**Table 10.4** Aung San Suu Kyi's status in Myanmar's and the United States policy toward Myanmar

Time	State	America's policy changes to Myanmar
Before 1988	Live in the UK	The United States keeps normal diplomatic relations with the Burmese
From August 1988 to July 1989	Set up Myanmar's National League for Democracy	Stopped aid to Myanmar; Congress passed some sanctions against Myanmar's bill, but not all are implemented
From January 1989 to July 1995	Under house arrest	
From July 1995 to November 1996	She was released, and the junta admitted the election results in 1990	
From November 1996 to September 2000	She had been under short-term house arrest, and there are various constraints after release, including not being allowed to leave Yang Guang	In May 1997, Clinton signed the administrative act No. 13047, and the United States launched new sanctions on Myanmar
From September 2000 to May 2002	Under house arrest	
From May 2002 to May 2003	Negotiating with the military	
From May 2003 to May 2007	Under house arrest	In May, 2003, President bush signed the "Burmese Freedom and Democracy Act" and administrative order No. 13310, further enhancing sanctions, and Myanmar is listed as a rogue states and tyranny outpost in 2005
From May 2007 to November 2010	Under house arrest	In 2007, President bush signed an executive order No. 13348; in 2008, President bush signed an executive order No. 13464, intensify sanctions; in 2009, U.S. President barrack Obama reassessed policy toward Myanmar
In November 2010 until now	Participated in the democratic process, and was elected to the Burmese Lok Sabha Mpn in May 2012	The normalization of relationship between Myanmar step by step

One is that there would be a difference between Aung San Suu Kyi's judgment on the current Burmese government and the judgment of U.S. government on current Myanmar's government or a difference in appeal between Aung San Suu Kyi and U.S. government; another one is that there would be an inconformity between the U.S. government's policy of the Burmese government and Aung San Suu Kyi and the requirements of the U.S. congress.

### ***10.4.2 The Local Ethnic Arms and Domestic Peace***

Myanmar’s ethnic militias and domestic settlement has been there since Myanmar’s independence in 1947, until now also there is none of solutions accepted by all sides. Ethnic minorities and ethnic militias require implementation of national reconciliation in accordance with the “Panglong agreement”.<sup>35</sup> But there is difference in the understanding of the Panglong Agreement itself between the Burmese government and ethnic minorities, and it is difficult to achieve separation of power and high autonomy advocated by ethnic minorities. Myanmar’s constitution passed in 2008 made a clear division of the executive, legislative and judicial power of the federal government and state province, and the constitution shall be changed if we are to achieve the requirement of ethnic minorities, while according to the provisions of constitution made in the constitutional change procedures in 2008, it is almost impossible to amend the constitution.<sup>36</sup> Two different types of nationalism are implemented in the plains and mountains of the ethnic minority in Myanmar, the official nationalism and sub-nationalism respectively with obvious differences between the two ones (Zhu XiangHui 2010, pp. 179–190). So, in order to achieve reconciliation of the two, there is also a lot of difficulty.

To solve this problem, the Burmese government seems to take the method of “two hard hands”, to clear by force on one hand, and to negotiate with other parties on the other hand. After solving the problem of the Kokang by the Burmese government by force in 2009, Myanmar initiated a war in Kachin state in June 2011, ending the war between the Burmese army and KIA controlling part of the territory of the Kachin state, going to war again. Myanmar’s government plans to force the local ethnic armed border troops into the government control, while national militias including the KIA are against the plan, which lead to escalating tensions. At the beginning of 2012, Myanmar government and the Karen national union (KNU), one of the biggest local ethnic arms, had reached a ceasefire, before which government forces and the KNU has never agreed to a ceasefire. Agreements reached by The Burmese government and the Karen national unions include a cease-fire and set-up

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<sup>35</sup>It is signed by ethnic minority representatives of Liberty alliance, Kachin, Chin and Shan etc. Represented by Aung San Suu Kyi in February 1947 after two phases of negotiation, they decided to jointly build the transitional government in Burma, struggling for independence as soon as possible. Details please see ZhuXiangHui (2010, pp. 131–132).

<sup>36</sup>There is one chapter about the constitutional change in Burma’s constitution in 2008, that is, Chap. 12, according to the provisions of this chapter, constitutional amendment proposal must be submitted by 20 % of the federal parliament representatives in draft form, and the modified draft must be agreed to by 75 % of the federal parliament representatives; modification of core clause of the constitution must be submitted for a referendum after being approved by the federal parliament and the outcome of the referendum can only be modified by constitution on the basis of support from more than 50 % of voters. To meet the above requirements, to amend the constitution under the existing framework in Burma is clearly impossible. For details, please refer to article 436 to 433 of “The Federal Constitution of Myanmar”, see “The Federal Constitution of the Republic of Myanmar” (2008), translated by Lee Chenyang and Gu LongJu, “The Nanyang Data Translations”, 2010(1), pp. 42–43.

of a liaison office, which is a breakthrough. The cease-fire also has set a precedent for the local ethnic arms which conflict with government forces. The Burmese government tried to sign different ceasefire agreement with local ethnic armed alliances respectively, which will be a long and repeated the process. Many leaders of the local ethnic arms remain skeptical about the government and the government's motives. They point out that many high-ranking officials of the current government are military officers in the past, before which it is these officers that command the army and ethnic militias fighting, causing tens of thousands of people reduced to refugees. Many government officials serving as the military commander in the past command the battle against the local ethnic arms, including President Thein Sein.

Myanmar's ethnic local armed forces and national reconciliation problem largely affect the country's political situation, and Myanmar's domestic political changes will inevitably influence the relations.

The solution to problem of Aung San Suu Kyi's attitude, Myanmar's democratization and Myanmar national local armed forces is the uncertainty factor for a certain period at present and in the future, and the former two mainly pose larger influence on U.S. policy toward Myanmar, while the latter generates greater influence on Myanmar's domestic situation and its policy of American.

## **10.5 The Relations Between America and Myanmar Under the Influence of “Constant Variables” and “Independent Variables”**

Through the above analysis, we can conclude that the relations were influenced by the “constants Variables” and “Independent variables”, “constant Variables” impacting on U.S. relations with relative stability, while “Independent variables” will affect the mutation of relations between the two. The “constants variables” in the relations include the interest's appeal of the United States policy to Myanmar and that of Myanmar policy to the United States. To be specific, interests appeal of United States policy to Myanmar include: Prevent Myanmar from developing nuclear weapons; release Aung San Suu Kyi and allow him to participate in Myanmar's political process; achieve American democracy in Myanmar and the American economic interests in Myanmar; avoid China dominating Myanmar and roping in the association of Southeast Asian nations (ASEAN). Interests appeal of Myanmar policy to the United States include: Maintain Myanmar's sovereignty and independence; Maintain Myanmar's ethnic harmony and national unity; pursue international recognition, seek supports from the United States and promote domestic development;; take China into consideration in Myanmar's policy of the United States. The “Independent variables” in the relations include: Aung San Suu Kyi's attitude and Burmese democracy reform process; settlement of the local ethnic arms and internal peace.

From the point of the development of American relations since 2009, Myanmar has promised not to develop nuclear weapons and signed the agreement to accept



the examination by the international atomic energy agency; Aung San Suu Kyi and plenty of other political prisoners have been released, while Aung San Suu Kyi has also be selected as Lok Sabha MP to participate in the political process of Myanmar; technology and investment in the United States also gradually return to Myanmar with the reforms of Myanmar; the China’s dominance is already gone in Myanmar; therefore it can be said that besides the unreached goal of American democracy, the interests appeal of the United States policy toward Myanmar have mostly been implemented or are implementing. From the respect of Myanmar, after the U.S. policy toward Myanmar adjusting from original “economic sanctions” to “pragmatic contact”, Myanmar’s international recognition and international environment have been improved obviously; capital, technology and aid need in the Burmese economic development have flooded in, which constantly optimizes the conditions of economic development; Myanmar’s over-reliance on China’s situation have also been eased; as for problems such as Myanmar’s sovereign independent national reconciliation and domestic peace, etc., it is more difficult to define whether they have been achieved by now due to the interests of the involved in the military and the difference between Myanmar’s national interest. Therefore, it can be said that interactive relations between the two have been basically meet the interests of their respective demands since 2009, which also explains the reason why the relations can quickly improve. Fundamentally, the normalization of relations between America and Myanmar is in the interests of both sides.

As to “independent variables” factors of the relations, the prospect of the local ethnic arms has been faced with a lot of uncertainty factors, difficult to make judgments. A preliminary judgment on political democratization process of Aung San Suu Kyi and Myanmar can be made based on the current situation. Currently, Aung San Suu Kyi has involved in the political process under the control of Myanmar’s military government with the most pragmatic attitude, and has changed the radical attitude to demand military power before. The junta also adjusted the hardline policy before, beginning to implement the political democratization, and progress has been made in aspects of releasing political prisoners, making open media, attracting foreign investment and so on. After releasing the existing reform space, the junta and Aung San Suu Kyi has begun to play game in the core issues, while the 2015 election is one of the key time node, being closely related to the issues of Myanmar’s constitutional amendment. If article 59 the constitution is not amended in respect of presidential candidate qualifications, Aung San Suu Kyi is not qualified for President candidate. To amend the constitution article 59, proposal needs to be submitted by 20 % of the federal parliament representatives in the form of the draft law, agreed by 75 % of the federal parliament representatives; proposal agreed by federal parliament submits to a referendum, and the result is required that more than 50 % of voters support the constitutional changes.<sup>37</sup>

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<sup>37</sup>Article 59 of “*The Federal Constitution of Myanmar*”, see “*The Federal Constitution of The Republic of Myanmar*” (2008), translated by Lee Chenyang and Gu LongJu, “Nanyang Data Translations” 2010(1), pp. 42–43.

The optimal goal U.S. policy toward Myanmar is that Myanmar has realized the American democracy; subprime goal is the normalization of relations Myanmar and begins with the progressive democratic reforms. The optimal goal of the Burmese government policy is to entry into the international community while keeping the military privilege; subprime goal is to avoid cases of retroactivity by sacrificing part of the privilege and keeping some privilege. The National League for Democracy's optimal goal represented by Aung San Suu Kyi in 2015 is the transitional implementation in power from military government to the National League for Democracy in a peaceful manner; subprime goal is further expansion of the living space of the National League for Democracy while conducting progressive democratic reform in Myanmar. At the same time, under the existing pattern, Aung San Suu Kyi and Myanmar's military junta face the following three options: The constitution not being amended, Aung San Suu Kyi makes a compromise, continuing to participate in Myanmar's political process in some way; the constitution being amended, the junta compromises, gradually withdrawing from the Burmese politics; or Aung San Suu Kyi group and the junta reach a compromise, selecting a mutually acceptable candidate for President, and Aung San Suu Kyi group makes a commitment to the protection of the interests of the military junta, and the junta makes a commitment to expanding living space of both Aung San Suu Kyi and the National League for Democracy, and to accelerating the process of democratization. If you choose the third option, then it is likely to simultaneously implement subprime goal of the United States, Myanmar's military junta and National League for Democracy, thus the third option is relatively possibly to be performed in the future. If the third option is to become a reality, then the United States will continue to improve the relations according to the principle of "action to action".

Based on "constant variables" of relations between two countries, the normalization of relations is in the interests of both sides and based on the variables relations between two countries, in addition to the uncertainty factor of the local ethnic arms, factors of Aung San Suu Kyi and Myanmar's democratic reform is more likely to continue to push the improvement of relations between America and Myanmar. Therefore, on the whole, the improved trend of the relations between the two is gradually formed. In this context, the future of China's policy toward Myanmar will inevitably face three new problems: The normalization of relations between the America and Myanmar, the neutralization of Myanmar in relations between China and the United States and the democratization of Myanmar's government. How to better cope with the three big challenges will determine the success or failure of China's diplomacy towards Myanmar.

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# Chapter 11

## Adjustment of Japan's Policy Toward Myanmar Since Myanmar's Political Transition

Yanfang Li

**Abstract** With the realization of the milestone-like transition of the democratization process in Myanmar in 2011, the US-led western countries started to foster their relationships with Myanmar in succession, and Japan, which once had huge political and economic interests in Myanmar, would certainly not fall behind. Since the end of 2011, Japan quickly adjusted its policies toward Myanmar, carried out a series of actions in politics, economy, diplomacy and other aspects and began the process of policy implementation aiming at retaking “lost lands”, expanding interests and enhancing influence, as well “getting rid of China” and “containing China”. This article will first review and comb the periodic changes of relations between Japan and Myanmar, with expectations to sum up several changes of Japan's policies toward Myanmar after “the World War II” and deeply explore its reasons through historical investigations. On this basis, we lay the emphasis and carry out deep discussion on the aspects which are the adjustment of Japan's policy toward Myanmar and its reasons and the implementation and its impact of Japan's policy toward Myanmar since the democratic reform in Myanmar in 2011.

**Keywords** Myanmar • Democratic reform • Japan • Adjustment of policies • Implementation

In March 2011, Myanmar's military government returned the power to the elected government and Myanmar's democratization process has realized a milestone-like transition. As the United States announced to ease its sanctions against Myanmar, the US-Myanmar relations began to warm up gradually. Other western countries also renewed their old cordial relations with Myanmar. Japan, which once had huge benefits in Myanmar, certainly did not want to fall behind. Since the end of 2011,

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Japan quickly adjusted its policies toward Myanmar, carried out a series of actions in politics, economy, diplomacy and other aspects and began the process of policy implementation aiming at retaking “lost lands”, expanding interests and enhancing influence, as well “getting rid of its economic dependence on China” and “containing China”.

There are certain historical continuity as well as certain inherent rules in the formulation and adjustment of Japan’s foreign policies. Therefore, the analysis of Japan’s current adjustment and implementation of the policies toward Myanmar is inseparable from the observation of the history and analysis of the reality of the relations between the two countries. This article will first review and comb the periodic changes of the relations between Japan and Myanmar, strive to sum up several changes of Japan’s policies toward Myanmar after “the World War II” and deeply explore its reasons through historical investigation. On this basis, we lay the emphasis and carry out deep discussion on the aspects which are the adjustment of Japan’s policy toward Myanmar and its reasons and the implementation and its impact of Japan’s policy toward Myanmar since the democratic reform in Myanmar in 2011.

## **11.1 Investigation on the History and Reality of the Changes of Japan’s Policy Toward Myanmar**

Since twentieth century, Japan has been an important and contradictory existence in east and Southeast Asia areas. In this historical period, Japan’s role had changed from the invader to the donor and then to the major investor, which has produced profound and complex impacts on the development process of all the countries in those regions. Among them, the levels of Japan’s influence on Myanmar were the most diversified and therefore the relationship between Japan and Myanmar was the most special. Based on the analysis of the existing literature and historical materials, the investigation on the changes of Japan’s policy toward Myanmar can be divided into the following four periods.

### ***11.1.1 From Supporting Myanmar’s Independence in the Mid 1940s to Conducting Colonial Ruling in Myanmar***

Years from 1941 to 1945 was an important phase in the formation of the special relationship between Japan and Myanmar, which was also the first period of changes of Japan’s policy toward Myanmar. In 1941, in order to achieve the strategic interests in the Asian field, Japan played the role of supporting Myanmar’s independence

under the so-called banner of “co-prosperity and coexistence of the greater East Asia”. It not only helped Myanmar train leaders of the uprising against the British colonization (referred to as “Thirty Comrades” in history) but also assisted it in setting up “the Burmese Independence Militia”, which was also the first regular army in Myanmar in the recent history. In early 1942, Japan and Myanmar’s independence army jointly defeated the British army, the Japanese intelligence agency “South Authority” also started to help Burmese set up local governments across the country. However, after occupying Myanmar, Japan did not intend to keep its promise to give back independence to Myanmar, but to turn their identity as the liberator to the new colonial ruler on the spot, and fostered the puppet government headed by Bhamo to begin its military control and colonization of Myanmar for up to 3 years (Fan Hongwei and Liu Xiaomin 2011).

Although there were certain changes in Japan’s policies toward Myanmar, its invasion of Myanmar was different from its invasions of East Asian countries. Therefore, the historic heritages of the relations between Japan and Myanmar are more special. Firstly, apart from Japanese government, many Japanese people, especially the old Japanese soldiers in “the World War II” period and their families had inseparable Myanmar complex, and was reluctant to part with the abundant resource Myanmar provided for the empire in the past; Secondly, although the military controls implemented by the Japanese army in Myanmar was tough, brutal military conquest measures were not taken, therefore, Burmese did not possess strong anti-Japan emotions and even felt grateful for Japan’s anti-Britain aids to some extent; Lastly, the Japanese army continuously fostered Myanmar’s political elites after occupying the country and offered scholarships for many of them to go to study in Japan (Saito Teruko 1992). Like the “Thirty Comrades”, these people who were deeply influenced by Japan’s political education also became core figures in Myanmar’s politics and military affairs later. Although Myanmar’s allied forces defeated Japan in 1945, Myanmar’s military and political leaders, who were led by General Aung San, kept a good relationship with Japanese politician group, and this relation continued until Ne Win dropped the reins of government in 1988. Even today, there are still many Burmese politicians who are deeply influenced by Japan. Different historical circumstances make the feelings of Burmese towards Japan different people from other countries in the region. Even textbooks after Myanmar’s independence specially emphasized the contribution and help of Japan in its independence. It was this dual restraints both in political relations and historical emotions that had laid solid foundation for the establishment of the two countries “special relationship” and “historical friendly relationship” during the cold war.

### ***11.1.2 Adoption of Myanmar-Friendly and Aiding-Myanmar Policies from “The World War II” to the Cold War***

After “the World War II”, there was a widespread anti-Japanese sentiment in most of the countries in the domain of East Asia and Southeast Asia, only Myanmar and Japan kept the friendship. In Japan’s most difficult period after the war, it was exactly Myanmar which alleviated Japan’s domestic food crisis with rice at prices lower than international levels. And when the negotiations regarding war reparations between Japan and other Asian countries reached an impasse, it was again Myanmar being the first to reach agreement with Japan with sympathy. Since the 1960s, Japan had realized the economic take-off, but its poor resources and disadvantageous geopolitical strategic location could hardly support its ambitious development demands, thus the will to obtain resources and markets in Asia became urgent again. In order to spread its power and regain the influential position in Southeast Asia, Japan relied so heavily on Myanmar’s role in it that it insisted in adopting Myanmar-friendly and assisting-Myanmar policies from the post-war period to the cold war period, which resulted in “the Honeymoon Period” during which Japan and Myanmar had the closest and longest contacts.

In this phase, Japan actively established and consolidated bilateral relations with Myanmar mainly through political and diplomatic means and war reparations, official development assistance (ODA), trades, investments and other economic means. In terms of political diplomacy, Japan signed a peace treaty with Myanmar and announced the formal establishment of diplomatic relations with Myanmar in 1954, achieving the normalization of diplomatic relations of these two countries; In terms of war reparations, in September 1954, Myanmar was the first to sign The War Compensation and Economic and Technological Cooperation Agreement with Japan, which helped Japan to break the impasse of negotiations regarding war reparations in Southeast Asia and at the same time also opened the door for Japanese companies to re-enter the market in this region; From 1955 to 1968, Japan paid \$200 million as war reparations and 47.336 billion yen as “sub-reparation” in total, and later provided another \$50 million of investment loans as the disguised supplementary compensation (Kei Nemoto 2007); In terms of official development assistance, from 1968 when Japan made its first aid loan to Myanmar to 1975, Japan made loans of 5–10 billion yen to Myanmar every year; From 1985 to 1987, it increased the amount to more than 30 billion yen and hit a record of 46 billion yen in 1984 (World News 2013). In fact, from 1968 to 1988, Japan had already provided half of its foreign aids to Myanmar and took up to 71.5 % (Steinberg 2009) of shares in the total amount of foreign aids in Myanmar, which made Japan become Myanmar’s largest donor and investor during the cold war period and Myanmar among the top five recipients of Japan’s economic aids at one time. In this stage, Japan’s economic aids to Myanmar were very diversified, in addition to government aid loans, there were comprehensive financial subsidies in 1975, cultural subsidies in 1996, food production growth subsidies in 1977, debt waiver in 1999, etc. Objectively speaking, these aids provided by Japan to Myanmar had played an

important role in the post-war reconstruction of Myanmar, and it helped Myanmar overcome the economic crisis several times during the 1970s–1980s in the twentieth century.

### ***11.1.3 Middle Way Policy of Implementing Both Sanctions and Contacts with Myanmar from 1988 to 2010***

In September, 1988, Myanmar's military government came to power and established State Law and Order Restore Commission (SLORC), since when an obvious differentiation of the international communities' positions toward Myanmar came into being. The US-led western countries claimed to put sanctions on Myanmar, while neighboring countries such as China and the Association of South-east Asian Nations (ASEAN) proposed to keep contacts and cooperation with it. In the weighing of the interests of the state and the alliance relationship with the U.S., Japan's policy toward Myanmar showed many repetitions, especially the policy adjustment since 2003, which made the Japan-Myanmar relations drift away from the past. After the United States and western countries announced to put sanctions against Myanmar, Japanese government decided to temporarily suspend its aid plan to Myanmar in January, 1989; Under the lobbying of domestic enterprises and Myanmar-friendly groups, Japan restored some of its economic aids to Myanmar and became the first country to recognize the Burmese military government in the western world In February 1989; Since 1997, Japanese policymakers believed that sanction policy was counterproductive to the Burmese governance development and therefore decided to implement policies to promote bilateral economic relations, which also promoted the relationship between Japan and Myanmar to be closer again; In 2003, after the "May 30th" incident, the situation in Myanmar deteriorated again, and western countries such as the United States strengthened the sanctions against Myanmar, under the pressure of public opinions at home and abroad, Japan announced to stop its yen loans to Myanmar; In 2007 "Saffron Revolution" broke out in Myanmar, the Japanese also immediately cancelled their donations to Myanmar and the Japan-Myanmar relations dropped to its historic low; From 2008 to 2010, though Japan still paid attention to the human rights in Myanmar, it did not follow Europe and America to put sanctions against Myanmar and never stopped its aid to Myanmar.

Generally speaking, on the one hand, Japan basically conformed to the demands of U.S.'s sanctions against Myanmar in this stage, but on the other hand, it still wanted to keep "constructive contacts" with Burmese military government. In the middle of sanctions and contacts, Japan seemed to have found a middle way policy – the policy of "constructive interference", i.e. recognizing the Burmese military government and hoping to establish an elected government of national reconciliation which included all political parties through dialogue. For the country's stance and policy toward Myanmar, the explanation from the Foreign Ministry of Japan in



1997 was very representative, “Japan’s policy toward Myanmar is to carry out constructive dialogue with the military government rather than to change its democratization and human rights situation by isolating Myanmar. Japan thinks that the isolation of the international community is not the best way to improve Myanmar’s situation. On the contrary, Japan thinks helping Myanmar return to the international community and encouraging it to follow the international code of conduct is important” (Ministry of Foreign Affairs of Japan 1997).

In the process of the implementation of the middle way policy, in order not to offend the American allies and the international community, Japan adopted a round-about way. The first was to offer constant encouraging assistance to Myanmar with the reason to promote the democratic process of its military government. Whenever the military government made any arrangement of national reconciliation and promoted democratic process, Japan responded to it immediately and offered aids and investments. The most normal example of this was from 1990 to 2010, while the military government arrested and released the leader of “NLD” – Aung San Suu Kyi for several times, Japan also stopped or continued its aids to Myanmar for several times accordingly. Secondly, Japan gradually restored its aids and investments in the form of humanitarian aids. Especially in terms of the investments of Japanese private enterprises in Myanmar, Japanese government adopted an attitude which was neither encouraging nor opposing, which essentially guaranteed the sustainable development of the bilateral economic and trade relations. Thirdly, Japan implemented its aids toward Myanmar through the Association of Southeast Asian Nations (ASEAN) and other platforms as well as ASEAN Comprehensive Economic Partnership Agreement (AJCEP). After the Association of Southeast Asian Nations (ASEAN) resisted pressure from Europe and the United States and decided to accept Myanmar, Japan immediately stated that ASEAN’s acceptance of Myanmar and the acceptance of military government should not be taken into equal consideration in order to ensure that Japan could continue to keep economic ties with Myanmar under the regional cooperation frameworks such as ASEAN, AJCEP, etc. Fourthly, Japan maintained its trade relationship with Myanmar under the principle of stripping politics to ensure that Japan could obtain resources in Myanmar’s border areas.

In the cold period of Japan-Myanmar relations, Japan has suspended its aids and main loan projects to Myanmar, which directly led to the steep decline of Japan’s economic influence and competitiveness in Myanmar. However, different from western countries, Japan did not implement trade embargo or other sanctions, and even kept branches of large-scale Japanese companies in Myanmar and maintained minimum levels of operations. According to statistics, from 1988 to 2010, Japan kept 23 investment projects in Myanmar, and the investment amount was about \$213 million, accounting for only 0.67 % of the total amount of foreign investments in Myanmar; Japan’s exports to Myanmar averaged \$144 million and its imports averaged \$136 million annually (Fan Hongwei and Liu Xiaomin 2011). Although the investments and trade volumes were both small, the remaining commercial presence and trading behaviors proved that the Japanese never intended to give up

Myanmar and had reserved foreshadows and leeway for the manoeuvre for its return to Myanmar.

#### ***11.1.4 Since 2011, Japan Has Actively Restored and Promoted the Rapid Development of Political and Economic Relations Between Japan and Myanmar***

On March 30, 2011, along with Myanmar's military government fully transferring the legislative, judicial and administrative power to the elected government, Myanmar's democratization process had realized the milestone-like transition. President Thein Sein promoted political and economic reform right after he took office. Important measures were loosening media controls, promoting privatization, loosening restrictions on parties, releasing political prisoners, welcoming deportees to return to Myanmar, carrying out direct dialogue with Aung San Suu Kyi, signing cease-fire agreements with most of the local ethnic armed forces, establishing national human rights commission, issuing Labour Laws which entitled labors with labor rights to form labor union and strike and other rights. These reforms were considered to be the results and the symbol of the commitment by the authorities to bring Myanmar into democracy and reintegrate it into the international community since the election in 2010. Myanmar's series of reform measures gradually won the recognition of the United States and other western countries, the United States therefore carried out a series of diplomatic actions aiming at restoring bilateral relations with Myanmar: in December, 2011, the then secretary of the State – Hillary Clinton visited Myanmar; On February 6, 2012, Hillary Clinton signed a waiver order and no longer opposed international financial institutions to visit Myanmar for assessments or to provide limited technical assistance; On July 11, 2012, the first American ambassador in Myanmar submitted letter of credence to Myanmar; On November 19, 2012, U.S. President Barack Obama carried out a historic visit to Myanmar and became the first incumbent American president to visit Myanmar. After the quick thawing of the America-Myanmar relations, Britain, France, Switzerland and other European Union countries and Australia and other western developed countries also quickly adjusted policies toward Myanmar and announced successively to increase aids to Myanmar or ease sanctions on it.

Myanmar's domestic political transition improved the tense relationship between Myanmar and the West over the years. With the gradual relaxation of sanctions on Myanmar, western countries generally started to be very interested in this country with cheap labour costs and rich resources. Among them, Japan, which had been supporting Myanmar overtly or covertly showed the most active attitude. Japan's diplomatic response was also very rapid. In fact, as early as February 2011, the Foreign Ministry of Japan already started preparing to restore its aids to Myanmar and proposed to get on the "public bus" of Myanmar's economic development, with intention to continuously restore its close relations with Myanmar through the way

of aiding. In May 2011, after the U.S. assistant secretary of state visited Myanmar, Japan, which had sniffed out the breath of thawing, launched a series of diplomatic and economic actions toward Myanmar ahead of other western countries, pushing forward the fast recovery and development of Japan-Myanmar relations. In June 2011, the Japanese government sent the then foreign administrative officer Makiko Kikuta to visit Myanmar and meet with Myanmar's foreign minister U Nyan Winand and leader of the NLD, Aung San Suu Kyi, respectively, which was also the first time for Japan to send high officials to visit Myanmar in 3 years; On December 26, 2011, Japanese foreign minister Koichiro Gamba visited Myanmar, negotiated bilateral investment treaties and announced that Japan would restore the development aids to the Burmese government; In April 2012, Japan's then prime minister Yoshihiko Noda participated in the Summit Conference of Japan and the Mekong River Basin and met then president of Myanmar, Thein Sein, and announced that the Japanese government would exempt Myanmar's debt in batches and continued the promise to restore its development aids to Myanmar; In November 2012, when Yoshihiko Noda attended the East Asia summit, he announced that he would restore the yen loans to Myanmar; On January 2, 2013, Japanese deputy prime minister Taro Aso visited Myanmar, announced its full exemption of Myanmar's debt and promised to realize the 50 billion yen loans by the end of March in order to pave the way for Japanese companies to enter into Burmese market<sup>1</sup>; On May 24, 2013, Japan's prime minister Shinzo Abe visited Myanmar, becoming the first Japanese prime minister to visit Myanmar in 36 years, which made the bilateral political and diplomatic interaction reach a climax. Pushed by the official economic diplomacy, Japan took positive actions in terms of promoting the development and economic relations with Myanmar and had achieved some results. According to the statistics of Japan External Trade Organization, as of October 2012, there were already 60 member enterprises of Chamber of Commerce and Industry which had entered Yangon; and according to the report of Associated Press, Japan currently had at least 35 ongoing investment projects in Myanmar, with Dilova Special Economic Zone which covers an area of 2,400 ha being the largest<sup>2</sup>; In 2012 and 2013, the Japan-Myanmar bilateral trade volume reached \$1.414 billion and \$1.5 billion respectively, which showed relatively large growth compared with 2010; As of December 2011, Japan's cumulative total investment in Myanmar was about \$210 million and

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<sup>1</sup> Japanese Media: Japanese Prime Minister Taro Aso Visited Burma to Pave the Way for Japanese Enterprises to Enter Into Burma, Xinhuanet, January 5, 2013, [http://news.xinhuanet.com/world/2013-01/05/c\\_124184673.htm](http://news.xinhuanet.com/world/2013-01/05/c_124184673.htm)

<sup>2</sup> Japanese Prime Minister's First Visit to Burma in 36 Years, Xinhuanet, May 26, 2013, [http://news.xinhuanet.com/world/2013-05/26/c\\_124763448.htm](http://news.xinhuanet.com/world/2013-05/26/c_124763448.htm)

it increased to \$223 million in July 2012 and \$270 million in February 2013.<sup>3</sup> The rank of Japan in the foreign investors in Myanmar increased from 13 to 11.<sup>4</sup>

## **11.2 The Main Cause of the Adjustment of Japan's Policy Toward Myanmar Since Myanmar's Political Transition**

Apart from the traditional U.S.-Japan alliance and the influence of western public opinions, the reasons of the adjustment of Japan's policy toward Myanmar since 2011 also included considerations of safeguarding national interests, promoting Japanese values, getting rid of economic dependence on China, curbing China's influence in Southeast Asia, etc.

### ***11.2.1 Improvement in the Relations Between Europe, the United States and Myanmar: Opportunity for Japan to Adjust Its Policy Toward Myanmar***

#### **11.2.1.1 Improvement of Relations Between the U.S. and Myanmar**

Seen from the above historical and realistic analysis, the adjustment of Japan's policy toward Myanmar had always conformed to the changes and trends of its overall foreign policy, and most of these changes were closely related to the development of Japan-U.S. relations and the global strategy of the United States. Before "the World War II", Japan had been running "Mainland Policy", which was using military and economic aggression to grab political and economic interests from the surrounding countries, therefore it was an inevitable choice for Japan to adopt military controls and colonial ruling on Myanmar; after "the World War II", Japan pursued the diplomatic route based on the Japan-America alliance, which essentially was the diplomatic mode "led by the United States and followed by Japan", during which stage the U.S. and Myanmar maintained a good cooperative relationship in general, with the U.S. offering Myanmar help in the aspects of economy, military and drug control, therefore the major premise for Japan to keep close relationship with Myanmar in this stage was that the United States was not opposed to it and the biggest motivation was to ensure that Japan could have enough resources for its

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<sup>3</sup> Japan-Myanmar Relations (Basic Data), Ministry of Foreign Affairs of Japan, <http://www.mofa.go.jp/region/asia-paci/myanmar/data.html>

<sup>4</sup> President of Burma Met With the Prime Minister of Japan, Xinhuanet, January 3, 2013, [http://news.xinhuanet.com/world/2013-01/03/c\\_114231883.htm](http://news.xinhuanet.com/world/2013-01/03/c_114231883.htm)

development; After the Korean War, Japan's economy realized the take-off, the increasingly powerful economic strength promoted Japan's multilateral and independent diplomacy, especially after a series of events which were the collapse of the Bretton forest system, the establishment of Sino-US diplomatic relations, the Plaza Accord, appreciation of Yen, the new Middle East policy, etc., Japan's centrifugal force to the United States increased continuously, and with the strategic contraction of the United States in the Asia-pacific, the autonomy in Japan's foreign strategic choices also increased rapidly. In this stage, although Japan's foreign policy took the Japan-US alliance as the core, it also positively sought its dominant position in the Asia-pacific. Therefore after the cold war, while the United States and other western countries all advocated to implement sanctions against Myanmar, Japan chose to admit Myanmar's military government and chose to not listen fully to the middle way policy toward Myanmar arranged by the U.S. to a certain extent – namely, policy combining sanctions and contacts. However, although Japan had increased its foreign independence, the United States remained to be its barrier on its diplomatic road and such diplomatic pattern was also reflected in Japan's choices of its policy toward Myanmar. Therefore, even though Japan had huge interests in Myanmar, Japan would still choose to stand in the side of the United States at the request of the United States. From 1988 to 2010, without receiving any message from Washington on the reconciliation with Myanmar, Japan would not have dared to do anything which would essentially harm the US-Japan relations even in the cases that Japan would suffer huge political and economic losses in Myanmar, which indicated that the United States still had a significant impact on its diplomacy.

Since Japan's diplomacy was largely based on the maintenance of the US-Japan alliance, thus due to the tension of US-Myanmar relations, Japan could only maintain the lowest economic tie with Myanmar and could not independently conduct aggressive policy toward Myanmar. After waiting for many years, Myanmar's political transition and reform in 2011 finally provided Japan which had been implementing a middle way policy an opportunity. Since 2011, the historic high-level visits between the US and Myanmar were achieved, and the US unceasingly loosed its sanctions on Myanmar while paying attention to its process of reform, the United States's investments and commercial presence in Myanmar also developed rapidly. All the signs showed that the US-Myanmar relations had thawed and warmed up obviously. The improvement of the US-Myanmar relations made the Japanese do not have to hesitate due to the contradictions between its national interests and US-Japan relations, thus it could take positive policy toward Myanmar freely. It was partly because the United States recognized the democratic progress of Myanmar which was the release of Japan-Myanmar relations, and partly because Japan's return to Myanmar could objectively match with America's strategy to return to Asia, which could incorporate Japan-Myanmar relation into the framework of the interests of US-Japan alliance and implement it.

### 11.2.1.2 Turning of Western International Public Opinion

Japan has always attached great importance to the changes of international political and economic orders and has constantly adjusted itself to adapt to the international environment. Since the nineteenth century, Japan has already experienced many strategic transformation stages such as “departure from Asia for Europe”, “departure from Asia for the U.S.” and “departure from the U.S. and back to Asia” and “rely on the United States to subdue Asia”. Thus it could be seen that it was very easy for Japan to be influenced by the international environment, and its foreign strategy choices showed strong sensitivity, which not only made responses quickly but also had a very strong adaption ability (Jin Xide 2008).

After “the World War II”, as the defeated country, Japan chose to stand in the position of the western world because of its need for the United States to provide security for it, its identification with the western universal values, as well as its aspiration to integrate into the western democratic world to change its international image. Therefore, in the formulation and implementation of the policy toward Myanmar, in addition to the US-Japan alliance factors, Japan also attached great importance to the international public opinions led by the western countries and the so-called mainstream value orientation, and were cautious in the choices of many foreign policies, trying to avoid conflicts with the will of the international community as much as possible. After Myanmar's military government came to power, the consensus of the West and the United States tended to put sanctions and trade embargo on Myanmar. Japan had not publicly opposed, but tried to establish contacts with Myanmar in the circuitous way which covered its real intention, which was also another important reason that Japan's decision-making authority did not choose to contact with Myanmar too obviously. After Myanmar's reform in 2011, many western countries began to seek detente with Myanmar. Both the European Union as a whole and its main member countries such as Germany, France, etc., welcomed the democratization in Myanmar. Among which, the Netherlands, Norway and other countries increased the investments in Myanmar rapidly, which even surpassed Japan and the United States. With the continuous deepening of the reform, the sanctions of the western countries put against Myanmar constantly decreased while the political and economic contacts were constantly expanding, international public opinions were also turning to the side which was advantageous to Myanmar. In such an international environment, Japan was no longer concerned about the negative evaluation on it from the western opinions. On the contrary, under the premise of gaining the camp which was consistent with the West, Japan could finally implement its plans to regain its weakest part in its “Asian Backyard” – Myanmar.

## ***11.2.2 Needs of Japan's National Interests and Domestic Interest Groups***

### **11.2.2.1 Needs of Maintaining and Realizing Japan's National Interests**

Japan's foreign ministry had described Japan's foreign policy goals as "to ensure the security and prosperity of the country and people's life",<sup>5</sup> which in essence was also an interpretation of its national interests. For Japan, both the US-Japan alliance relationship and the Japan-Myanmar relationship were important guarantees of the achievement of its national interests. First, safety is the primary national interest of Japan, but Japan's security could only be entrusted to the United States for a long historical period, so the US-Japan alliance had become the basic shaft of Japan's foreign strategy; Second, Japan had huge geopolitical and economic interests in Myanmar, whose rich resources not only provided important help for Japan to maintain its army and subdue Asia, but also let Japan achieve the dual purpose of economic take-off and curbing the development of communism in this area; Besides, Myanmar was in the key position for Japan to balance the influence of China in Southeast Asia. From "the World War II" to the cold war, when there were no conflicts between the US-Japan relations and Japan-Myanmar relations, Japan was taken care of in the aspect of security by the United States and had greatly benefited from Myanmar's supports in the aspects of resources, labor and markets. It was in this stage, Japan, which developed its economy in its full strength, became the world's second largest economy right after the United States. However, with Myanmar's military government taking office in 1988, Japan fell into a dilemma between the United States and Myanmar. Although in order to ensure the more important part of its national interest, Japan leaned toward the United States eventually, it did not mean that it had given up Myanmar ever after. In order to maximize its national interests, under the premise of not sacrificing the core of US-Japan alliance, Japan chose the policy which combined sanctions and contacts toward Myanmar, and maintained its economic ties with Myanmar by taking economic means and humanitarian aids. This choice also fulfilled the special statement of Japan's foreign policy: "Our first priority is to develop relations with Asia-Pacific countries and to promote regional cooperation, while maintaining cooperative relations with the United States – our most important partner with common values – as the cornerstone of our foreign policy."<sup>6</sup>

Since the 1990s, Japan's economy has been in recession for a long time. In order to revive the economy and achieve prosperity, Japan needed an emerging market where it could get more strategic resources urgently. And no matter from history or from reality, Myanmar had always been the first choice of the Japanese government. Myanmar's rich mineral and forest resources and energy, and the undeveloped huge

<sup>5</sup>"Challenge 2001, Japan's Foreign Policy toward the 21st Century", Ministry of Foreign Affairs, January 4, 1999, <http://www.mofa.gp.jp/policy/other/challenge21.html>

<sup>6</sup>"Challenge 2001, Japan's Foreign Policy toward the 21st Century", Ministry of Foreign Affairs, January 4, 1999, <http://www.mofa.gp.jp/policy/other/challenge21.html>

market with 62 million people were what Japan coveted and desired. Firstly, Japan hoped to solve its energy crisis by adjusting its policy toward Myanmar. Especially after the Fukushima nuclear disaster in March, 2011, Japan almost shut down all the nuclear power plants, which made the percentage of the fossil fuel soared to 90 % of Japan's energy demands. This crisis had brought Japan trade deficits for 15 months in a row, which had refreshed its longest record in history.<sup>7</sup> Secondly, Japan hoped that its return to Myanmar would help it to get rid of its dependence on China's economy. China was already Japan's first largest trading partner, first largest export destination and source of import, Japan's trade dependence on China reached 20 %. Since 2012, the Diaoyu Islands issue resulted in the impasse of Sino-Japanese relations. Events such as China's announcement of its designated East China Sea Air Defense Identification Zone on November 23, 2013, Shinzo Abe's visit to the Yasukuni War Shrine on December 26, etc. turned the relations between the two countries into the worst since the normalization of diplomacy. Japanese companies which were concerned with the "cold politics and cold economy" hoped to find new markets to spread the economic risk brought by the huge amount of investments in China, and the last piece of untapped market in Asia – Myanmar, immediately became the target of Japanese companies to pursue. Thirdly, Japan hoped to turn Myanmar into one of its major destinations of manufacturing transfer. With the constant rise in China's labor costs, Japan's manufacturing industry gradually shifted to Southeast Asia. Since Myanmar was the country which had the lowest labor force yet the most stupendous potential for economical development in the region, it became the key market for Japanese companies to enter. According to the survey by Japan External Trade Organization, Myanmar's average monthly salary was only \$95 in 2011, which was only about 1/5 of the salary in China. Lastly, in addition to the factors such as geopolitics, energy and cheap labour costs, Myanmar's market-oriented reform and the economic development prospect were also important reasons for Japan's change of attitude toward Myanmar. According to the prediction of IHS Global Insight, Myanmar's GDP growth rate would reach around 6 % per year on average before 2020, and would double by 2020 to \$124 billion. Seen from the market development expectations, Myanmar had strong appeal for Japan which had low economic growth. At the same time, the newly implemented new foreign investment law, special economic zone regulations and the reform of foreign exchange, etc. also greatly enhanced the appeal for Japanese foreign capital.<sup>8</sup> In addition, Myanmar was in its reform transition period at that time, although the development was expected to be good universally, its water, electricity, roads and other infrastructure construction which fell behind were badly in need of investments from Japan and other western countries. This complement and mutual needs also increased the motivation of Japan's adjustments in its policy toward Myanmar.

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<sup>7</sup>Energy crisis led to Japan's trade deficits for 15 months in a row, being the longest in history, Huanqiu.com, October 25, 2013, <http://finance.huanqiu.com/world/2013-10/4475992.html>

<sup>8</sup>Yang Qiu: Burma Japan's diplomatic card to return to the southeast Asia, Lifeweek.com.cn, June 9, 2013, <http://lifeweek.com.cn/2013/0609/41082.shtml>



To sum up, pursuing the national interests and being able to return to the golden age which was multiply secured by safety, economic interests and geopolitical interests was Japan's dream which it has waited for nearly 30 years. This was also why as soon as the relations between the U.S. and Myanmar eased, Japan would immediately adjust its policy toward Myanmar, and the historical heritages of Japan-Myanmar relations preserved after the cold war such as the economic ties with Myanmar was the important reason that Japan could quickly adjust its policy toward Myanmar and made progress.

#### **11.2.2.2 The Push of Japan's Domestic Political and Economic Interest Groups**

Firstly, adjustment of the relations with Myanmar was the need for Mr. Abe's government to stabilize regime. Looking back to the history, since 2012, Mr. Abe frequently sent high officials to visit Myanmar and actively adjusted the policy toward Myanmar. In addition to economic factors, there was also the attempt to consolidate the internal affairs through diplomatic arrangements. Since 2006, there had been six prime ministers in Japanese politics, which could be called an amazing scene in world politics. Based on the lessons of the fast changes of Japan's previous prime ministers, we could conclude that the main reason was that the authorities failed to control the senate. After Mr. Abe came to power, in order to win the election by the senate in July 2013 and avoid becoming a "short-lived cabinet" and change the present situation of the "twisted parliament", he chose to make a breakthrough in the fields of economy and diplomacy. To that end, Mr. Abe trumpeted his "Abe economics" which would revitalize the economy and intended to promote it in the ASEAN region. In foreign affairs, Japan generously waived all of Myanmar's debts and restored its yen loans to Myanmar after stopping for 26 years, which rapidly promoted the normalization of Japan-Myanmar relations. Secondly, the adjustment of relations with Myanmar was the continuation of Japan's "ASEAN diplomacy". Mr. Abe attached great importance to developing relations with the Association of Southeast Asian Nations (ASEAN) after taking office, but Japan-Myanmar relations was the weakest link in the Japan-ASEAN relationship chain. Even considering the complete and deep influence in the Association of Southeast Asian Nations (ASEAN), only, it was necessary for Japan to improve its relations with Myanmar. Lastly, Myanmar is located between India and China, only seen from the perspective of regional safety and security, its strategic position is also very important. The Japanese government's adjustment in its policy toward Myanmar was also to promote its extensive cooperation with Myanmar in the fields of security and so on so as to expand the influence of Japan on Myanmar and the Indian Ocean.

Except for being pushed by domestic political factors, there were many groups lobbying and pushing Japan to adjust its policy toward Myanmar, such as the economic industrial province, enterprises which implemented government development assistance toward Myanmar and other Myanmar-friendly groups. These institutions and organizations had been advocating Japanese government to keep

friendly relationship with Myanmar during the period when Myanmar were put on sanctions. Besides, some Japanese enterprise organizations which had vested interests in Myanmar or coveted Burmese market had been paying close attention to the international public opinions and attitude of the United States, once the relations between Myanmar and the west eased, these business groups joined in the Myanmar-friendly ranks and continued to put pressure on the government, requesting it to adjust its policy toward Myanmar so as to remove the obstacles for them to enter Burmese market.

### ***11.2.3 The Need to Promote “Diplomacy of Japanese Values”***

The theory and practice of “universal values” such as “freedom, democracy, human rights, rule by law”, etc. have been the core values advocated by the United States and other western countries. Since “universal values” can occupy the moral high ground and are helpful for mastering international speaking rights and promoting ideology, therefore promoting the values and maintaining national interests globally became the logical starting point of the global strategy of the United States (Feng Feng 2013). Likewise, with this reason, Japan, who was eager to rebuild its image in the international community and create more strategic space for its own political ambition after “the World War II” had absorbed lots of western culture values in the process of “depart from Asia for Europe and the United States”. Since the 1950s, Japan started to return to the international community through the implementation of the “universal values”, one reason was to improve its image and enter into emerging markets through leveraging, and the other was to promote the same values which also comply with its identification as the American ally. The implementation of these attempts of Japan was to actively offer aids to developing countries and regions, hoping to get rid of the United States and become a “normal country” politically.

After the cold war, the United States began to promote “universal values” in the whole world, choosing to take economic sanctions as the way to promote the expansion of American democracy under the non-war state, which revealed obvious selectivity and double standards. Japan learned this from the U.S. Its pursuit of “the implementation of foreign economic aids must receive rewards”, which was especially embodied in the plan of “aids in exchange for democracy” to Myanmar. The only difference was that the “universal values” promoted by Japan had stronger economic colors and therefore appeared to be more pragmatic and flexible in the policy implementation. Under such historical heritage, until Mr. Abe's government came to power in 2006, the then foreign minister, Taro Aso, proposed the so-called “diplomacy of values”, namely advocating the diplomacy of “emphasizing democracy, freedom, human rights, market economy and other universal values” and forming the so-called rich and stable “arc of freedom and prosperity” which share

the same values with Japan in the peripheral of Eurasia including countries from southeast Asia, south Asia, middle East, central and eastern Europe to the Baltic sea, which were connected in the shape of strip.<sup>9</sup>

Mr. Abe's government started the cliché regarding the "value-oriented diplomacy" since its coming to power again in 2012 and the purpose was still to change the values of the countries whose economic and social systems were completely different from those of Japan through economic aids. Thus except for the economic and domestic political factors, the adjustment of the policy toward Myanmar this time also aimed to promote the realization of the so-called democratization process of the society through making huge economic aids to Myanmar. No matter seen from the historical roots or from the reality, Japan had been encouraging Myanmar's democratization process through means of government development assistance with the hope that it could become a country which would recognize and promote Japanese values. Therefore, Japan's "value-oriented diplomacy" with Myanmar was essentially consistent with the "universal-values-oriented diplomacy" which it had promoted in its history.

#### ***11.2.4 Needs of Constructing the Encirclement of China and Curbing the Chinese Influence***

Japan has traditionally viewed Southeast Asia as its backyard, the region's resources and market has been the guarantee of Japan's economic take off and development. At the same time, Japan is the biggest trading partner and the largest source of foreign investment for many Southeast Asian countries. Besides, the safety of the strategic sea lanes of Southeast Asia is very important to Japan's economy because 80 % of Japan's oil imports and 70 % of its shipping goods are transported through this area. Because of this, Japan has attached great importance to its strategic space in Southeast Asia. Although Japan lost its status as the political giant after "the World War II", its flying-geese pattern and aiding diplomacy still helped Japan to maintain important influence in this area. With more than 10 years of continuous economic recession of Japan's economy, its political, diplomatic and economic influence in the Southeast Asia declined apparently, while China's national strength and regional influence was in rapid ascension. The decline and rise in the two countries' economic strength and regional influence respectively has led to growing popularity of the cold war mentality in Japan. Due to the anxiety toward zero sum and fear and worries of China's development, Japan began to woo ASEAN countries energetically in recent years, from "the value-oriented diplomacy" and constructing "the arc of freedom and prosperity" in 2006 to "East Asian community", and then back to the improved version of "the value-oriented diplomacy", the

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<sup>9</sup>Chinese Media in Japan: What is the intention of Japan's diplomacy of values? Chinanews.com, October 14, 2011, <http://www.chinanews.com/hb/2011/10-14/3388423.shtml>

intention was to construct an encirclement surrounding China and contain China's growing influence in the area.

For Japan, containing and balancing China's influence in Southeast Asia and building "CLVM" (namely, Cambodia, Laos, Vietnam and Myanmar) arc of democracy and lay siege to China, Myanmar is an indispensable important link. Because the Japanese public opinion generally believed that, "China's increasingly powerful influence will extend to the Indian Ocean through Myanmar and will directly threat Japan's lifeline of shipping commercial goods and energy, thus Japan must surpass China in the competition of regional influence in southeast Asia." The hope was certainly beautiful, but the reality was not conducive to what the Japanese expects. Either from the perspective of history or from the reality, the Sino-Burmese relationship had been well maintained and especially in the days after Japan-Myanmar relations entered into frozen stage, the Sino-Burmese relationship achieved rapid development. After the cold war, China became the most important supporter of Myanmar. There were frequent exchanges between the high officials of these two countries and their economic ties were deepened day by day. By the end of 2013, China had already become Myanmar's first largest trading partner and the largest foreign investor (including mainland China and Hong Kong), while Japan's total investment in Myanmar accounted only 1/60 of that of China so far.<sup>10</sup> The contrast of the unbalanced powers of the Sino-Burmese and Japan-Burmese economic ties were so obvious that if Japan carried on its policy toward Myanmar before 2011, then the intention of encircling and containing China using Myanmar would eventually be empty words. As a result, Japan must look for an opportunity to adjust policy, woo and persuade Myanmar to participate in the "encirclement of China" and contain China's growing political and economic influence in Myanmar and southeast Asian region so as to expand its strategic development space in southeast Asia.

Besides, Myanmar will become the land of the game of great powers such as China, the United States and Japan in the future. In order to obtain huge economic benefits, Myanmar will surely play the diplomatic card of seeking balance between great powers. However, for now, the Japanese investment in Myanmar only ranks eleventh, which is far behind China, Thailand, Singapore and other ASEAN countries and is also lower than some western countries. Either from the perspective of reality or from expectations, in addition to the factor of China, Japan faces the competition from the Association of Southeast Asian Nations (ASEAN), India and western countries in terms of political and economic interests in Myanmar. Therefore, in addition to curbing China, the reasons for Japan to actively adjust the policy and rapidly advance the development of Japan-Myanmar relations also include its unwillingness to fall behind others and consideration of occupying a good position in the competition of great powers in Myanmar in future.

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<sup>10</sup>Japan speeds up the pace of Burma, The Nikkei Chinese Website, March 16, 2012, <http://cn.nikkei.com/politicaconomy/economic-policy/1567-20120316.html>

### **11.3 The Implementation of Japan's Policy Toward Myanmar Since Myanmar's Political Transition**

With Myanmar's democratization process entering into the substantive reform stage, Japan's policy toward Myanmar quickly turned from "the carrots with a big stick" route to the path of actively promoting bilateral political reconciliation and economic cooperation and development. According to the practical observation it could be found out that there were many notable new changes happened to the main body, scope and means of implementation of Japan's policy toward Myanmar after being released from the constraints of sanctions against Myanmar from the US and international public opinion. This was also a main reason that Japan managed to successfully promote the normalization of Japan-Myanmar relations and achieve other related achievements in the past 2 years.

#### ***11.3.1 The Main Body and Field of the Implementation of Japan's Policy Toward Myanmar***

##### **11.3.1.1 Changes of Domestic and Foreign Factors Which Influence the Formulation and Implementation of Policy**

Before 2011, under the premise of the US factors, Japan was divided into two parties regarding the Myanmar issue. One was to be friends with Myanmar and hoped to expand the scale of government development aid to Myanmar; the other was to keep up with the pace of the western allies and be tough on Myanmar. There were mainly two kinds of Japan's Myanmar-friendly parties: One was Japan's "Myanmar lobbying organizations" and groups, such as "Japan – Myanmar Association", "Association of Japanese and Burmese Culture" and "Japan Business Federation" (Li Tao 2011); The other kind was large enterprise groups engaged in government development aid projects and other investments in Myanmar, such as Marubeni, Dacheng Construction Co., Ltd., and other large enterprises. At the same time, there were some organizations and groups in Japan which supported Japanese government to put sanctions against Myanmar, such as "8888 Association" and "Burmese Youth Volunteer Association" (which two merged into "Burmese and Japanese Firm") formed by the Japanese and Burmese living in Japan in the 1990s, and they received economic support from Japan's biggest trade union – "General Association of Japanese Trade Union". These organizations, the western human rights defenders and non-governmental organizations (NGO) interacted and supported each other and held many petitions and protests in the name of the human rights and democratization, which had caused wide public concern in the domestic media and the public. Under the petition of these pressure groups, Japan was the first to accept Myanmar's military government and partly restored its aids to Myanmar, but later it

began to follow the United States and suspended its yen loans and related assistance to Myanmar. We can say that apart from the influence from the United States, the neutralization and fuzzification of Japan's policy towards Myanmar was also a result of the government's will to balance the domestic disagreements from all walks of life. After Myanmar achieved its political transition, the relations between the US and Myanmar began to improve and western opinions changed, providing the opportunity for Japan to re-formulate positive policy toward Myanmar. Although Japan's interests groups, pressure groups, and people have different goals, the overall attitude toward Myanmar began to converge, which was basically unanimously hoping to restore and develop the relations between the two countries. Therefore, the efficiency dissipation was greatly reduced in the formulation and implementation of Japan's policy toward Myanmar.

### **11.3.1.2 Constantly Increase the Main Bodies Which Participate in the Policy Implementation**

Before Myanmar's political transition, the implementation of Japan's policy toward Myanmar were carried out mainly through government agencies and organizations which were engaged in government development aid projects and other investments and had huge interests in Myanmar. Besides, Japanese non-governmental organizations (NGO) and non-profit organization (NPO) also played a big role in it. Because these groups and NGO/NPO's backers – the Japanese government's bureaucracy had different opinions, there was efficiency loss in the policy implementation. For example, among the three main bureaucracies involved in the policy toward Myanmar, although Ministry of Foreign Affairs was willing to be friends with Myanmar, it advocated stopping its aid to Myanmar because it had to respond to the criticism of the US; Ministry of Finance had been reluctant to continue its aid to Myanmar because of the debt accumulated; Ministry of Economy, Trade and Industry represented Japan's interests in Myanmar, so it was very supportive to continue the aid and investment. In addition, the government did not encourage the enterprises to invest in Myanmar, which caused more enterprises to wait and see the U.S. policy toward Myanmar rather than take positive actions (Fan Hongwei and Liu Xiaomin 2011).

After reaching agreement between the groups which affect the implementation of policy after 2011, the participating subject in the implementation of Japan's policy toward Myanmar also began to expand constantly, and situation that all nationals were mobilized to promote the implementation of policy appeared. Government, various group organizations such as NGO/NPOs, enterprises and the common people joined successively, and the internal cohesion and strength of mutual cooperation in these implementation main bodies had been greatly enhanced too. Firstly, the Japanese government re-conducted the top design of the policy and led the implementation. Since 2011, the high-level officials of Japanese cabinet frequently visited Myanmar and cleared the way for the policies by strengthening the mutual trust

between the two countries and the normalization of the relations between them. Secondly, the departments of Japanese government actively cooperated with each other; Ministry of Economy, Ministry of Foreign Affairs and Ministry of Finance performed their respective duties, promoted the relations of governance, economy, diplomacy between Japan and Myanmar. And in 2012, Japan also completed a series of measures such as the exemption of Myanmar's debt, restart of official aid to Myanmar and the yen loans. Thirdly, folk NGOs and NGOs with official backgrounds sustainably and deeply engaged into various social classes of various regions of Myanmar. Most of these NGOs were closely related to the Ministry of Foreign Affairs, which provided free funding support for them. Fourthly, various organizations followed one by one, which mainly were: "Japan – Myanmar Association" which was established in 1933, its members not only included the Presidents and Chairmen of Board of Directors of many big Japanese companies, but also included the lords, the LDP lawmakers, the former ambassador to Myanmar and other senior officials; "Japan-Myanmar Cultural Association" which was founded in 1970, mainly included the offsprings of the veterans of "the World War II", businessmen, intellectuals and the general public; "Japan Business Federation"<sup>11</sup> which was founded in 1946 and had strong influence on Japan's decision-making included 1,300 representative Japanese enterprises, 121 industrial organizations and 47 regional economic organizations (data in 2013).<sup>12</sup> These groups organizations either have rights in their hands or have strong economic power, or have larger social influences, and have always played important roles in the implementation of policy toward Myanmar. Fifthly, Japan's enterprise groups took actions quickly and planned for the implementation of returning to Burmese market. So far there have been more than 600 Japanese companies did investigations on Myanmar. Among which, Itochu, Marubeni and other large enterprises have already begun to actively invest in Burmese market.

### 11.3.1.3 Constantly Expand Fields of Policy Implementation

Since 1988, most of the activities implemented according to Japan's policy toward Myanmar have been concentrated in government development aid and social public welfare activities organized by NGO/NPOs, and the rest of the fields and space have been greatly compressed. From a political perspective, Myanmar has been a very important part of Japan's diplomacy in Southeast Asia and the two countries also had very close "special relationship" before due to historical reasons. After Myanmar's military government came to power, the Japan-Myanmar relations deteriorated, the exchange of high-level visits and diplomatic interaction between the two countries increased day by day, which led to dramatic decrease in the political influence of Japan on Myanmar. Seen from the point of economic and trade relations,

<sup>11</sup> Suppakarn Pongyular, The Implications of Japanese Engagement Policy towards Myanmar, 1988-present, <http://gsid.nagoya-u.ac.jp/bpub/research/public/paper/article/159.pdf>.

<sup>12</sup> Japan Business Federation: "Summary of ...", <http://www.keidanren.or.jp/profile/pro001.html>

the economic and trade exchanges between Japan and Myanmar kept reducing and so did the investment of Japan in Myanmar. According to statistics, from 1962 to 1988, Japan's exports to Myanmar averaged 47.9 billion yen per year, imports averaged 53.6 billion yen per year, but from 1989 to 2010, Japan's exports to Myanmar averaged 16.5 billion yen per year only and imports also fell to 15.3 billion yen per year (Fan Hongwei and Liu Xiaomin 2011). In terms of the aid, after 1988, the government development assistance of Japan to Myanmar rapidly reduced and was intermittent, while the Japanese yen loan entered a state of stagnation. In terms of investment, by the end of 2010, only 23 investment projects to Myanmar were kept by Japan and the investment amount was only about \$200 million, accounting for less than 1 % in the total foreign investment in Myanmar and ranking 13th among the foreign investors in Myanmar. Generally speaking, during the 22 years from 1988 to 2010, Japan's political and economic influences on Myanmar have fallen greatly behind China and ASEAN countries.

Over the past 2 years, with the gradual deepening of Myanmar's democratization and reform process, Japan began to actively restore deeper cooperation in various fields with Myanmar with the intention to lay good foundation for rebuilding a close relationship with Myanmar. For example, during Japan's deputy prime minister, Taro Aso's visit to Myanmar in January 2013, he stated that Japan would strengthen the cooperation in the aspects of industry, law, culture, sports, electric power, education, medical care and transportation infrastructure of Yangon city, etc. In the real operation, in addition to continuing and improving official development assistance, enterprise projects in the field of infrastructure and activities of NGO/NPO which were preserved from the cold war, Japan also enhanced its cooperation and financial support in the aspects of agriculture, manufacturing, infrastructure and economic and trade to Myanmar, began to get involved in Myanmar's democratization process and regional military security cooperation, as well as expanded the influence in the fields such as the cultural education, drug control and social development. Overall, the two countries have basically formed a bilateral and all-round cooperation in the fields of political, economic and technical, social, ethnic problems as well as regional security defense, etc.

### ***11.3.2 The Measures on the Implementation of Japan's Policy Toward Myanmar***

After the cold war, the main tool to implement Japan's policy toward Myanmar was the official development assistance. As Japan carried out its plans and policies of returning to Myanmar, the measures became more and more flexible and diversified.



**Table 11.1** Japan's official development assistance to Myanmar(ODA) (Unit: Million dollars)

Year	2002	2003	2004	2005	2006	2007
Government loans	-15.84	-	-	-0.19	-	-
Free fund aid	30.03	18.52	8.41	6.65	13.35	11.68
Technical aid	35.21	12.56	18.41	19.03	17.48	18.84
Total	49.39	43.08	26.82	25.48	30.83	30.52
Year	2008	2009	2010	2011	2012	2013
Government loans	-	-	-	-	-	510
Free fund aid	23.77	24.5	21.56	19.7	262.7	23.56
Technical aid	18.71	23.77	25.27	22.8	-	-
Total	42.48	48.28	46.83	42.5	-	-

Data resource: Statistical data of Official Development Assistance from Japanese Foreign Ministry

### 11.3.2.1 Restore and Increase the Strength of Official Development Assistance

By 2011, Japan has already provided official development aid which amounted 6.387 billion US dollars to Myanmar, including free fund assistance of \$1.925 billion, technical assistance of \$432 million and a total of \$4.03 billion loans. From the point of development, after 2003 years, in order to response to western sanctions, the amount of Japan's official development aid to Myanmar began to decline and yen loans to Myanmar was terminated either. But from Table 11.1, it can be seen that Japan never stopped its official development aid in fund and technology to Myanmar, with the reason being that Japan offered humanitarian assistance in order to encourage the democratization of Myanmar.

Over the past 2 years, Japan restored and increased its official development assistance to Myanmar and the main process and aid contents included: On November 28, 2011, the Japanese official development aid policy consultation meeting was held in Naypyidaw, Myanmar. After consultation by both parties, Japan agreed to launch aid to Myanmar and economic cooperation with Myanmar depending on its democratization progress; On April 18, 2012, Japan agreed to provide financial assistance free of charge to projects including the food aid project in poverty-stricken minority ethnic areas through the World Food Programme (WFP); On April 21, 2012, Japan agreed to grant aid to Myanmar's "restoration project plan of strengthening disaster preventive mangrove in the Irrawaddy delta area" and "scholarships for human resource development" projects; On November 21, 2012, Japan carried out emergency aid for earthquake disaster in Myanmar; In March 2013, the Japanese government granted donation of \$215 million to Myanmar, which to be mainly used for the infrastructure, social welfare and humanitarian aid in Myanmar's minority ethnic areas; On May 26, 2013, Japan restarted its yen loan to Myanmar, exempted all debts of Myanmar to Japan and exchanged notes on matters needing attention of aiding Myanmar for free; On August 6, 2013, Japan carried out emergency assistance in Myanmar's flood disasters.<sup>13</sup> Seen from the point of amount, these aids in

<sup>13</sup> Ministry of Foreign Affairs of Japan, <http://www.mofa.gp.jp/region/asia-paci/myanmar/index.html>

the early period of the reform in Myanmar remained as cautious transition. It was only the launch of the yen loans in 2013 that made Japan's official development aid increase dramatically. From the point of aid content, in addition to the traditional relief, non-reimbursable assistance, the biggest change was that Japan restarted the yen loans after being interrupted for 26 years and responsible person of the main body of the implementation of Japan's official development assistance – Japan International Cooperation Association (JICA) in Myanmar said the main purpose of this money would be aiming at three types of projects in Myanmar which are public construction, improvement of the drinking water and power facilities.

### **11.3.2.2 Strengthen the Political Exchanges and Security Cooperation with Myanmar**

Firstly, adopting active diplomatic approach. Since 2011, Japanese high officials frequently visited Myanmar and successively invited the leaders of Burmese government and other parties to visit Japan, trying to clear obstacles to improve bilateral relations and cooperation in various fields through positive and active high-level diplomacy, responsible people in Myanmar and exchange visits. Among them, the memorabilia of the main official diplomatic work is as follows:

In the first phase, which was from April to December, 2011, heads of Japan and Myanmar began to contact and visit each other. In June, the Foreign Administrative Officer Makiko Kikuta visited Myanmar, which was the first time for the Japanese government to send high officials to visit Myanmar in 3 years; In October, the Burmese foreign minister Wunna Maung Lwin visited Japan; On November 25, Japan's then prime minister Yoshihiko Noda met Burmese president Thein Sein in Bali; On December 26, foreign minister Koichiro Gemba visited Myanmar.

In the second phase, which started from April 20, 2012, the Burmese President Thein Sein visited Japan, which was the first time for Myanmar's head of state to visit Japan in 28 years. After May, 2012, Japan began to frequently meet important Burmese officials of various parties and departments. On May 10, Speaker of the Burmese People's Assembly Qin WengMin met with Japanese prime minister Yoshihiko Noda; On May 25, Koichiro Gemba met with Myanmar's industry minister, Spindle Tana; On June 14, Yoshihiko Noda and Koichiro Gemba met respectively with the Burmese general secretary of "Union Solidarity and Development Party" Wu Taiwu; On July 2, Japan – Myanmar's foreign ministers' meeting was held; On November 19, Japan – Burmese summit meeting was held.

In the third phase, which started from 2013, Japan-Myanmar relations achieved a major breakthrough in the development. Since January 5, Japanese foreign minister Taro Aso visited Myanmar, preparing for Mr. Abe's visiting in Myanmar and improving strategic collaboration relationship as well as making preparations for Japan's massive investment in Myanmar and the industry transfer from China to Myanmar; On April 18, Japan's prime minister, Shinzo Abe, received Burmese leader of the opposition party, Aung San Suu Kyi, at a higher level than normal standard, highlighting Japan's long-term strategy toward Myanmar; from May 24 to 26, Japanese prime minister Shinzo Abe visited Myanmar, it is the first Japanese

prime minister who visited Myanmar since 1977, pushing the Japan-Myanmar relations which has been hot in recent years to a new climax.<sup>14</sup>

Secondly, Japan began to step into Myanmar's political affairs. After the cold war, although the relations between the two countries got worse, the Japanese have been paying attention on Myanmar's political changes, and even reinforced its contacts with the new elected government in Myanmar and the leader of the opposition party, Aung San Suu Kyi, in recent years. Meantime, Japan's political influence on Myanmar declined dramatically that it could only use official development assistance as the important tool to indirectly affect Myanmar's political affairs, especially the democratization process in Myanmar. After the international environment changed, the United States's return to the Asia-pacific strategy and the changes in its policy toward Myanmar offered the Japanese a great opportunity to regain its political influence on Myanmar. Being different from the economic and political separation in the policy implementation in the past, this time, the Japanese finally can take political means to gradually participate in political affairs of Myanmar. Since March 2012, the central government of Myanmar formally employed Japanese experts to assist in its drafting of new Special Economic Zone Law. Some states also hired experts from Japan, Singapore and other countries when making local development plans; and a more typical example is the appointment of the chairman of Japanese Consortium, Yohei Sasakawa, as the "representative of Burmese national reconciliation government" by the Japanese government on February 19, 2013 to be responsible for assisting Myanmar's national reconciliation and democratization process, which was also the first time for Japan to set a government representative for the national reconciliation and democratization issue of other countries.

Lastly, promoting the security cooperation with Myanmar. Myanmar is located between India and China and its strategic position is very important considering the regional safety and security. Japan has been hoping to promote the cooperation of Japan and Myanmar in broad areas such as security and strengthen the dialogue on regional and security issues. The first is seeking to expand Japan's influence on Myanmar, the second is wanting to contain the trend for Chinese force to move southward, and the third is hoping to protect the safety of its trade channels and energy channels in two oceans through promoting cooperation across the Indian Ocean and Pacific Ocean. From May 24 to 26, 2013, Japanese Prime Minister Shinzo Abe visited Myanmar, discussed and reached agreements with Myanmar on strengthening regional affairs consultation and promoting the exchanges and cooperation in the defense area.

### **11.3.2.3 Construct "The Japanese Mode" of Economic Development in Myanmar**

Firstly, implementing the "integration of officials and people", i.e. the government goes first and actively pave the way for Japanese companies' return to Myanmar. For example, Japanese Prime Minister Shinzo Abe's trip to Myanmar in May 2013,

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<sup>14</sup>Vip Visit and Meetings, Ministry of Foreign Affairs of Japan, <http://www.mofa.gp.jp/region/asia-paci/myanmar/index.html>

a luxury economic and trade delegation with 50 Japanese entrepreneurs were arranged as accompany for investigation. And Japan repeatedly promised to waive Myanmar's debt and restart the yen loans was hoping to help Japanese companies enter Burmese market through assisting Myanmar's domestic reforms. In addition to the use of diplomatic, official development assistance and yen loans, Japan also provided concessional loans for private companies in Myanmar, aiming to help these Japanese companies solve funding problems in the development in Myanmar.

Secondly, adopting the multi-field investment planning with infrastructure being the priority being. So far, there are about 600 Japanese companies which have been to Myanmar and done investigation, but almost non had and actual investment. One of the main reasons is Myanmar didn't have enough supporting infrastructure, such as roads, electricity, communications, etc. In order to solve this problem, Japanese government has begun to provide loans accounting for 70 % of the total project cost for Burmese private companies which invest in three projects which are public construction, improvement of drinking water and power facilities. This was the first time for Japanese government to provide loans to Burmese private enterprise. While arranging the infrastructure layout, Japanese companies' investment in Myanmar began to focus on potential wholesale industry, construction industry and manufacturing industry with huge potential markets and gradually expanded to the fields involving national economic lifeline such as finance, telecom and energy industries. For example, on December 27, 2012, the Japanese Mitsubishi-Tokyo UFJ Bank signed a memorandum of understanding with the Burmese Cooperation Bank and announced the formation of strategic alliance to enter Burmese financial industry; Japan JCB Credit Card Company, telecommunication operator KDDI Company and Mitsubishi, Hitachi, Toshiba, Yamaha and other Japanese companies with world influence entered in Burmese market one by one. In addition, convenience stores such as Ito En, FamilyMart are also researching issues regarding entering into the Burmese market.<sup>15</sup>

Thirdly, including Myanmar as a part of the new "flying-geese pattern" development. With the increase of China's labor costs and the constant tension of the relations between China and Japan, the strategic transfer of "world factory" has become an inevitable trend. Some low-end manufacturing industries in Japan have accelerated their shifts to Myanmar and other southeast Asian countries. With the rise of China and ASEAN and the decline in the economic strength of Japan, the flying-geese pattern of Asian development with Japan as the leader has become less and less influential. Japan hoped that through this transfer of manufacturing industries to Myanmar, it could reproduce the "flying-geese pattern" and copy its success in leading the industry development in East Asia.

Fourthly, constructing mutually beneficial and win-win pattern with focus on local people's livelihood and development. Japan's aim is Myanmar's resources, energy and market (labor market and sales market) and higher profits of investment and production location. However what reflected in its development model is concern for human rights, environmental protection and local

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<sup>15</sup>International Observer: Japan Spent Huge Amounts of Money in Burma in Exchange for its Support, gmw.cn, February 5, 2013, [http://world.gmw.cn/2013-02/05/content\\_6627352.htm](http://world.gmw.cn/2013-02/05/content_6627352.htm)

people's livelihood. An important feature of economic activities carried out by Japan in Myanmar was to find out and promote common interests of the two countries. For example, during Japan and Myanmar's joint development of Dilo Special Economic Zone, they planned to attract automotive, machinery, electronic components and other enterprises to come, which will contribute to the promotion of the local infrastructure construction and industrial development, increasement of employment rate and improvement of people's livelihood. In addition, Japan also carried out popular projects through training technical personnel for Myanmar and increasing cooperation with Myanmar in aspects such as environment, social welfare, etc., which not only won favors from Burmese people and also laid a solid foundation for future development of Japanese companies.

#### **11.3.2.4 Expand Multi-channels for International Cooperation Space Through Bilateral and Multilateral Platform**

In order to promote Japan-Myanmar relations, adopt means such as unilateral provision, multilateral cooperation, bilateral cooperation and using international multilateral cooperation platform to constantly expand the cooperation space between Japan and Myanmar. Unilateral provision, which is that Japan unilaterally carries out aid and preferential policies to Myanmar. For example, Japan waived all of Myanmar's debt which was 500 billion yen (about 30 billion yuan) in May 2013 and announced to provide Myanmar with 100 billion yen of official development assistance and 50 billion yen of loans. The action is seen as Japan's huge economic aid to Myanmar after 26 years; the two countries carried out bilateral consultations, i.e. a lot of talks took place between the two countries and reached intentions on military, political, and economic cooperation; multilateral cooperation, namely, Japan actively engaging India and ASEAN countries to strengthen the cooperation and infiltration in Myanmar; international multilateral cooperation platform, that is, through Japan and ASEAN cooperation, summit talks between Japan and the greater Mekong subregion, ASEAN Comprehensive Economic Partnership Agreement (AJCEP) as well as the United Nations, IMF and Asian Development Bank (ADB) and other international agencies to expand cooperation with Myanmar. The summit meeting of Japan and the five countries in the Mekong region was held in Tokyo. Since 2013, about 600 billion yen of government development assistance will be provided to Myanmar within 3 years. It includes 57 items such as ports, roads, power plants, high speed railways. Japan and Thailand, Vietnam, Laos, Cambodia, Myanmar jointly published "Tokyo Strategy 2012". Japan's this action aimed at promote infrastructure exports in the way of public – private sector partnership through "east-west economic corridor" and other plans.

### ***11.3.3 Evaluation on the Periodic Achievements of Implementation of Japan's Policy Toward Myanmar***

#### **11.3.3.1 The Implementation of Japan's Policy Toward Myanmar Has Obtained Certain Effects**

Firstly, Japan and Myanmar's bilateral mutual political trust and contact have been gradually enhanced. Seen from the current effect of the implementation of Japan's policy toward Myanmar, Japan-Myanmar relation has achieved normalization is getting increasingly closer. In addition, through tools such as government development assistance, Japan has gradually started to restore its influence on Myanmar. Therefore, Japan will continue to play an important role in the process of democratization in Myanmar in future. Secondly, Japan's economic strength has increased in Myanmar. One reason is the constant increase of the bilateral trade volume between Japan and Myanmar. Japan's total imports and exports have increased by 65 times from 20.5 billion yen in 1990 to 154 billion yen (about \$1.41 billion, see Table 11.2) in 2012. And according to the forecast of Burmese authorities, bilateral trade volume between Japan and Myanmar will reach \$1.5 billion (among which, Japan's exports will be \$1.09 billion) in 2013. Seen from the trend, bilateral trade between Japan and Myanmar began to rise in 2007 and rise very rapidly especially after 2011 (see Fig. 11.1). The second is the rapid development of Japanese enterprises in Myanmar. By the end of October 2012, the number of Japanese companies entered in Myanmar reached 91 and in addition to investing in infrastructure, Japanese companies have started to expand to fields involving national economic lifeline such as finance, telecommunications and the energy industry. Thirdly is the cooperative construction of special economic zone by Japan and Myanmar. In August 2012, Japan and Myanmar in Yangon signed a memorandum of understanding to jointly develop Diloa Special Economic Zone which is expected to be completed in 2015. Again, Japan-Myanmar preliminarily achieved bilateral regional security cooperation. On September 30, 2013, Japan's mixed fleet of maritime self-defense forces visited Myanmar for the first time, reflecting the "aura" of Japan's further cooperation on maritime safety with Myanmar. On December 15, 2013, Japan negotiated with Myanmar and other Southeast Asian countries on strengthening bilateral economic and security ties. Japan not only announced to offer the other economic aid in bilateral talks, also said it would strengthen the bilateral cooperation and exchanges of defense personnel of coastal defense.<sup>16</sup> Lastly, the people-to-people exchanges between Japan and Myanmar grows day by day. Japan pays great attention to the folk and cultural exchanges with Myanmar.

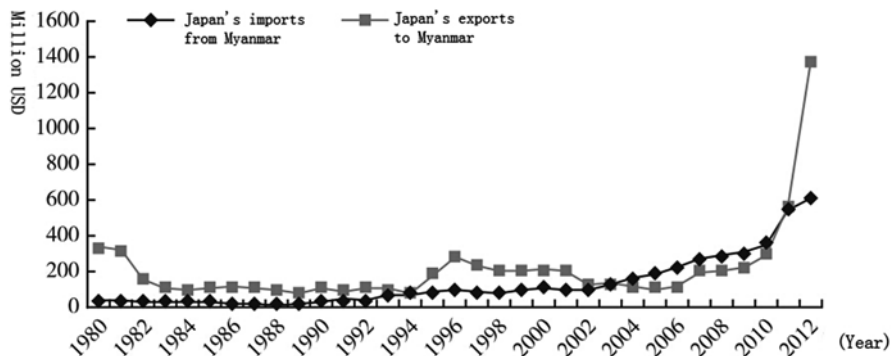
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<sup>16</sup>The First Visit of Japan's Maritime Self-defense Forces Formation to Burma, xinhuanet.com, October 2, 2013, [http://news.xinhuanet.com/world/2013-10/02/e\\_125479135.htm](http://news.xinhuanet.com/world/2013-10/02/e_125479135.htm)

**Table 11.2** Japan's trade statistics with Myanmar (Unit: Million Yen)

Year	1962	1970	1980	1985	1990	1995	2000	2005	2010	2011	2012
Total export	53,370	38,722	49,206	43,704	14,479	14,668	21,037	10,132	23,000	40,000	100,000
Total import	16,290	12,569	17,526	8,455	5,999	8,735	12,875	22,473	34,000	47,000	54,000
Trade balance	37,080	26,153	31,680	35,249	8,480	5,933	8,162	-12,341	-11,000	-7,000	46,000
Total	69,660	51,291	66,722	52,159	20,478	23,403	33,912	32,605	57,000	87,000	154,000

Data Source: The statistical study of Japan's Ministry of Internal Affairs. <http://www.Stat.gn.jp/English/data/index.htm>. Data of year 2012 from [http://www.globaltimes.cn/content/788164.shtml#\\_Um05WLKBTUw](http://www.globaltimes.cn/content/788164.shtml#_Um05WLKBTUw)



**Fig. 11.1** Development situation of Japanese trade in Myanmar (Data Source: Based on UNCTAD data mapping)

It invited 1,000 Burmese youth to visit Japan in 2013. Japanese designers also designed the clothes for the participants in the Southeast Asian sports meeting held in Myanmar in December 2013 at the request of Thein Sein. In addition, the prevailing presence of Japanese NGOs in the Burmese society, people's livelihood, environmental and assisting affairs as well as the successful work being carried out constantly increased the Burmese national's affection for Japan.

### 11.3.3.2 The Effect of the Implementation of Japan's Policy Toward Myanmar Was Quite Different from the Expected Target

There are mainly four expecting targets of Japan's adjustment of policy toward Myanmar: The first is to fight for Myanmar's resources, market and geopolitical strategic advantages to ensure Japan's security and strategic interests in Myanmar and boost Japan's economic growth; The second is to contain China and balance China's regional influence to create broader strategic space for Japan; The third is to cooperate with the United States' grand strategy of "Asia-pacific rebalancing" and use Japan's diplomatic efforts in Myanmar to increase its weight in the US-Japan relations; The fourth is to reduce its dependence on the United States and push Japan to turn to "a normal country" and even become a political power through its expansion in its influence in Myanmar and southeast Asia. Seen from the current situation, there is still relatively big gap between the achieved effects to its expected goals and in the foreseeable future these goals are also very difficult to be achieved.

Firstly, Japan's economic power in Myanmar is weaker than China and ASEAN countries, there is still a process before it starts to have great influence on Myanmar's economic development. According to the Burmese official statistics, as of February 2013, a total of 32 countries and regions have invested in 554 projects in Myanmar with total investment of 42.09 billion dollars. The top five countries and regions, respectively, are China (\$14.18 billion), Thailand (\$9.568 billion), Hong Kong,



China (\$6.381 billion), Britain (\$2.989 billion) and Singapore (\$2.216 billion), while the total amount of Japan's investments in Myanmar since 1988 was only \$270 million, which ranks only 11 in the source countries of foreign investment in Myanmar. In terms of the trade volume, according to the statistics from China's ministry of commerce, by the end of 2013, the main trade volume between Japan and Myanmar accounts for only \$1.5 billion, which is far less than China (\$6.5 billion), Thailand (\$4.5 billion) and Singapore (\$3.06 billion). Secondly, Myanmar's infrastructure is very backward, thus there are still a lot of difficulties for Japanese firms to enter into Myanmar in a large scale in the short term. The infrastructure construction progress is slow in Myanmar or if the Burmese government is suffocated in formulating relevant laws regarding investment environment, it would restrict Japanese companies' entering into Myanmar and further affects the economic cooperation and the realization of economic benefits of Japan in Myanmar. Thirdly, the prospect of the relationship between local ethnic armed forces and the government is not optimistic, and many sources of raw materials of many resource industries are within the control of the local ethnic armed forces, so Japan's exploration of Myanmar's resource field will also be faced with the same predicament as China at present. Fourthly, though the Japan-Myanmar relations is getting increasingly warmer, a lot of substantive cooperation has not been launched, and under the influence of Myanmar's strategy of "power balance", Japan's goal to woo Myanmar to contain seems not very effective at present, because Myanmar's demands for China's economic interests and military security dependence is still very high. Fifthly, Japan wants to improve its influence in ASEAN so as to get rid of the shackles of the U.S. through improving Japan-Myanmar relations, which is also very hard to be achieved. The United States' return to the Asia-pacific is to balance China's influence, but it's impossible for it to let Japan break the current pattern of the US-Japan alliance and the balance of power in Asia. Although we can not say that the United States is paying great attention to Myanmar, it already has many investments in the fields of finance and technology in Myanmar. With the pushing forward of Myanmar's democratization reform process, we can forecast that the future presence of the U.S. in Myanmar and ASEAN will continue to be enhanced. In this way, Japan is likely to become the tool for the United States to balance China's influence in Myanmar and Asia rather than to realize the "normalization of the country" through ASEAN.

## 11.4 Conclusion

From the perspective of the analysis of history and reality, Japan's implementation of the policy in Myanmar has certain advantages. Firstly, the development of Japan-Myanmar relations has relatively good historical base and there are many contacts and good relations in the military, political, folk aspects of these two countries based on the frequent contacts of official development aid; Secondly, Japanese industry's flying-geese pattern has high degree of maturity, and the manufacturing

industry has rich experience in transferring countries and copying, which will improve the success rate for Japanese companies to transfer their industries from China to Myanmar; Lastly, Myanmar needs the diversified sources of investment from countries like Japan to promote its economic development, the democratization process and reduce its dependence on China, and at the same time, Myanmar also needs Japan to mediate between the United States and Myanmar in order to help it lift sanctions. From the point of reality, the improvement of Japan-Myanmar relations created the conditions for Japan to realize its interests in Myanmar, but at the same time, there are also many difficulties in Japan's policy implementation. Apart from the unsound legal system in Myanmar, terrible shortage of infrastructure facilities, uncertainty factors in the democratization process, and uncontrollable conflicts between local ethnic armed forces and religious sects, the substitutability of the elements provided by Japan, the competition from the Association of Southeast Asian Nations (ASEAN) and outside powers such as China, the United States, India, etc. and the diplomatic independence of Myanmar itself as well as the Foreign Policy of Balancing among Great Powers pursued by Myanmar will form challenge to Japan's implementation of its policy toward Myanmar.

Although it is difficult for Japan to realize its various goals of returning to Myanmar, its adjustment and implementation of its policy toward Myanmar will affect the political and economic pattern of the region to a relatively large degree, therefore it will also affect China's vested interests and long-term strategic arrangement in Myanmar, thus there are many problems which China must pay attention to, think over and cope with. Firstly, Japan's action of entering Myanmar is irreversible; Japan may take this opportunity to shape itself as a powerful country affecting Southeast Asia and form challenges to China's traditional interests in Myanmar. Although it is unlikely for China to lose Burmese market and the Sino-Burmese relations will continue to be good in general, the development of Japan-Myanmar relations will curb the momentum of the development of China in Myanmar, and so is the actual development. Secondly, Japan's intervention will exacerbate the competition of great powers in Myanmar, which may bring rebalance of forces in Myanmar and even the whole Indo-China Peninsula, by then the competition pattern of Myanmar will be more complex, and Myanmar's policy of balancing between great powers may further undermine China's interests and influence in Myanmar. Lastly, although there is certain complementarity in China and Japan's economic development in Myanmar, because of the influence of the zero-sum thinking, the mutual trust between China and Japan has not been achieved, so it will be very hard to forge cooperation between China and Japan on the Myanmar issue, which is also one of the important factors contributing to the unstable security situation in the region.

Based on the above analysis, the author thinks that what China has to do is not only conducting strategic adjustments but also considering adjusting its diplomatic strategy and development pattern toward Myanmar. The adjustment and construction of these strategic measures should be designed according to the rivals and more according to the situation of the object country it is striving for. Firstly, "hijacking" Myanmar through upgrading two cooperation mechanism which are the Greater

Mekong Sub-regional Cooperation Organization (GMS) and build Bangladesh-China-India-Myanmar Economic Corridor (BCIM – BC) could be considered, because once Myanmar was accepted into the framework of economic cooperation, the alignment between China and Myanmar will be enhanced, thus even for pure consideration of economic development, Myanmar will not “break up” with China easily. The construction and upgrade of the two multilateral cooperation mechanisms – the Greater Mekong Sub-regional Cooperation Organization (GMS) and build Bangladesh-China-India-Myanmar Economic Corridor (BCIM) will also increase the economic integration and win-win cooperation between the surrounding countries and China. Once the path dependence of economy, security and others are formed, the containment of Japan’s so-called “arc of freedom and democracy” can be naturally dissolved and eliminated. Secondly, mutual trust and cooperation with ASEAN countries should be enhanced constantly. Realizing the cooperation in the Myanmar’s most valued frame mechanism of regional integration can undermine many factors which are not conducive to China in the United States’ rebalance of Asian powers in the framework of the surrounding countries. Lastly, treating and implementing Sino-Myanmar cooperation truly with the attitude and in the way of equality and mutual benefit. Politically, take appropriate measures to help promote the democratization in Myanmar. Although the Sino-Burmese relationship is affected by the improvement of the relations between Myanmar and the United States, Japan and other western countries to some extent, the main restriction is from the development of Myanmar’s domestic situation. Therefore, building a peaceful, stable and open Myanmar is what China need and China should build more stable strategic cooperative partnership in the democratization marketization of Myanmar. In foreign affairs, summarize the gain and loss of the former diplomatic work to Myanmar and give play to the positive role of diplomatic channels in Sino-Myanmar cooperation. In terms of economic cooperation, we should consider strengthening the management and coordination for Chinese enterprises to enter into Myanmar, and take full consideration of the factors such as environmental protection factors, employment factors, local welfare and other factors in the cooperation. Besides, activities of China’s NGOs in Myanmar should also be supported, making it eliminate the negative publicity of China by other countries and regions on unofficial public opinion positions and make positive contribution in promoting the Sino-Burmese non-governmental exchanges and understandings.

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# Appendices

## Appendix 1: Chronicle of Events of the Indian Ocean Region (2013)

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### January

**6th**, the Jordan government signed four cooperation agreements with the government of Kuwait again. In accordance with the agreements, Kuwait Fund for Arab Economic Development (KFAED) should provide around 0.26 billion dollars as project development fund. This fund should be used for the fields in education development, water resource, health, energy and so on. This financial assistance fund was also a part of financial assistance fund of 1.25 billion dollars that Kuwait would provide to Jordan under Gulf Cooperation Council.

**21st**, the World Bank estimated that the economic growth rate of Egypt in financial year 2012–2013 was 2.6 % around, the economic growth rate in financial year 2013–2014 would up to 3.8 % and the economic growth rate in financial year 2014–2015 would continue to rise again and would up to 4.7 % around. Premier Minister of Egypt, Hisham Qandil, once has indicated that the World Bank would provide Egypt 1 billion dollars loan to support Egypt's plan of poverty reduction and equitable social development.

**23rd**, Premier Minister of Bangladesh, Sheikh Hasina, completed his historic visit to Russia. Both parties signed an arms deal of 1 billion dollars and a loan agreement of nuclear power plant of 0.5 billion, which made the bilateral relation of Bangladesh and Russia realize a great breakthrough.

**24th**, the trade volume of 2012 between China and ASEAN created a historic new high, which broke through 400 billion dollars and increased by 10.2 %. China continued to be the biggest trade partner of ASEAN for 4 years and ASEAN continued to be the third trade partner of China.

**28th**, the 4th Bangladesh-India Interior Ministerial Conference was held in Dhaka, the capital of Bangladesh. In the conference, the Interior Minister of Bangladesh, Muhiudin Khan Alonzo, and Interior Minister of India, Suzykumar Sind, signed a milestone *Extradition Treaty and Revision of Travel Regulations* that released the visa requirements for both parties.

**31st**, Chinese Ambassador to South Africa Xuejun Tian held a Reception to Celebrate the 15th Diploma Relations between China and South Africa in Pretoria, the administrative capital of South Africa. More than 100 representatives from all walks of life and foreign envoys in South Africa attended the reception.

## February

**1st**, Myanmar President Thein Sein spoke over the broadcast to appeal to the leaders of each organizations in Myanmar to come back to the conference table, in order to implement the permanent domestic peace through the negotiation. He emphasized also to implement the political stability, stable domestic situation and national reconciliation, in order to make sure that the effort of innovation can be successful.

**11th**, the opening ceremony of COBRA GOLD military exercises which scale was largest in Southeast Asia was held by United States and Thailand in Chiengmai a northern city of Thailand. It was described that this military exercises was first time to allow Myanmar to attend as an observer.

**27th**, Singapore Navy and Malaysia Navy were proceeding a bilateral military exercises called as *Malapura 2013* at Singapore's Changi Naval Base.

**27th**, Minister of Transport of Iraq, Hadi al-Ameri declared that Iraqi Airways would open the route from Iraq to Kuwait as from today. So far, Kuwait-Iraq direct flights were completely recovered after interrupted more than 23 years. Hadi wished this would be helpful to reinforce the brotherhood between both countries and to service for people in both countries.

## March

**7th**, with the approval of the State Council, the People's Bank of China and Monetary Authority of Singapore renewed the agreement of Sino-Singapore Bilateral Currency Swap. The scale has doubled to 300 billion dollars.

**18th**, as one of international trade and financial centers, Singapore positively supported the CHN development in Asia and was willing to be a pilot project of new product of CNY in order to cooperate to enhance the negotiability of CNY in Asia, to make convenience for enterprises and investors to collect CNY funds and to support the combination of CNH and Asian Currency Market.

**19th**, Egypt President, Mohamed Morsi, arrived in India and started a 3-day official visit. He held talks with India Premier Minister, Manmohan Singh. Both parties signed seven cooperation agreements and discussed on the regional and international issues that mutually concerned.

**21st**, United Nations Human Rights Committee passed a resolution in Geneva aimed at human rights situation in Sri Lanka that proposed by the United States. The resolution claimed that Sri Lankan forces were guilty of war crimes such as killing the civilians during the civil war so that an international survey must be conducted. The government of Sri Lanka expressed the strong dissatisfaction and censured that this resolution insulted Sri Lanka and that it was full of political bias.

**27th**, the talks between state leaders of BRICS and African countries was held in the afternoon in Durban, South Africa. Chairman of the People's Republic of China Xi Jinping, South Africa President Zuma, Brazil President Rouseff, Russia President Putin and India Premier Singh attended the talks together. Xi Jinping made a speech and expressed that the talks between states leaders of BRICS and African countries embodied both parties' political willing of equality, magnanimity and seeking common development. Without the peace and development in Africa, there was no stabilization and prosperity in the world. Without Africa's participation, the international affairs could not be properly handled. Without Africa's right of speech, it was impossible to be living for global governance system. The twenty-first century must be a century that Africa sharply develops. During this Summit, it decided to establish BRICS Development Bank to make preparations to establish BRICS Foreign Exchange Reserve and to set up Business and Industry Council. The five Finance Ministers of BRICS officially took the first step to set up Contingency Agreement Fund of 100 billion dollars in Durban, South Africa. China planned to contribute 41 billion dollars which accounted for 50 % around. Brazil, Russia, India respectively contributed 18 billion dollars and South Africa contributed 5 billion dollars.

## April

**1<sup>st</sup>**, Singapore President, Tan Keng Yam, would visit Myanmar for 5 days, which was the first time for the heads of Singapore to visit Myanmar since both countries' diploma relations established. Then Myanmar President Thein Sein and Leader of the Opposition, Aung San Suu Kyi, would meet with him. During the visit, both countries would highlight the economic exchanges.

**6th**, Egypt President Morsi visited Republic of the Sudan for the first time. Both countries would enhance the economic cooperation. This was also the first time for him to visit Republic of the Sudan after being the president. During the visit, both countries achieved several cooperative projects in economic and trade field and meanwhile, both exchanged their opinions on the regional hot-spot issues.

**8th**, 2013 Annual Meeting of Boao Forum for Asia was ended in the evening. There were 13 heads of the states and governments attended this meeting, 54 seminars discussed the topic based on Asia and facing to the world. There were more

than 1,470 of representatives communicated in-depth and achieved important consensus. *There is no end for the cause of peaceful development and win-win cooperation of Asia and the world, but only new start points one by one.*

**30th**, Bangladesh's Minister of State for Women and Children, Shireen Chowdhury, was elected to be the new speaker in the parliament and became the first woman speaker in the history of Bangladesh, was also the youngest speaker.

## May

**3rd**, Australia Premier Minister Gillard and Defense Minister Smith held a press conference to officially publish Defence White Paper 2013 of Australia. Except of the national defense strategy of Australia, the White Book was also involved with a lot of expenditures of defence purchase and defence construction.

**5th**, the forces of China and India terminated the standoff lasted 20 days in Poushin valley of Kashmir and Ladakh controlled by Indian government, both forces retreated at the same time and finished the tension.

**10th**, Premier of the State Council Li Keqiang met with Indian Foreign Minister Khursheed in Ziguangge, Zhongnanhai. Li Keqiang indicated that Sino-India friendly cooperation was the main trend and common interests far outweighed differences. China was willing to work with India together to promote and solve the boundary problems through the peaceful and friendly negotiation in order to create a favorable environment for cooperation and development between the two countries.

**20th**, Obama met with Myanmar President Thein Sein in the White House. The military rule in Myanmar have been ended, Obama sought to continue to push Myanmar to implement the reforms. This was the first time to visit the United States for the heads of Myanmar in recent 47 years, was a new sign indicating the relation between two countries was improving. Thein Sein visited Washington would be another milestone that Myanmar came back to the international stage. Obama expressed his support for the reforms by Thein Sein, but claimed his worries also on the violence involving to race in Myanmar. In the meeting and the subsequent speech, Thein Sein promised that he would continue to propel the political and economic reforms, to promote the national unity and to appeal to American enterprises to invest in Myanmar.

**22nd–23rd**, Premier of the State Council Li Keqiang arrived in Islamabad and started an official visit to Pakistan. President of Pakistan Zardari awarded Li Keqiang the highest honor medal - *Pakistan Medal*. Both reached an agreement on deepening the China-Pakistan strategic cooperative partnership.

**27th–30th**, at the invitation of Chairman of the People's Republic of China Xi Jinping, President of the Democratic Socialist Republic of Sri Lanka Mahinda Rajapaksa came to the People's Republic of China for a state visit. Chinese Chairman Xi Jinping held talks with President of Sri Lanka Rajapaksa at the Great Hall of the People on 28th. The heads of both countries decided to upgrade



China-Sri Lanka relation to be strategic cooperative partnership in order to seek the common development and to benefit the people of both countries.

## June

**1st**, new elected congressmen of National Assembly of Pakistan were sworn in. This was the first time for democratic transition of regime in 66-year history of Pakistan. Mr. Sharif was elected as Prime Minister of this new Administration. Speaker of National Assembly of Pakistan Fahmida Mirza held the congressmen's swearing-in ceremony.

**5th**, the 22nd World Economic Forum on East Asia was inaugurated in Nay Pyi Taw, Myanmar. More than 900 heads of government, business leaders, specialists and scholars from 55 countries and regions would attend the 3-day summit. The topic of this summit was *Courageous Transformation for Inclusion and Integration*, and three pillars were *Inspiring Inclusive Transformation*, *Realizing Regional Integration* and *Scaling Regional Solutions for Global Resilience*.

**5th**, Sino-Myanmar gas pipeline was fully completed that would meet the requirement of 8 % of domestic demand. At last Sino-Myanmar gas pipeline concerned fourth-largest energy import tunnel was fully completed after 3-year construction. Sino-Myanmar oil and gas pipeline was the fourth-largest energy import tunnel after Trans-Asia oil and gas pipeline, China-Russia crude oil pipeline, pipeline of Strait of Malacca. It included crude oil pipeline and gas pipeline, which the designed capability of crude oil was 0.44 million barrels/day (22 million tons/year), gas transportation capacity of gas pipeline was 12 billion m<sup>3</sup>/year. Sino-Myanmar crude oil pipeline would make China import crude oil from the Middle East through Maday Island of Myanmar in Andaman Sea of Indian Ocean but without through Strait of Malacca, through which to transport the imported crude oil to South-west China.

**6th**, Premier Minister of Sri Lankan D.M. Jayarathna came to China with delegation of Sri Lankan to attend the 1st China-South Asia Expo and the 21st China Import and Export Fair, Kunming. Premier Minister Jayarathna expressed that the prospect of trade and economic cooperation between China and Sri Lankan would be bright and that the business opportunity of the 1st China-South Asia Expo would be unlimited.

## July

**3rd**, Premier Minister of Pakistan Nawaz Sharif arrived in Beijing and started a 6-day official visit to China. It was the first time of visit after Nawaz Sharif being elected Premier Minister for the third time. During his stay in Beijing, the Chinese leaders such as Xi Jinping, Li Keqiang and Zhang Dejiang respectively met with him. The Pakistani Prime Minister reaffirmed the strong commitment of his government to further promote and deepen the bilateral strategic cooperation between

China and Pakistan. The Chinese leaders appreciated that Prime Minister Nawaz Sharif had chosen China as his first destination for his visit abroad.

To promote to formulate the Long-term Plan for the China-Pakistan Economic Corridor, both countries agreed to set up *the Joint Cooperation Committee on the Long-Term Plan for the China-Pakistan Economic Corridor*, with the National Development and Reform Commission of China and the Planning and Development Ministry of Pakistan as leading ministries, and secretariats established in both ministries. Ministerial officials of both countries held talks in Beijing recently. The Chinese side will dispatch a working group at an early date to Pakistan for further consultations.

**4th**, the new Premier Minister of Australia Kevin Rudd went to Indonesia for a visit, which was his first time for visit abroad after he took office.

**11th**, India, Sri Lanka and Maldives signed *Security Treaty of the Indian Ocean* together. These three countries would set up a cooperation platform within this region in accordance with this treaty, sharing the information, mutually supporting and enhancing the maritime security cooperation to fight piracy, terrorism, gunrunning and so on.

## August

**1st**, U.S. Secretary of State John Kerry arrived in Islamabad and started a 3-day visit to Pakistan. During the visit, John Kerry met with Pakistan Premier Minister Nawaz Sharif and made a dialogue with other senior officials, with topics involving to bilateral relations and regional situation. Both countries expected to resume strategic dialogue and cooperation in all areas including energy area.

**12th**, India's first Indigenous Aircraft Carrier *Vikrant* was launched at the Cochin.

**14th**, Pakistan Premier Minister Nawaz Sharif delivered a speech during the Independence Day parade to appeal to the public to confront the threat and challenges together caused by terrorism and extremism. Nawaz Sharif said that it was the duty for government to eliminate the terrorism and extremism in our country and to would try the best to ensure security and stability. Although terrorism was still troubling Pakistan, Pakistani government believed that they would defeat this threat. In the speech during the Independence Day parade, Pakistan President Asif Ali Zardari appealed to the public to join up to maintain and strengthen the democratic system together, working hard to set up a Pakistan constantly improving, inclusive, warmed and multicultural.

**15th**, India Premier Minister Manmohan Singh delivered a speech in Indian Independence Day Celebration to expressed that India must maintain political stability He indicated that in the last 10 years, great changes had been happened in India. The experience approved that it was very necessary to set up an India with stable politics, harmonious society and safe environment. He indicated that in the last 9 years, the average annual economic growth of India was kept at a high level of 7.9 %, which was unprecedented in the history of social development in India.

Therefore, it was important to construct a social environment that more favorable to economy, trade and investment increasing.

**16th**, Chinese Chairman Xi Jinping met with Premier Minister of Singapore Lee Hsien Loong at the Great Hall of the People.

**27th**, Premier Minister of Australia Kevin Rudd said that the door for negotiation of *Trans-Pacific Partnership Agreement* (TTP) shall be opened to China.

**27th**, the new Chief of the Defence Staff of Sri Lanka Gen. Jagath Jaysuriya met with the consultant of the Defence Staff of Pakistan Parvez Bout in Colombo. Both sides expressed that both forces of Sri Lanka and Pakistan would further deepen the cooperation in all areas. They exchanged views with each other on the regional and international issues that both sides concerned. Since it was independent in 1,984, Sri Lanka set up a closed cooperative relationship in military with Pakistan. At present, both countries have established military inter-training and cooperation projects in the army, navy and air force.

**30th**, Ariane 5 carrier rocket was successfully launched in French Guiana Space Centre at 0:30 in Moscow, sending Indian satellite GSAT-7 into space. The weight of this satellite was 2.6 tons, which was the dedicated satellite for Indian Navy.

This successful launch marked India officially joining into the Exclusive Defense Satellite Club after the United States, Russia, China, Britain and France.

## September

**2nd**, Li Keqiang met with President of Myanmar Thein Sein in Nanning City, indicating that Myanmar were accelerating the construction of economy and people's livelihood while China was also accelerating the development and opening of Southwest areas, so that it had complementary advantages in special regions, markets and technology for both sides' cooperation. Both sides should firmly follow the major development direction of bilateral relations, to better combine each development strategy, implement the important cooperated projects and to enhance the well-being of local people.

**4th**, Finance Minister of Bangladesh Abul Maal A Muhith declared that from on it would take the financial year 2005–2006 as the base year to make economic data statistics. After Bangladesh Bureau of Statistics re-calculated GDP, with the financial year 2005–2006 as the base year, GDP growth rate of Bangladesh in the financial year 2012–2013 was modified to be 6.18 % from 6.03 %. According to the calculation of new statistics, the annual per capita income of Bangladesh in the financial year 2012–2013 broke through 1,000 dollars for the first time, achieving to 1,044 dollars, ranked the fourth in South Asia countries.

**6th**, the Secretary of Defence of the United States Donald Henry Rumsfeld arrived in Djakarta for 1-day visit in Indonesia, with the purpose to strengthen the anti-terrorism cooperation with Southeast Asia nations. Donald Henry Rumsfeld met with the President of Indonesia Susilo Bambang Yudhoyono and Minister of Politics, Law and Security Affairs Joko Widodo, also held talks with the Secretary of Defence of Indonesia Juwono Sudarsono. Both sides mainly discussed the

improvement of the military relationship between the two countries, security issues in Strait of Malacca, strengthening the anti-terrorism cooperation and so on.

**7th**, the candidate of Opposition Coalition in Australia Tony Abbott won the general election toady, being the 29th Premier Minster of Australia.

**9th**, Mamnoon Hussain was sworn in as a new President of Pakistan in the capital Islamabad.

**19th**, the President of Indonesia Susilo Bambang Yudhoyono met Chinese State Councilor Yang Jiechi in Djakarta. Susilo Bambang Yudhoyono expressed that the relationship between Indonesia and China developed well so that both countries should continue strengthen the all-round cooperation. Yang Jiechi expressed that China and Indonesia both are Asia powers and emerging market countries. It was a common aspiration for governments and people in two countries to strengthen the strategic partnership, it was very important to maintain regional peace, stability, development and to promote the unity and cooperation among developing countries.

**27th**, the State Chairman Xi Jinping was invited to have a call with the Premier Minister of Australia Tony Abbott. Xi Jinping congratulated Tony Abbott elected as the Premier Minister of the Commonwealth of Australia, and appreciated that Abbott attached importance to the relationship between China and Australia. Xi Jinping stressed that China and Australia both are important members of the Asia-Pacific region, China was willing to work together with Australia, from a strategic height and a long-term perspective to respect the core interests and great concerns of each other, to strengthen the cooperation in all areas, to enhance the coordination on the important international and regional issues, and to jointly maintain and develop Sino-Australian strategic partnership. Economic and trade cooperation was a *Propeller* of China-Australian strategic partnership, we hoped two sides to complete the negotiation on Sino-Australian Free Trade Agreement as soon as possible in an *active, realistic, balanced and mutually beneficial* manner.

## October

**1st**, the People's Bank of China renewed Bilateral Currency Swap Agreement with Bank Indonesia in order to strengthen bilateral financial cooperation, to provide convenience for economic and trade contacts between two countries and to jointly maintain the financial stability. The scale of currency swap would be 100 billion RMB/17.5 billion Indonesia Rupiah. The period of validity would be 3 years, which could be expended in accordance with the agreement by both sides.

**2nd**, the State Chairman Xi Jinping held talks with the President of Indonesia Susilo Bambang Yudhoyono in Djakarta. Both jointly decided to upgrade Sino-Indonesian relations to be the comprehensive strategic partnership. Xi Jinping delivered an important speech in Indonesia's parliament that he stressed to jointly write a new chapter in Sino-Indonesian relations and to work together to create a beautiful future for China – ASEAN community of destiny.

**6th**, Chinese State Chairman Xi Jinping met with Premier Minister of Thailand Yingluck Shinawatra on Bali, Indonesia. Xi Jinping expressed that it had a firm base in politics, economy, and public opinion for Sino-Thailand relations, with huge development potential and good future. China paid high attention to the development of Sino-Thailand friendly relations and have taking Thailand as an important cooperative partner in this region. Yingluck Shinawatra expressed that the government of Thailand wished to strength contacts with China, to enlarge the cooperations in economic and trade, investment, infrastructure and so on, and to implement the projects of high-speed rails, water infrastructure construction and so on.

**7th**, Informal APEC Economic Leaders' Meetings (APEC Summit) was inaugurated on Bali, vacationland in Indonesia. China became the main attraction in this summit. Chinese State Chairman Xi Jinping attended this summit and delivered two speeches.

**10th**, Premier Minister of India Manmohan Singh attended India-ASEAN Summit Meeting in Brunei. During this meeting, Manmohan Singh discussed with heads of ASEAN and all countries in East Asia on issues of regional security, cultural exchanges and economic cooperation.

**11th**, at the invitation of Premier Minister of Thailand Yingluck Shinawatra, Premier of the State Council Li Keqiang arrived at Don Muang Airport, Bangkok, starting the official visit to Thailand.

**12th**, during the visit in Thailand, Premier of the State Council Li Keqiang visited Chinese High-Speed Rails Expo with Premier Minister of Thailand Yingluck Shinawatra. During the visit, Li Keqiang *marketed* Chinese advanced High-Speed Rails technology which was safe and reliable, and competitive in cost. He wished China could strengthen the cooperation in rails with Thailand. In the speech in the day before, Li Keqiang also expressed that the cooperation in rails could be a new lightspot for the cooperation between China and Thailand.

**16th**, State President and CMC Chairman Xi Jinping met with Commander-in-Chief of Myanmar Min Aung Hlaing at the Great Hall of the People and positively evaluated the relationship of two forces between China and Myanmar, wishing both sides to strengthen the communication and cooperation in all areas and continue to contribute to the development of relationship between two countries.

**17th**, Chinese Chairman Xi Jinping met with Governor of Australia Quentin Alice Louise Bryce at the Great Hall of the People.

**23rd**, Premier Minister of India Manmohan Singh visited the People's Republic of China. He held talks with Xi Jinping and Li Keqiang. During this visit, both sides signed important agreements such as BDCA and so on.

**23rd**, Premier Minister of Pakistan Nawaz Sharif met with President of the United States Obama in Washington. The government of the United States wished Pakistan play a positive role to drive the peace process of Afghan government and the Taliban. Nawaz Sharif would use this visit to ask the United States for help in order to solve the depressed economic and energy issues in domestic.

## November

**1st**, the latest *Doing Business 2014* was published in the days before by World Bank. Malaysia moved up from 12th to 6th in the most competitive ranking, ranking among the Top Most Competitive Countries in the world for the first time.

**17th**, the elected President of the Republic of Maldives, Abdulla Yameen Abdul Gayoom, was sworn in to be the 6th president of this country.

**19th**, Prime Minister of the UK, David William Donald Cameron, had a call with President of Iran Hassan Rouhani in the afternoon, exchanging the opinions on bilateral relations and Iranian nuclear issue. This communication by calling was known as historical event, was the first communication in recent more than 10 years for the leaders of two countries, which brought high attention of outside world. David William Donald Cameron made his welcome on the efforts Hassan Rouhani done to improve the bilateral relations.

**24th**, Iran and P5+1 (including the United States, United Kingdom, France, Russia and China, plus Germany) made an agreement on the measures in first stage to solve Iranian nuclear issue at the Palais des Nations, Geneva, Switzerland, making an important step to solve Iranian nuclear issue through peaceful means.

**27th**, the United States signed Trade and Investment Cooperation Forum Agreement (TICFA) with Bangladesh in order to enlarge the trade and strengthen the economic relations between two countries.

## December

**3rd**, Ninth Ministerial Conference of WTO was held in Bali, Indonesia. All parties appealed to show the political willing, push, achieve The Bali agreements, deliver the positive sign to the world and to maintain the multilateral trading system. It mainly discussed on three major issues such as trade facilitation, agriculture and development.

**8th–11th**, 4-day Ministerial Conference of *Trans-Pacific Partnership Agreement* (TTP) was held in Singapore. Participants were failed to make an agreement so that the target that the United States expected to complete the negotiation before the end of 2013 year could not be implemented in this conference.

**9th**, through 7-year multiple efforts, the air route from Dacca, Bangladesh, to Rangoon, Myanmar, was resumed.

## **Appendix 2: Statistical Data for the Indian Ocean Region**

Bo Li

GDP (百万现价美元)  
GDP (millions current US\$)

国家	Country	2006	2007	2008	2009	2010	2011	2012
科摩罗	Comoros	403.18	464.95	530.13	535.20	543.38	610.37	595.90
吉布提	Djibouti	768.87	847.92					
埃及	Egypt, Arab Rep.	107,484.03	130,477.82	162,818.18	188,984.09	218,887.81	236,000.74	262,831.91
厄立特里亚	Eritrea	1,211.16	1,317.97	1,380.19	1,856.70	2,117.04	2,607.74	3,091.84
肯尼亚	Kenya	22,504.14	27,236.74	30,465.49	30,580.37	32,198.15	33,620.68	40,697.16
马达加斯加	Madagascar	5,515.24	7,342.91	9,394.33	8,589.56	8,837.04	9,911.78	9,975.12
毛里求斯	Mauritius	6,731.54	7,792.06	9,641.08	8,834.66	9,718.33	11,250.56	10,486.04
莫桑比克	Mozambique	7,095.91	8,035.64	9,891.00	9,674.04	9,274.45	12,568.44	14,243.72
塞舌尔	Seychelles	1,016.42	1,033.64	967.21	847.42	969.97	1,074.58	1,128.75
索马里	Somalia							
南非	South Africa	261,007.04	286,171.83	273,141.75	283,985.55	363,240.73	401,802.22	384,312.67
苏丹	Sudan	35,159.25	45,456.46	54,082.39	52,839.99	64,849.93	63,997.13	58,768.80
坦桑尼亚	Tanzania	14,331.23	16,825.55	20,715.09	21,368.17	22,915.00	23,874.17	28,242.43
<b>东部非洲</b>	<b>East Africa</b>	<b>463,228.01</b>	<b>533,003.48</b>	<b>573,026.84</b>	<b>608,095.74</b>	<b>733,551.84</b>	<b>797,318.41</b>	<b>814,374.35</b>
印度尼西亚	Indonesia	364,570.53	432,216.74	510,244.55	539,579.96	709,190.82	846,341.44	878,043.03
马来西亚	Malaysia	162,692.47	193,552.80	230,987.62	202,251.38	247,533.53	289,258.94	305,032.75
缅甸	Myanmar							
新加坡	Singapore	139,020.88	168,705.76	178,924.16	194,131.27	217,200.12	245,024.32	274,701.30
泰国	Thailand	207,088.83	246,976.87	272,577.80	263,711.24	318,907.93	345,672.23	365,965.82
东帝汶	Timor Leste	462.60	558.70	693.80	826.70	934.30	1,128.30	1,293.00
<b>东南亚</b>	<b>Southeast Asia</b>	<b>873,835.30</b>	<b>1,042,010.87</b>	<b>1,193,427.93</b>	<b>1,200,500.56</b>	<b>1,493,766.70</b>	<b>1,727,425.23</b>	<b>1,825,035.89</b>



孟加拉国	61,901.12	68,415.42	79,554.35	89,359.77	100,357.02	111,879.12	116,355.06
印度	949,116.77	1,238,700.20	1,224,095.30	1,365,372.43	1,710,908.77	1,872,840.20	1,841,709.76
马尔代夫	1,303.38	1,541.98	1,891.63	1,984.64	2,134.10	2,153.64	2,222.43
巴基斯坦	137,264.06	152,385.72	170,077.81	168,152.78	177,406.85	213,853.86	225,143.27
斯里兰卡	28,267.41	32,351.18	40,715.24	42,067.97	49,567.52	59,184.31	59,423.01
<b>南亚</b>	<b>1,177,852.73</b>	<b>1,493,394.50</b>	<b>1,516,334.33</b>	<b>1,666,937.59</b>	<b>2,040,374.27</b>	<b>2,259,911.13</b>	<b>2,244,853.52</b>
澳大利亚	747,463.31	853,854.91	1,055,506.16	926,710.31	1,141,793.59	1,386,889.15	1,532,407.88
<b>大洋洲</b>	<b>747,463.31</b>	<b>853,854.91</b>	<b>1,055,506.16</b>	<b>926,710.31</b>	<b>1,141,793.59</b>	<b>1,386,889.15</b>	<b>1,532,407.88</b>
巴林	15,854.94	18,473.10	21,902.89	19,318.82	25,713.57	29,044.46	
伊朗	222,880.53	286,057.93	355,988.37	362,661.11	422,567.97	514,059.51	
伊拉克	65,141.04	88,837.73	131,611.82	111,659.99	135,488.47	180,606.80	210,279.95
以色列	145,479.60	167,111.80	201,661.65	194,866.36	231,674.51	258,216.88	
约旦	15,056.94	17,110.61	21,971.84	23,820.01	26,425.38	28,840.20	31,015.24
科威特	101,561.15	114,721.83	147,402.41	105,911.34	119,934.67	160,912.71	
阿曼	36,803.64	41,901.17	60,566.97	46,866.06	58,813.00	69,971.91	
卡塔尔	60,496.70	79,546.98	115,019.78	97,583.51	125,122.25	171,476.09	
沙特	376,900.13	415,909.02	519,796.80	429,097.87	526,811.47	669,506.67	711,049.60
阿拉伯联合酋长国	222,105.93	258,150.04	314,844.67	270,334.93	287,421.93	348,594.97	
也门	18,941.30	21,596.09	26,869.02	24,581.91	31,883.41	31,724.63	35,645.82
<b>中东</b>	<b>1,281,221.91</b>	<b>1,509,416.30</b>	<b>1,917,636.21</b>	<b>1,686,701.92</b>	<b>1,991,856.63</b>	<b>2,462,954.82</b>	<b>987,990.61</b>

数据来源：世界银行WDI&GDF数据库。

Source: World Bank WDI and GDF databank

注：各地区的数据是根据各国数据整理而来

Unit: millions current US\$

**GDP growth (annual %)**

Country	2006	2007	2008	2009	2010	2011	2012
Comoros	1.24	0.49	0.97	1.81	2.05	2.23	2.96
Djibouti	4.80	5.10					
Egypt, Arab Rep.	6.84	7.09	7.16	4.69	5.15	1.76	2.21
Eritrea	-0.97	1.43	-9.78	3.88	2.19	8.68	7.02
Kenya	6.33	6.99	1.53	2.74	5.76	4.38	4.60
Madagascar	5.02	6.24	7.13	-4.13	0.53	1.87	3.10
Mauritius	3.95	5.89	5.51	3.01	4.11	3.85	3.23
Mozambique	6.32	7.28	6.83	6.33	7.08	7.32	7.40
Seychelles	9.41	10.42	-2.14	-1.11	5.95	7.92	2.81
Somalia							
South Africa	5.60	5.55	3.62	-1.53	3.09	3.46	2.55
Sudan	10.06	11.52	3.00	3.23	3.48	-3.29	-10.10
Tanzania	6.74	7.15	7.44	6.02	7.04	6.45	6.86
<b>East Africa</b>	<b>6.19</b>	<b>6.43</b>	<b>4.46</b>	<b>0.82</b>	<b>3.92</b>	<b>2.82</b>	<b>2.03</b>
Indonesia	5.50	6.35	6.01	4.63	6.22	6.49	6.23
Malaysia	5.59	6.30	4.83	-1.51	7.43	5.13	5.64
Myanmar							
Singapore	8.62	9.02	1.75	-0.79	14.78	5.16	1.32
Thailand	5.09	5.04	2.48	-2.33	7.81	0.08	6.49
Timor Leste	-3.18	11.62	14.63	12.77	9.49	12.03	0.59
<b>Southeast Asia</b>	<b>5.94</b>	<b>6.49</b>	<b>4.20</b>	<b>0.87</b>	<b>8.27</b>	<b>4.56</b>	<b>5.27</b>
Bangladesh	6.63	6.43	6.19	5.74	6.07	6.71	6.23
India	9.26	9.80	3.89	8.48	10.55	6.33	3.24
Maldives	19.59	10.56	12.20	-3.64	7.06	7.05	3.42
Pakistan	6.18	4.83	1.70	2.83	1.61	2.79	4.02
Sri Lanka	7.67	6.80	5.95	3.54	8.02	8.25	6.41
<b>South Asia</b>	<b>8.75</b>	<b>9.02</b>	<b>3.86</b>	<b>7.64</b>	<b>9.40</b>	<b>6.09</b>	<b>3.54</b>
Australia	3.04	3.79	3.77	1.65	2.09	2.43	3.41
<b>Australia</b>	<b>3.04</b>	<b>3.79</b>	<b>3.77</b>	<b>1.65</b>	<b>2.09</b>	<b>2.43</b>	<b>3.41</b>
Bahrain	6.70	8.34	6.30	3.10	4.34	2.10	3.40
Iran, Islamic Rep.	5.89	7.82	2.30	1.80			
Iraq	1.38	1.38	6.61	5.81	5.86	8.58	8.43
Israel	5.59	5.50	4.03	0.84	5.66	4.57	3.35
Jordan	8.12	8.18	7.23	5.48	2.31	2.58	2.65
Kuwait	5.20	4.37	4.97	-5.15	-2.37	6.30	
Oman	5.50	6.80	12.80	1.10	5.59	0.29	
Qatar	18.60	18.00	17.70	12.00	16.73	12.96	6.24
Saudi Arabia	5.58	5.99	8.43	1.83	7.43	8.57	5.13
United Arab Emirates	9.91	3.21	3.29	-1.61	-1.82	3.88	4.37
Yemen, Rep.	3.17	3.34	3.65	3.87	7.70	-10.48	0.14
<b>Mid-east</b>	<b>6.72</b>	<b>6.08</b>	<b>6.07</b>	<b>1.39</b>	<b>5.01</b>	<b>6.47</b>	<b>4.79</b>

Source: World Bank WDI and GDF databank

Unit: %

**GDP per capita (current US\$)**

Country	2006	2007	2008	2009	2010	2011	2012
Comoros	653.95	734.82	816.48	803.49	795.48	871.69	830.52
Djibouti	976.29	1,061.64					
Egypt, Arab Rep.	1,472.57	1,757.76	2,156.76	2,461.53	2,803.53	2,972.58	3,256.02
Eritrea	240.55	252.98	256.44	334.06	368.75	439.54	504.30
Kenya	612.23	721.46	785.73	767.87	787.06	799.96	942.54
Madagascar	292.96	379.07	471.44	419.09	419.22	457.21	447.44
Mauritius	5,373.63	6,182.20	7,599.99	6,928.97	7,586.97	8,748.14	8,119.55
Mozambique	328.71	362.43	434.53	414.11	386.96	511.30	565.15
Seychelles	12,014.42	12,155.70	11,123.00	9,707.27	10,805.10	12,289.26	12,858.18
Somalia							
South Africa	5,468.30	5,930.13	5,597.97	5,758.00	7,266.08	7,942.83	7,507.67
Sudan	862.29	1,083.46	1,253.11	1,190.79	1,422.37	1,537.60	1,580.00
Tanzania	369.40	421.30	503.60	504.20	524.69	530.39	608.72
<b>East Africa</b>	<b>1,666.23</b>	<b>1,876.07</b>	<b>1,979.17</b>	<b>2,055.38</b>	<b>2,425.42</b>	<b>2,579.82</b>	<b>2,578.83</b>
Indonesia	1,601.03	1,871.29	2,178.27	2,272.04	2,946.66	3,471.43	3,556.79
Malaysia	6,179.66	7,218.40	8,460.36	7,277.76	8,754.24	10,058.04	10,432.06
Myanmar							
Singapore	31,585.60	36,766.28	36,972.39	38,922.78	42,783.72	47,268.23	51,709.45
Thailand	3,143.24	3,737.72	4,118.40	3,978.91	4,802.66	5,192.12	5,479.76
Timor Leste	456.02	534.11	643.65	744.73	817.77	959.54	1,068.39
<b>Southeast Asia</b>	<b>2,685.94</b>	<b>3,162.42</b>	<b>3,576.90</b>	<b>3,555.44</b>	<b>4,373.19</b>	<b>4,999.83</b>	<b>5,223.17</b>
Bangladesh	427.29	467.14	537.64	597.71	664.06	731.89	752.16
India	830.16	1,068.68	1,042.08	1,147.24	1,419.11	1,533.66	1,489.23
Maldives	4,304.06	5,002.54	6,027.32	6,208.60	6,552.48	6,487.56	6,566.65
Pakistan	853.07	929.59	1,018.38	988.59	1,024.59	1,213.93	1,256.66

(continued)

(continued)

Country	2006	2007	2008	2009	2010	2011	2012
Sri Lanka	1,423.48	1,614.41	2,013.91	2,057.11	2,400.02	2,835.99	2,923.21
<b>South Asia</b>	<b>801.68</b>	<b>1,002.39</b>	<b>1,004.08</b>	<b>1,089.14</b>	<b>1,315.63</b>	<b>1,438.16</b>	<b>1,410.79</b>
Australia	36,113.00	40,629.00	49,358.70	42,551.03	51,746.12	62,125.76	67,555.76
<b>Australia</b>	<b>36,113.00</b>	<b>40,629.00</b>	<b>49,358.70</b>	<b>42,551.03</b>	<b>51,746.12</b>	<b>62,125.76</b>	<b>67,555.76</b>
Bahrain	16,672.72	17,894.17	19,625.58	16,213.34	20,545.99	22,466.95	
Iran, Islamic Rep.	3,140.20	3,983.58	4,899.31	4,931.28	5,674.92	6,815.57	
Iraq	2,321.15	3,091.02	4,472.06	3,701.86	4,375.91	5,686.61	6,454.62
Israel	20,624.58	23,274.30	27,591.62	26,032.16	30,389.12	33,250.09	
Jordan	2,719.82	3,022.54	3,797.41	4,027.05	4,370.72	4,665.94	4,909.03
Kuwait	42,011.77	44,902.32	54,548.62	37,160.54	40,090.75	51,496.93	
Oman	14,405.09	16,305.61	23,353.17	17,597.49	20,983.90	23,132.94	
Qatar	62,522.30	69,023.69	84,628.50	62,390.28	71,510.16	89,735.68	
Saudi Arabia	14,855.00	16,048.58	19,714.40	16,013.28	19,326.58	24,116.17	25,136.21
United Arab Emirates	45,554.22	44,529.00	46,309.98	35,025.10	34,048.53	39,057.84	
Yemen, Rep.	916.73	1,019.54	1,238.00	1,105.82	1,400.67	1,361.33	1,494.43
<b>Mid-east</b>	<b>7,561.93</b>	<b>8,695.02</b>	<b>10,783.84</b>	<b>9,261.49</b>	<b>10,688.63</b>	<b>12,930.57</b>	<b>10,852.69</b>

Source: World Bank WDI and GDF databank

Unit: current US\$

**GDP per capita growth (annual %)**

	2006	2007	2008	2009	2010	2011	2012
Comoros	-1.35	-2.08	-1.60	-0.76	-0.49	-0.27	0.48
Djibouti	3.34	3.63					
Egypt, Arab Rep.	5.07	5.30	5.36	2.94	3.39	0.07	0.53
Eritrea	-4.53	-1.98	-12.67	0.59	-1.07	5.17	3.56
Kenya	3.52	4.17	-1.15	0.02	2.96	1.60	1.81
Madagascar	2.03	3.25	4.14	-6.79	-2.26	-0.95	0.26
Mauritius	3.16	5.24	4.83	2.48	3.63	3.44	2.80
Mozambique	3.48	4.46	4.06	3.61	4.38	4.64	4.75
Seychelles	7.21	9.86	-4.30	-1.49	3.03	10.79	2.40
Somalia							
South Africa	4.43	4.40	2.48	-2.58	1.70	2.24	1.34
Sudan	6.84	8.38	0.13	0.40	0.71	5.93	0.60
Tanzania	3.76	4.09	4.31	2.90	3.87	3.28	3.67
<b>East Africa</b>	<b>3.91</b>	<b>4.15</b>	<b>2.22</b>	<b>-1.34</b>	<b>1.65</b>	<b>0.62</b>	<b>-0.15</b>
Indonesia	4.00	4.84	4.53	3.20	4.82	5.13	4.91
Malaysia	3.65	4.37	2.96	-3.24	5.58	3.36	3.90
Myanmar							
Singapore	5.28	4.57	-3.53	-3.73	12.77	2.99	-1.14
Thailand	4.58	4.74	2.32	-2.47	7.61	-0.18	6.16
Timor Leste	-6.16	8.25	11.24	9.50	6.38	8.85	-2.26
<b>Southeast Asia</b>	<b>4.57</b>	<b>5.15</b>	<b>2.90</b>	<b>-0.33</b>	<b>7.03</b>	<b>3.37</b>	<b>4.09</b>
Bangladesh	5.35	5.27	5.10	4.66	4.93	5.50	4.97
India	7.72	8.30	2.51	7.07	9.13	4.98	1.94
Maldives	17.51	8.61	10.20	-5.39	5.08	5.03	1.44
Pakistan	4.24	2.90	-0.17	0.97	-0.19	1.03	2.28
Sri Lanka	6.51	5.83	5.02	2.36	6.95	7.13	9.24
<b>South Asia</b>	<b>7.20</b>	<b>7.51</b>	<b>2.46</b>	<b>6.21</b>	<b>7.96</b>	<b>4.70</b>	<b>2.25</b>
Australia	1.53	2.22	1.98	-0.19	0.76	1.25	1.76
<b>Australia</b>	<b>1.53</b>	<b>2.22</b>	<b>1.98</b>	<b>-0.19</b>	<b>0.76</b>	<b>1.25</b>	<b>1.76</b>
Bahrain	-1.31	-0.20	-1.67	-3.43	-0.66	-1.16	1.43
Iran, Islamic Rep.	4.66	6.57	1.10	0.58			
Iraq	-1.10	-1.01	4.11	3.24	3.12	5.85	5.71
Israel	3.74	3.64	2.20	-1.54	3.75	2.66	1.50
Jordan	5.68	5.79	4.92	3.18	0.09	0.34	0.43
Kuwait	-0.07	-1.24	-0.75	-10.07	-6.99	1.77	
Oman	4.15	6.18	11.77	-1.55	0.33	-7.07	
Qatar	0.65	-0.93	-0.20	-2.68	4.35	3.43	-0.99
Saudi Arabia	2.74	3.77	6.57	0.20	5.61	6.60	3.17
United Arab Emirates	-6.48	-13.20	-11.92	-13.33	-10.23	-1.75	1.18
Yemen, Rep.	0.56	0.80	1.16	1.41	5.18	-12.56	-2.16
<b>Mid-east</b>	<b>4.16</b>	<b>3.53</b>	<b>3.55</b>	<b>-1.01</b>	<b>1.90</b>	<b>3.55</b>	<b>2.33</b>

Source: World Bank WDI and GDF databank

Unit: %

**Population, total**

Country	2006	2007	2008	2009	2010	2011	2012
Comoros	0.62	0.63	0.65	0.67	0.68	0.70	0.72
Djibouti	0.79	0.80	0.81	0.82	0.83	0.85	0.86
Egypt, Arab Rep.	72.99	74.23	75.49	76.78	78.08	79.39	80.72
Eritrea	5.04	5.21	5.38	5.56	5.74	5.93	6.13
Kenya	36.76	37.75	38.77	39.82	40.91	42.03	43.18
Madagascar	18.83	19.37	19.93	20.50	21.08	21.68	22.29
Mauritius	1.25	1.26	1.27	1.28	1.28	1.29	1.29
Mozambique	21.59	22.17	22.76	23.36	23.97	24.58	25.20
Seychelles	0.08	0.09	0.09	0.09	0.09	0.09	0.09
Somalia	8.69	8.91	9.14	9.38	9.64	9.91	10.20
South Africa	47.73	48.26	48.79	49.32	49.99	50.59	51.19
Sudan	32.40	33.22	34.04	34.85	35.65	36.43	37.20
Tanzania	39.94	41.12	42.35	43.64	44.97	46.35	47.78
<b>East Africa</b>	<b>286.70</b>	<b>293.02</b>	<b>299.48</b>	<b>306.06</b>	<b>312.91</b>	<b>319.81</b>	<b>326.85</b>
Indonesia	227.71	230.97	234.24	237.49	240.68	243.80	246.86
Malaysia	26.33	26.81	27.30	27.79	28.28	28.76	29.24
Myanmar	50.50	50.83	51.17	51.54	51.93	52.35	52.80
Singapore	4.40	4.59	4.84	4.99	5.08	5.18	5.31
Thailand	65.88	66.08	66.19	66.28	66.40	66.58	66.79
Timor Leste	1.01	1.05	1.08	1.11	1.14	1.18	1.21
<b>Southeast Asia</b>	<b>375.84</b>	<b>380.33</b>	<b>384.82</b>	<b>389.19</b>	<b>393.51</b>	<b>397.85</b>	<b>402.21</b>
Bangladesh	144.87	146.46	147.97	149.50	151.13	152.86	154.70
India	1,143.29	1,159.10	1,174.66	1,190.14	1,205.62	1,221.16	1,236.69
Maldives	0.30	0.31	0.31	0.32	0.33	0.33	0.34
Pakistan	160.91	163.93	167.01	170.09	173.15	176.17	179.16
Sri Lanka	19.86	20.04	20.22	20.45	20.65	20.87	20.33
<b>South Asia</b>	<b>1,469.22</b>	<b>1,489.83</b>	<b>1,510.17</b>	<b>1,530.50</b>	<b>1,550.88</b>	<b>1,571.39</b>	<b>1,591.21</b>
Australia	20.70	21.02	21.38	21.78	22.07	22.32	22.68
<b>Australia</b>	<b>20.70</b>	<b>21.02</b>	<b>21.38</b>	<b>21.78</b>	<b>22.07</b>	<b>22.32</b>	<b>22.68</b>
Bahrain	0.95	1.03	1.12	1.19	1.25	1.29	1.32
Iran, Islamic Rep.	70.98	71.81	72.66	73.54	74.46	75.42	76.42
Iraq	28.06	28.74	29.43	30.16	30.96	31.76	32.58
Israel	7.05	7.18	7.31	7.49	7.62	7.77	7.91
Jordan	5.54	5.66	5.79	5.92	6.05	6.18	6.32
Kuwait	2.42	2.55	2.70	2.85	2.99	3.12	3.25
Oman	2.55	2.57	2.59	2.66	2.80	3.02	3.31
Qatar	0.97	1.15	1.36	1.56	1.75	1.91	2.05
Saudi Arabia	25.37	25.92	26.37	26.80	27.26	27.76	28.29
United Arab Emirates	4.88	5.80	6.80	7.72	8.44	8.93	9.21
Yemen, Rep.	20.66	21.18	21.70	22.23	22.76	23.30	23.85
<b>Mid-east</b>	<b>169.43</b>	<b>173.60</b>	<b>177.82</b>	<b>182.12</b>	<b>186.35</b>	<b>190.48</b>	<b>194.51</b>

Source: World Bank WDI and GDF databank

Unit: million

**Population growth (annual %)**

Country	2006	2007	2008	2009	2010	2011	2012
Comoros	2.59	2.60	2.58	2.56	2.52	2.48	2.44
Djibouti	1.40	1.41	1.42	1.44	1.47	1.50	1.52
Egypt, Arab Rep.	1.68	1.68	1.69	1.69	1.68	1.67	1.66
Eritrea	3.66	3.41	3.25	3.21	3.24	3.28	3.28
Kenya	2.68	2.67	2.67	2.68	2.69	2.70	2.70
Madagascar	2.89	2.85	2.83	2.82	2.81	2.80	2.80
Mauritius	0.76	0.61	0.65	0.51	0.46	0.40	0.42
Mozambique	2.71	2.67	2.63	2.60	2.56	2.53	2.50
Seychelles	2.03	0.51	2.24	0.39	2.79	-2.63	0.39
Somalia	2.57	2.54	2.54	2.60	2.69	2.78	2.86
South Africa	1.12	1.10	1.10	1.07	1.35	1.18	1.18
Sudan	2.54	2.50	2.44	2.36	2.27	2.16	2.08
Tanzania	2.84	2.91	2.96	2.99	3.01	3.03	3.04
<b>East Africa</b>	<b>2.21</b>	<b>2.20</b>	<b>2.21</b>	<b>2.20</b>	<b>2.24</b>	<b>2.21</b>	<b>2.20</b>
Indonesia	1.43	1.42	1.41	1.38	1.33	1.29	1.25
Malaysia	1.85	1.83	1.81	1.77	1.73	1.69	1.66
Myanmar	0.63	0.65	0.68	0.71	0.76	0.80	0.85
Singapore	3.13	4.17	5.32	3.02	1.77	2.09	2.45
Thailand	0.49	0.29	0.16	0.14	0.19	0.26	0.31
Timor Leste	3.14	3.07	3.00	2.94	2.88	2.88	2.88
<b>Southeast Asia</b>	<b>1.22</b>	<b>1.19</b>	<b>1.18</b>	<b>1.14</b>	<b>1.11</b>	<b>1.10</b>	<b>1.10</b>
Bangladesh	1.20	1.09	1.03	1.03	1.08	1.14	1.19
India	1.42	1.37	1.33	1.31	1.29	1.28	1.26
Maldives	1.75	1.77	1.80	1.84	1.87	1.91	1.93
Pakistan	1.84	1.86	1.86	1.83	1.78	1.73	1.69
Sri Lanka	1.08	0.91	0.88	1.15	0.99	1.04	
<b>South Asia</b>	<b>1.45</b>	<b>1.40</b>	<b>1.37</b>	<b>1.35</b>	<b>1.33</b>	<b>1.32</b>	<b>1.26</b>
Australia	1.48	1.52	1.74	1.83	1.31	1.17	1.60
<b>Australia</b>	<b>1.48</b>	<b>1.52</b>	<b>1.74</b>	<b>1.83</b>	<b>1.31</b>	<b>1.17</b>	<b>1.60</b>
Bahrain	7.81	8.21	7.79	6.55	4.91	3.24	1.92
Iran, Islamic Rep.	1.17	1.17	1.18	1.21	1.24	1.28	1.32
Iraq	2.51	2.41	2.40	2.49	2.65	2.54	2.54
Israel	1.77	1.78	1.78	2.39	1.83	1.85	1.81
Jordan	2.28	2.23	2.18	2.21	2.19	2.21	2.19
Kuwait	5.14	5.53	5.61	5.33	4.84	4.35	3.95
Oman	1.28	0.58	0.92	2.65	5.11	7.62	9.13
Qatar	16.41	17.48	16.49	14.05	11.22	8.81	7.05
Saudi Arabia	2.72	2.12	1.72	1.62	1.71	1.83	1.88
United Arab Emirates	16.14	17.31	15.93	12.69	8.96	5.57	3.10
Yemen, Rep.	2.56	2.49	2.43	2.39	2.37	2.35	2.33
<b>Mid-east</b>	<b>2.46</b>	<b>2.46</b>	<b>2.44</b>	<b>2.42</b>	<b>2.32</b>	<b>2.21</b>	<b>2.12</b>

Source: World Bank WDI and GDF databank

Unit: %

## Urban population (rate of urbanization)

Country	2006	2007	2008	2009	2010	2011	2012
Comoros	27.894	27.913	27.932	27.951	27.97	28.0686	28.1672
Djibouti	76.8086	76.8562	76.9038	76.9514	76.999	77.08	77.161
Egypt, Arab Rep.	43.0966	43.1662	43.2358	43.3054	43.375	43.5386	43.7022
Eritrea	19.424	19.793	20.162	20.531	20.9	21.363	21.826
Kenya	22.0542	22.4334	22.8126	23.1918	23.571	23.9842	24.3974
Madagascar	29.4372	30.0604	30.6836	31.3068	31.93	32.5684	33.2068
Mauritius	42.0998	42.0196	41.9394	41.8592	41.779	41.7974	41.8158
Mozambique	30.1908	30.3826	30.5744	30.7662	30.958	31.2156	31.4732
Seychelles	51.931	52.257	52.583	52.909	53.235	53.6236	54.0122
Somalia	35.5858	36.0116	36.4374	36.8632	37.289	37.7604	38.2318
South Africa	59.714	60.172	60.63	61.088	61.546	61.9868	62.4276
Sudan	32.8248	32.8896	32.9544	33.0192	33.084	33.2352	33.3864
Tanzania	24.6094	25.0268	25.4442	25.8616	26.279	26.7424	27.2058
<b>East Africa</b>	36.97504756	37.17488563	37.37618	37.57719	37.78973	38.04827	38.30838
Indonesia	46.7344	47.5318	48.3292	49.1266	49.924	50.6858	51.4476
Malaysia	68.4612	69.3474	70.2336	71.1198	72.006	72.684	73.362
Myanmar	29.9246	30.4642	31.0038	31.5434	32.083	32.6524	33.2218
Singapore	100	100	100	100	100	100	100
Thailand	32.5388	32.8366	33.1344	33.4322	33.73	34.1104	34.4908
Timor Leste	26.456	26.832	27.208	27.584	27.96	28.3446	28.7292
<b>Southeast Asia</b>	44.07823951	44.81182722	45.55662	46.28634	47.00584	47.7058	48.40559



Bangladesh	26.0876	26.5392	26.9908	27.4424	27.894	28.3902	28.8864
India	29.574	29.913	30.252	30.591	30.93	31.295	31.66
Maldives	34.9988	36.2476	37.4964	38.7452	39.994	41.1136	42.2332
Pakistan	34.7612	35.0414	35.3216	35.6018	35.882	36.2156	36.5492
Sri Lanka	15.1098	15.0926	15.0754	15.0582	15.041	15.1264	15.2118
<b>South Asia</b>	29.60394299	29.94759444	30.29143	30.63448	30.97734	31.35141	31.73297
Australia	88.3548	88.5276	88.7004	88.8732	89.046	89.1916	89.3372
<b>Australia</b>	88.3548	88.5276	88.7004	88.8732	89.046	89.1916	89.3372
Bahrain	88.4588	88.4986	88.5384	88.5782	88.618	88.6872	88.7564
Iran, Islamic Rep.	67.834	68.11	68.386	68.662	68.938	69.0822	69.2264
Iraq	66.9408	66.8396	66.7384	66.6372	66.536	66.5038	66.4716
Israel	91.579	91.64	91.701	91.762	91.823	91.8836	91.9442
Jordan	81.4362	81.6954	81.9546	82.2138	82.473	82.7118	82.9506
Kuwait	98.19	98.203	98.216	98.229	98.242	98.2548	98.2676
Oman	72.1632	72.4194	72.6756	72.9318	73.188	73.4404	73.6928
Qatar	97.6902	97.9314	98.1726	98.4138	98.655	98.7728	98.8906
Saudi Arabia	81.2	81.421	81.642	81.863	82.084	82.29	82.496
United Arab Emirates	82.618	82.974	83.33	83.686	84.042	84.3316	84.6212
Yemen, Rep.	29.4972	30.0584	30.6196	31.1808	31.742	32.3248	32.9076
<b>Mird-east</b>	67.65558197	67.98233257	68.31051	68.63132	68.92339	69.1453	69.34554

Source: World Bank WDI and GDF databank  
Unit: %

Agriculture, value added (million current US\$)

Country	2006	2007	2008	2009	2010	2011	2012
Comoros	182.14	210.83	242.86	247.91			
Djibouti	24.04	28.81					
Egypt, Arab Rep.	14,227.88	17,510.29	20,564.33	24,564.05	29,201.30	32,731.19	36,402.74
Eritrea	297.95	319.82	231.54	262.24			
Kenya	5,359.19	6,004.13	6,941.83	7,306.74	7,076.00	8,346.41	10,750.35
Madagascar	1,385.93	1,717.80	2,101.01	2,295.19			
Mauritius	300.27	302.23	341.41	298.47	306.65	357.24	319.99
Mozambique	1,805.18	2,044.44	2,648.80	2,603.77	2,627.47	3,588.68	4,047.27
Seychelles	30.30	28.39	24.85	19.13	21.93	23.68	21.59
Somalia							
South Africa	6,697.29	7,640.91	7,329.06	7,512.09	8,468.40	8,893.65	8,858.86
Sudan	10,072.58	11,555.69	13,363.61	13,411.83	15,355.12	15,171.21	15,228.17
Tanzania	3,954.00	4,570.51	5,576.37	5,563.02	5,848.27	5,997.77	7,076.57
<b>East Africa</b>	<b>44,336.74</b>	<b>51,933.85</b>	<b>59,365.67</b>	<b>64,084.45</b>	<b>68,905.14</b>	<b>75,109.83</b>	<b>82,705.55</b>
Indonesia	47,298.66	59,285.80	73,892.29	82,502.57	108,407.43	124,446.22	126,820.01
Malaysia	14,007.79	19,329.68	23,026.22	18,645.76	25,647.86	34,111.40	30,668.00
Myanmar							
Singapore	63.86	69.48	71.40	77.47	77.90	84.27	88.24
Thailand	22,295.92	26,366.53	31,511.23	30,233.68	39,507.00	46,120.09	44,903.61
Timor Leste	144.90	159.10	171.40	173.30	190.50	189.10	
<b>Southeast Asia</b>	<b>83,811.13</b>	<b>105,210.59</b>	<b>128,672.53</b>	<b>131,632.78</b>	<b>173,830.69</b>	<b>204,951.08</b>	<b>202,479.86</b>
Bangladesh	11,694.49	12,729.06	14,573.91	16,167.56	18,040.06	19,741.04	19,865.33

India	159,777.24	207,775.50	205,072.58	228,379.06	286,846.51	305,864.89	302,307.32
Maldives	83.83	87.03	107.03	85.63	92.19	88.55	88.77
Pakistan	29,659.99	33,220.81	38,267.96	38,199.82	41,303.14	53,714.96	53,122.13
Sri Lanka	3,204.47	3,779.64	5,447.37	5,339.26	6,349.81	7,167.02	6,566.48
<b>South Asia</b>	<b>204,420.01</b>	<b>257,592.04</b>	<b>263,468.86</b>	<b>288,171.32</b>	<b>352,631.70</b>	<b>386,576.45</b>	<b>381,950.03</b>
Australia	20,472.45	18,896.91	24,565.02	21,298.84	25,173.96	31,900.98	34,776.57
<b>Australia</b>	<b>20,472.45</b>	<b>18,896.91</b>	<b>24,565.02</b>	<b>21,298.84</b>	<b>25,173.96</b>	<b>31,900.98</b>	<b>34,776.57</b>
Bahrain							
Iran, Islamic Rep.	23,037.44	28,875.93					
Iraq							
Israel							
Jordan	389.04	433.16	530.86	646.73	789.94	842.65	853.54
Kuwait							
Oman							
Qatar							
Saudi Arabia	11,113.22	11,521.34	12,042.93	12,246.93	12,550.13	12,843.47	15,950.93
United Arab Emirates	2,430.50	2,518.99	2,609.94	2,608.85	2,611.30		
Yemen, Rep.	1,921.96	2,242.36	2,414.85	2,424.55	2,455.11		
<b>Mid-east</b>	<b>38,892.16</b>	<b>45,591.79</b>	<b>17,598.58</b>	<b>17,927.07</b>	<b>18,406.48</b>	<b>13,686.12</b>	<b>16,804.47</b>

Source: World Bank WDI and GDF databank

Unit: millions current US\$

## Industry, value added (million current US\$)

Country	2006	2007	2008	2009	2010	2011	2012
Comoros	47.63	55.13	63.51	64.83			
Djibouti	112.33	126.18					
Egypt, Arab Rep.	38,860.57	45,230.50	58,357.00	67,012.76	78,327.95	84,846.32	98,708.65
Eritrea	219.86	252.99	357.67	405.12			
Kenya	3,700.25	4,450.39	5,311.26	5,019.51	5,231.52	5,150.68	6,258.87
Madagascar	814.00	1,087.28	1,370.12	1,261.71			
Mauritius	1,541.25	1,803.33	2,338.89	2,143.07	2,261.73	2,530.31	2,276.41
Mozambique	1,711.94	1,909.38	2,215.28	2,076.23	1,946.01	2,525.80	3,050.16
Seychelles	165.04	166.22	151.18	118.88	135.97	154.61	159.16
Somalia							
South Africa	72,347.85	79,498.93	79,319.00	79,675.95	98,129.25	105,438.65	98,112.31
Sudan	9,381.52	13,262.76	17,040.82	11,975.42	17,411.07	17,428.88	17,205.67
Tanzania	2,974.66	3,558.98	4,342.04	4,691.14	5,127.28	5,431.05	6,420.13
<b>East Africa</b>	<b>131,876.89</b>	<b>151,402.07</b>	<b>170,866.77</b>	<b>174,444.60</b>	<b>208,570.78</b>	<b>223,506.30</b>	<b>232,191.35</b>
Indonesia	171,142.38	202,273.72	245,227.33	257,121.30	333,184.63	398,716.71	412,239.14
Malaysia	75,677.47	86,316.80	104,187.25	82,857.99	101,949.44	116,904.49	124,596.38
Myanmar							
Singapore	41,545.16	45,832.45	44,910.97	50,526.38	56,256.08	61,425.81	68,961.88
Thailand	91,843.14	110,492.84	120,078.35	114,287.96	142,404.93	148,521.14	159,427.80
Timor Leste	41.20	65.30	125.50	179.80	201.30	297.90	
<b>Southeast Asia</b>	<b>380,249.36</b>	<b>444,981.11</b>	<b>514,529.40</b>	<b>504,973.43</b>	<b>633,996.38</b>	<b>725,866.05</b>	<b>765,225.20</b>
Bangladesh	16,640.01	18,771.04	21,859.31	24,738.91	27,617.80	30,445.58	31,989.54

India	251,980.02	330,414.30	326,187.08	357,433.59	439,683.44	466,007.77	447,809.57
Maldives	176.25	204.22	341.09	298.91	331.56	411.59	475.89
Pakistan	27,000.48	30,448.44	36,970.49	32,271.03	34,983.72	43,922.24	47,877.98
Sri Lanka	8,661.78	9,679.42	11,958.55	12,482.17	14,587.55	17,696.10	18,712.06
<b>South Asia</b>	<b>304,458.55</b>	<b>389,517.42</b>	<b>397,316.53</b>	<b>427,224.61</b>	<b>517,204.06</b>	<b>558,483.27</b>	<b>546,865.04</b>
Australia	191,807.43	219,517.94	270,294.89	249,966.92	287,166.83	368,888.37	404,020.76
<b>Australia</b>	<b>191,807.43</b>	<b>219,517.94</b>	<b>270,294.89</b>	<b>249,966.92</b>	<b>287,166.83</b>	<b>368,888.37</b>	<b>404,020.76</b>
Bahrain							
Iran, Islamic Rep.	97,002.05	125,701.67					
Iraq							
Israel							
Jordan	3,827.05	4,818.42	6,662.11	6,797.64	7,104.41	7,879.28	8,191.70
Kuwait							
Oman							
Qatar							
Saudi Arabia	236,983.98	262,167.02	346,998.93	236,089.87	308,389.33	427,420.53	444,916.80
United Arab Emirates	128,612.39	141,441.80	182,864.27	144,320.22	155,041.53		
Yemen, Rep.	9,328.09	7,846.81	9,229.83	9,266.93	9,383.71		
<b>Mid-east</b>	<b>475,753.57</b>	<b>541,975.72</b>	<b>545,755.14</b>	<b>396,474.66</b>	<b>479,918.98</b>	<b>435,299.81</b>	<b>453,108.50</b>

Source: World Bank WDI and GDF databank

Unit: millions current US\$

## Manufacturing, value added (million current US\$)

Country	2006	2007	2008	2009	2010	2011	2012
Comoros	16.88	19.54	22.51	22.97			
Djibouti	17.26	18.31					
Egypt, Arab Rep.	16,737.18	19,520.45	24,461.36	28,698.96	32,975.40	34,658.25	36,941.53
Eritrea	72.49	72.01	90.04	101.98			
Kenya	2,313.11	2,829.82	3,300.37	3,032.32	3,182.03	3,216.93	3,746.42
Madagascar	723.23	967.40	1,214.21	1,114.86			
Mauritius	1,112.27	1,260.25	1,575.06	1,405.20	1,467.63	1,678.47	1,540.85
Mozambique	1,037.57	1,136.59	1,383.09	1,262.64	1,173.80	1,573.86	
Seychelles	91.10	98.95	89.89	66.30	77.91	75.84	94.36
Somalia							
South Africa	40,537.55	43,211.10	41,231.54	39,145.12	46,678.82	46,230.12	42,763.50
Sudan	2,049.43	2,672.61	2,921.22	2,994.21	3,712.57	4,251.60	3,344.78
Tanzania	1,114.53	1,305.59	1,618.29	1,844.07	2,057.16	2,214.89	2,609.23
<b>East Africa</b>	<b>65,822.60</b>	<b>73,112.61</b>	<b>77,907.59</b>	<b>79,688.65</b>	<b>91,325.29</b>	<b>93,899.95</b>	<b>91,040.66</b>
Indonesia	100,393.88	116,907.77	141,920.81	142,208.86	175,907.25	205,935.15	210,176.26
Malaysia	44,847.95	50,560.99	56,732.29	48,136.12	60,704.04	70,356.13	73,935.13
Myanmar							
Singapore	35,417.38	38,454.79	34,818.93	38,168.02	44,316.99	47,936.41	53,412.06
Thailand	72,559.71	88,002.59	94,967.57	90,058.89	113,606.86	117,508.47	124,345.19
Timor Leste	16.00	19.20	21.40	25.60	26.60	28.30	
<b>Southeast Asia</b>	<b>253,234.92</b>	<b>293,945.34</b>	<b>328,461.00</b>	<b>318,597.49</b>	<b>394,561.74</b>	<b>441,764.46</b>	<b>461,868.64</b>

Bangladesh	10,262.46	11,754.71	13,671.59	15,471.70	17,360.32	19,035.01	19,737.99
India	140,295.03	181,994.01	177,920.58	194,367.57	237,202.08	250,844.38	235,247.51
Maldives	74.45	84.38	112.97	92.81	92.66	123.41	149.69
Pakistan	17,797.92	20,219.81	25,147.47	21,389.92	23,195.70	29,562.58	31,421.28
Sri Lanka	5,434.66	5,984.30	7,310.05	7,617.56	8,924.49	10,776.69	10,618.32
<b>South Asia</b>	<b>173,864.52</b>	<b>220,037.19</b>	<b>224,162.66</b>	<b>238,939.55</b>	<b>286,775.25</b>	<b>310,342.07</b>	<b>297,174.78</b>
Australia	74,071.58	79,506.95	97,366.57	78,422.42	91,572.56	103,153.67	108,162.62
<b>Australia</b>	<b>74,071.58</b>	<b>79,506.95</b>	<b>97,366.57</b>	<b>78,422.42</b>	<b>91,572.56</b>	<b>103,153.67</b>	<b>108,162.62</b>
Bahrain							
Iran, Islamic Rep.	24,150.96	29,832.02					
Iraq							
Israel							
Jordan	2,559.63	3,236.27	4,132.67	4,262.33	4,431.12	4,908.92	5,130.31
Kuwait							
Oman							
Qatar							
Saudi Arabia	36,173.83	41,344.45	46,693.33	46,560.00	58,178.93	67,200.80	71,592.00
United Arab Emirates	21,449.69	23,278.42	27,131.65	27,323.35	28,934.79		
Yemen, Rep.	1,469.50	1,850.33	1,900.41	1,908.05	1,932.10		
<b>Mid-east</b>	<b>85,803.62</b>	<b>99,541.50</b>	<b>79,858.07</b>	<b>80,053.74</b>	<b>93,476.94</b>	<b>72,109.72</b>	<b>76,722.31</b>

Source: World Bank WDI and GDF databank

Unit: millions current US\$

## Services, etc., value added (million current US\$)

Country	2006	2007	2008	2009	2010	2011	2012
Comoros	173.41	198.99	223.76	222.60			
Djibouti	549.29	592.28					
Egypt, Arab Rep.	48,034.61	61,708.51	76,588.05	87,980.16	101,203.23	107,890.15	116,540.48
Eritrea	623.37	687.15	742.84	1,137.63			
Kenya	10,969.65	13,551.25	14,609.70	14,563.85	15,871.03	15,810.25	18,973.55
Madagascar	2,842.84	3,882.13	4,998.46	4,327.52			
Mauritius	4,123.05	4,774.79	5,864.20	5,431.32	6,046.93	7,048.61	6,632.96
Mozambique	3,148.66	3,630.71	4,422.30	4,358.52	4,096.10	5,525.85	6,248.37
Seychelles	821.08	839.03	791.19	709.42	812.07	896.30	948.00
Somalia							
South Africa	153,149.74	167,222.56	158,806.14	169,881.09	222,208.67	246,682.88	238,351.34
Sudan	14,336.90	18,496.88	21,170.44	24,231.27	28,835.02	29,353.68	22,637.22
Tanzania	6,074.16	7,122.96	8,849.34	9,067.25	9,813.67	10,236.89	12,163.53
<b>East Africa</b>	<b>244,846.76</b>	<b>282,707.25</b>	<b>297,066.43</b>	<b>321,910.63</b>	<b>388,886.74</b>	<b>423,444.62</b>	<b>422,495.45</b>
Indonesia	146,129.49	170,657.21	191,124.93	199,956.08	267,598.76	323,178.51	338,983.88
Malaysia	73,007.20	87,906.32	103,774.15	100,747.64	119,936.22	138,243.05	149,768.37
Myanmar							
Singapore	91,481.48	113,036.40	124,498.55	133,673.25	148,526.25	168,934.94	188,932.47
Thailand	92,949.77	110,117.50	120,988.22	119,189.61	136,996.00	151,031.00	161,634.40
Timor Leste	278.00	324.80	398.80	491.60	548.60	644.10	
<b>Southeast Asia</b>	<b>403,845.94</b>	<b>482,042.24</b>	<b>540,784.65</b>	<b>554,058.17</b>	<b>673,605.83</b>	<b>782,031.60</b>	<b>839,319.12</b>



Bangladesh	31,292.29	34,647.35	40,228.41	45,419.74	51,395.28	57,770.29	60,524.94
India	461,904.54	599,914.95	621,848.25	701,799.35	868,417.68	971,286.51	988,741.58
Maldives	1,043.30	1,250.73	1,443.51	1,600.11	1,710.35	1,653.50	1,657.77
Pakistan	72,243.90	80,404.00	90,322.45	89,306.69	93,740.09	108,861.41	116,466.99
Sri Lanka	16,401.15	18,892.13	23,309.32	24,246.54	28,630.16	34,321.18	34,144.47
<b>South Asia</b>	<b>582,885.17</b>	<b>735,109.15</b>	<b>777,151.93</b>	<b>862,372.42</b>	<b>1,043,893.57</b>	<b>1,173,892.89</b>	<b>1,201,535.75</b>
Australia	475,731.51	548,878.07	680,215.91	594,114.66	749,886.34	893,990.59	997,270.42
<b>Australia</b>	<b>475,731.51</b>	<b>548,878.07</b>	<b>680,215.91</b>	<b>594,114.66</b>	<b>749,886.34</b>	<b>893,990.59</b>	<b>997,270.42</b>
Bahrain							
Iran, Islamic Rep.	102,231.29	128,057.25					
Iraq							
Israel							
Jordan	8,989.52	9,988.38	12,493.10	13,745.08	15,228.46	16,612.73	18,203.76
Kuwait							
Oman							
Qatar							
Saudi Arabia	128,802.94	142,220.65	160,754.93	180,761.07	205,872.00	229,242.67	250,181.87
United Arab Emirates	91,063.04	114,189.25	129,370.46	123,405.86	129,769.10		
Yemen, Rep.	7,691.25	11,506.92	15,224.34	12,890.42	20,044.59		
<b>Mird-east</b>	<b>338,778.04</b>	<b>405,962.45</b>	<b>317,842.83</b>	<b>330,802.43</b>	<b>370,914.15</b>	<b>245,855.40</b>	<b>268,385.63</b>

Source: World Bank WDI and GDF databank

Unit: millions current US\$

**Agriculture, value added (% of GDP)**

Country	2006	2007	2008	2009	2010	2011	2012
Comoros	45.18	45.34	45.81	46.32			
Djibouti	3.51	3.86					
Egypt, Arab Rep.	14.07	14.07	13.22	13.68	13.99	14.52	14.47
Eritrea	26.11	25.38	17.38	14.53			
Kenya	26.76	25.01	25.84	27.17	25.11	28.48	29.88
Madagascar	27.48	25.69	24.81	29.11			
Mauritius	5.03	4.39	4.00	3.79	3.56	3.60	3.47
Mozambique	27.08	26.96	28.52	28.81	30.31	30.83	30.33
Seychelles	2.98	2.75	2.57	2.26	2.26	2.20	1.91
Somalia							
South Africa	2.88	3.00	2.99	2.92	2.58	2.46	2.57
Sudan	29.81	26.68	25.91	27.03	24.93	24.49	27.65
Tanzania	30.41	29.97	29.71	28.79	28.13	27.68	27.58
<b>East Africa</b>	<b>10.53</b>	<b>10.69</b>	<b>11.26</b>	<b>11.43</b>	<b>10.34</b>	<b>10.40</b>	<b>11.22</b>
Indonesia	12.97	13.72	14.48	15.29	15.29	14.70	14.44
Malaysia	8.61	9.99	9.97	9.22	10.36	11.79	10.05
Myanmar							
Singapore	0.05	0.04	0.04	0.04	0.04	0.04	0.03
Thailand	10.77	10.68	11.56	11.46	12.39	13.34	12.27
Timor Leste	31.22	28.97	24.64	20.52	20.26	16.72	
<b>Southeast Asia</b>	<b>9.66</b>	<b>10.19</b>	<b>10.87</b>	<b>11.06</b>	<b>11.73</b>	<b>11.97</b>	<b>11.21</b>
Bangladesh	19.61	19.24	19.01	18.73	18.59	18.29	17.68
India	18.29	18.26	17.78	17.74	17.98	17.55	17.39
Maldives	6.43	5.64	5.66	4.31	4.32	4.11	3.99
Pakistan	23.01	23.06	23.11	23.91	24.29	26.01	24.43
Sri Lanka	11.34	11.68	13.38	12.69	12.81	12.11	11.05
<b>South Asia</b>	<b>18.72</b>	<b>18.64</b>	<b>18.32</b>	<b>18.26</b>	<b>18.43</b>	<b>18.24</b>	<b>17.93</b>
Australia	2.98	2.40	2.52	2.46	2.37	2.46	2.42
<b>Australia</b>	<b>2.98</b>	<b>2.40</b>	<b>2.52</b>	<b>2.46</b>	<b>2.37</b>	<b>2.46</b>	<b>2.42</b>
Bahrain							
Iran, Islamic Rep.	10.36	10.22					
Iraq							
Israel							
Jordan	2.95	2.84	2.70	3.05	3.42	3.33	3.13
Kuwait							
Oman							
Qatar							
Saudi Arabia	2.95	2.77	2.32	2.85	2.38	1.92	2.24
United Arab Emirates	1.09	0.98	0.83	0.97	0.91		
Yemen, Rep.	10.15	10.38	8.99	9.86	7.70		
<b>Mid-east</b>	<b>4.56</b>	<b>4.59</b>	<b>2.00</b>	<b>2.41</b>	<b>2.12</b>	<b>1.97</b>	<b>2.28</b>

Source: World Bank WDI and GDF databank

Unit: %

**Industry, value added (% of GDP)**

Country	2006	2007	2008	2009	2010	2011	2012
Comoros	11.81	11.86	11.98	12.11			
Djibouti	16.38	16.89					
Egypt, Arab Rep.	38.43	36.34	37.53	37.32	37.53	37.63	39.22
Eritrea	19.27	20.08	26.85	22.44			
Kenya	18.47	18.54	19.77	18.67	18.57	17.57	17.39
Madagascar	16.14	16.26	16.18	16.00			
Mauritius	25.84	26.21	27.37	27.22	26.25	25.47	24.66
Mozambique	25.68	25.17	23.86	22.97	22.45	21.70	22.85
Seychelles	16.24	16.08	15.63	14.03	14.02	14.39	14.10
Somalia							
South Africa	31.16	31.25	32.32	30.99	29.84	29.21	28.41
Sudan	27.76	30.62	33.04	24.13	28.26	28.13	31.24
Tanzania	22.88	23.33	23.14	24.28	24.66	25.07	25.02
<b>East Africa</b>	<b>31.32</b>	<b>31.15</b>	<b>32.40</b>	<b>31.13</b>	<b>31.30</b>	<b>30.95</b>	<b>31.49</b>
Indonesia	46.94	46.80	48.06	47.65	46.98	47.11	46.95
Malaysia	46.52	44.60	45.11	40.97	41.19	40.42	40.85
Myanmar							
Singapore	31.22	28.84	26.50	27.42	27.46	26.66	26.73
Thailand	44.35	44.74	44.05	43.34	44.65	42.97	43.56
Timor Leste	8.88	11.89	18.04	21.29	21.41	26.34	
<b>Southeast Asia</b>	<b>43.81</b>	<b>43.11</b>	<b>43.46</b>	<b>42.41</b>	<b>42.80</b>	<b>42.38</b>	<b>42.35</b>
Bangladesh	27.91	28.38	28.51	28.66	28.46	28.20	28.47
India	28.84	29.03	28.29	27.76	27.57	26.73	25.75
Maldives	13.52	13.24	18.03	15.06	15.54	19.11	21.41
Pakistan	20.95	21.13	22.33	20.20	20.58	21.27	22.02
Sri Lanka	30.64	29.92	29.37	29.67	29.43	29.90	31.49
<b>South Asia</b>	<b>27.89</b>	<b>28.18</b>	<b>27.63</b>	<b>27.08</b>	<b>27.03</b>	<b>26.36</b>	<b>25.67</b>
Australia	27.88	27.88	27.72	28.89	27.03	28.49	28.13
<b>Australia</b>	<b>27.88</b>	<b>27.88</b>	<b>27.72</b>	<b>28.89</b>	<b>27.03</b>	<b>28.49</b>	<b>28.13</b>
Bahrain							
Iran, Islamic Rep.	43.64	44.47					
Iraq							
Israel							
Jordan	28.98	31.62	33.84	32.08	30.72	31.10	30.06
Kuwait							
Oman							
Qatar							
Saudi Arabia	62.88	63.03	66.76	55.02	58.54	63.84	62.57
United Arab Emirates	57.91	54.79	58.08	53.39	53.94		
Yemen, Rep.	49.25	36.33	34.35	37.70	29.43		
<b>Mid-east</b>	<b>55.75</b>	<b>54.55</b>	<b>61.93</b>	<b>53.20</b>	<b>55.21</b>	<b>62.65</b>	<b>61.37</b>

Source: World Bank WDI and GDF databank

Unit: %

**Manufacturing, value added (% of GDP)**

Country	2006	2007	2008	2009	2010	2011	2012
Comoros	4.19	4.20	4.25	4.29			
Djibouti	2.52	2.45					
Egypt, Arab Rep.	16.55	15.69	15.73	15.98	15.80	15.37	14.68
Eritrea	6.35	5.71	6.76	5.65			
Kenya	11.55	11.79	12.29	11.28	11.29	10.98	10.41
Madagascar	14.34	14.47	14.34	14.14			
Mauritius	18.65	18.32	18.43	17.85	17.04	16.89	16.70
Mozambique	15.57	14.99	14.89	13.97	13.54	13.52	
Seychelles	8.96	9.57	9.29	7.82	8.03	7.06	8.36
Somalia							
South Africa	17.46	16.99	16.80	15.23	14.20	12.81	12.38
Sudan	6.07	6.17	5.66	6.03	6.03	6.86	6.07
Tanzania	8.57	8.56	8.62	9.54	9.90	10.22	10.17
<b>East Africa</b>	<b>15.63</b>	<b>15.04</b>	<b>14.77</b>	<b>14.22</b>	<b>13.71</b>	<b>13.00</b>	<b>12.35</b>
Indonesia	27.54	27.05	27.81	26.36	24.80	24.33	23.94
Malaysia	27.57	26.12	24.56	23.80	24.52	24.32	24.24
Myanmar							
Singapore	26.61	24.19	20.54	20.71	21.63	20.80	20.70
Thailand	35.04	35.63	34.84	34.15	35.62	33.99	33.98
Timor Leste	3.45	3.50	3.08	3.03	2.83	2.50	
<b>Southeast Asia</b>	<b>29.18</b>	<b>28.48</b>	<b>27.74</b>	<b>26.76</b>	<b>26.63</b>	<b>25.79</b>	<b>25.56</b>
Bangladesh	17.21	17.77	17.83	17.92	17.89	17.63	17.56
India	16.06	15.99	15.43	15.10	14.87	14.39	13.53
Maldives	5.71	5.47	5.97	4.68	4.34	5.73	6.74
Pakistan	13.81	14.03	15.19	13.39	13.64	14.32	14.45
Sri Lanka	19.23	18.50	17.95	18.11	18.00	18.21	17.87
<b>South Asia</b>	<b>15.93</b>	<b>15.92</b>	<b>15.59</b>	<b>15.14</b>	<b>14.99</b>	<b>14.65</b>	<b>13.95</b>
Australia	10.77	10.10	9.99	9.06	8.62	7.97	7.53
<b>Australia</b>	<b>10.77</b>	<b>10.10</b>	<b>9.99</b>	<b>9.06</b>	<b>8.62</b>	<b>7.97</b>	<b>7.53</b>
Bahrain							
Iran, Islamic Rep.	10.87	10.55					
Iraq							
Israel							
Jordan	19.38	21.24	20.99	20.12	19.16	19.38	18.83
Kuwait							
Oman							
Qatar							
Saudi Arabia	9.60	9.94	8.98	10.85	11.04	10.04	10.07
United Arab Emirates	9.66	9.02	8.62	10.11	10.07		
Yemen, Rep.	7.76	8.57	7.07	7.76	6.06		
<b>Mid-east</b>	<b>10.05</b>	<b>10.02</b>	<b>9.06</b>	<b>10.74</b>	<b>10.75</b>	<b>10.38</b>	<b>10.39</b>

Source: World Bank WDI and GDF databank

Unit: %

**Services, etc., value added (% of GDP)**

Country	2006	2007	2008	2009	2010	2011	2012
Comoros	43.01	42.80	42.21	41.59			
Djibouti	80.11	79.26					
Egypt, Arab Rep.	47.50	49.59	49.25	49.00	48.48	47.85	46.31
Eritrea	54.63	54.54	55.77	63.03			
Kenya	54.77	56.45	54.39	54.16	56.32	53.95	52.73
Madagascar	56.37	58.05	59.02	54.89			
Mauritius	69.13	69.40	68.63	68.99	70.19	70.94	71.87
Mozambique	47.24	47.87	47.62	48.22	47.25	47.47	46.82
Seychelles	80.78	81.17	81.80	83.72	83.72	83.41	83.99
Somalia							
South Africa	65.96	65.74	64.70	66.08	67.58	68.33	69.02
Sudan	42.43	42.70	41.05	48.84	46.81	47.38	41.11
Tanzania	46.71	46.70	47.15	46.93	47.21	47.25	47.40
<b>East Africa</b>	<b>58.15</b>	<b>58.17</b>	<b>56.34</b>	<b>57.44</b>	<b>58.36</b>	<b>58.64</b>	<b>57.30</b>
Indonesia	40.08	39.48	37.46	37.06	37.73	38.19	38.61
Malaysia	44.87	45.42	44.93	49.81	48.45	47.79	49.10
Myanmar							
Singapore	68.74	71.12	73.46	72.54	72.50	73.31	73.23
Thailand	44.88	44.59	44.39	45.20	42.96	43.69	44.17
Timor Leste	59.90	59.14	57.32	58.20	58.34	56.94	
<b>Southeast Asia</b>	<b>46.53</b>	<b>46.70</b>	<b>45.67</b>	<b>46.53</b>	<b>45.47</b>	<b>45.66</b>	<b>46.45</b>
Bangladesh	52.48	52.38	52.48	52.61	52.96	53.51	53.86
India	52.87	52.71	53.93	54.50	54.45	55.72	56.86
Maldives	80.05	81.11	76.31	80.62	80.14	76.78	74.59
Pakistan	56.04	55.81	54.56	55.89	55.13	52.72	53.56
Sri Lanka	58.02	58.40	57.25	57.64	57.76	57.99	57.46
<b>South Asia</b>	<b>53.39</b>	<b>53.18</b>	<b>54.05</b>	<b>54.66</b>	<b>54.55</b>	<b>55.40</b>	<b>56.40</b>
Australia	69.15	69.72	69.76	68.65	70.60	69.05	69.44
<b>Australia</b>	<b>69.15</b>	<b>69.72</b>	<b>69.76</b>	<b>68.65</b>	<b>70.60</b>	<b>69.05</b>	<b>69.44</b>
Bahrain							
Iran, Islamic Rep.	45.99	45.31					
Iraq							
Israel							
Jordan	68.07	65.54	63.46	64.87	65.86	65.57	66.81
Kuwait							
Oman							
Qatar							
Saudi Arabia	34.17	34.20	30.93	42.13	39.08	34.24	35.18
United Arab Emirates	41.00	44.23	41.09	45.65	45.15		
Yemen, Rep.	40.61	53.28	56.66	52.44	62.87		
<b>Mid-east</b>	<b>39.70</b>	<b>40.86</b>	<b>36.07</b>	<b>44.39</b>	<b>42.67</b>	<b>35.38</b>	<b>36.35</b>

Source: World Bank WDI and GDF databank

Unit: %

## Imports of merchandise

Country	2006	2007	2008	2009	2010	2011	2012
Comoros	115.00	138.00	180.00	210.00	233.00	277.00	273.00
Djibouti	336.00	473.00	574.00	451.00	374.00	511.00	580.00
Egypt, Arab Rep.	27,300.00	37,100.00	48,400.00	44,900.00	52,900.00	62,200.00	69,300.00
Eritrea	495.00	510.00	600.00	590.00	690.00	890.00	1,000.00
Kenya	7,230.00	8,990.00	11,100.00	10,200.00	12,100.00	14,800.00	16,300.00
Madagascar	1,800.00	2,640.00	3,780.00	3,200.00	2,520.00	2,910.00	3,050.00
Mauritius	3,630.00	3,890.00	4,650.00	3,730.00	4,390.00	5,150.00	5,350.00
Mozambique	2,870.00	3,050.00	4,010.00	3,760.00	4,600.00	6,310.00	6,800.00
Seychelles	757.00	859.00	1,090.00	794.00	650.00	750.00	800.00
Somalia							
South Africa	78,700.00	88,400.00	102,000.00	74,100.00	94,200.00	122,000.00	124,000.00
Sudan	8,070.00	8,780.00	9,350.00	9,690.00	10,000.00	9,240.00	9,480.00
Tanzania	4,250.00	5,340.00	7,700.00	6,410.00	7,870.00	10,800.00	11,300.00
<b>East Africa</b>	<b>135,553.00</b>	<b>160,170.00</b>	<b>193,434.00</b>	<b>158,035.00</b>	<b>190,527.00</b>	<b>235,838.00</b>	<b>248,233.00</b>
Indonesia	80,600.00	93,100.00	128,000.00	93,800.00	135,000.00	176,000.00	190,000.00
Malaysia	131,000.00	147,000.00	157,000.00	124,000.00	165,000.00	187,000.00	197,000.00
Myanmar	2,560.00	3,310.00	4,290.00	4,350.00	4,760.00	9,020.00	9,200.00
Singapore	239,000.00	263,000.00	320,000.00	246,000.00	311,000.00	366,000.00	380,000.00
Thailand	129,000.00	140,000.00	179,000.00	134,000.00	183,000.00	229,000.00	248,000.00
Timor Leste	101.00	183.00	269.00	295.00	298.00	340.00	380.00
<b>Southeast Asia</b>	<b>582,261.00</b>	<b>646,593.00</b>	<b>788,559.00</b>	<b>602,445.00</b>	<b>799,058.00</b>	<b>967,360.00</b>	<b>1,024,580.00</b>

Bangladesh	16,000.00	18,600.00	23,900.00	21,800.00	27,800.00	36,200.00	34,100.00
India	178,000.00	229,000.00	321,000.00	257,000.00	350,000.00	464,000.00	490,000.00
Maldives	927.00	1,100.00	1,390.00	963.00	1,090.00	1,470.00	1,550.00
Pakistan	29,800.00	32,600.00	42,300.00	31,700.00	37,800.00	44,000.00	44,200.00
Sri Lanka	10,300.00	11,300.00	14,000.00	10,000.00	13,500.00	20,300.00	19,200.00
<b>South Asia</b>	<b>235,027.00</b>	<b>292,600.00</b>	<b>402,590.00</b>	<b>321,463.00</b>	<b>430,190.00</b>	<b>565,970.00</b>	<b>589,050.00</b>
Australia	139,000.00	165,000.00	200,000.00	165,000.00	202,000.00	244,000.00	261,000.00
<b>Australia</b>							
Bahrain	10,500.00	11,500.00	15,000.00	10,100.00	12,300.00	12,700.00	13,900.00
Iran, Islamic Rep.	40,800.00	44,900.00	57,400.00	50,800.00	65,400.00	61,800.00	57,100.00
Iraq	20,900.00	21,500.00	33,000.00	38,400.00	43,900.00	49,000.00	57,000.00
Israel	50,300.00	59,000.00	67,700.00	49,300.00	61,200.00	75,800.00	75,400.00
Jordan	11,500.00	13,700.00	17,000.00	14,200.00	15,600.00	18,900.00	20,700.00
Kuwait	17,200.00	21,400.00	24,800.00	19,900.00	22,700.00	25,400.00	25,900.00
Oman	11,000.00	16,000.00	23,100.00	17,900.00	20,000.00	24,000.00	28,600.00
Qatar	16,400.00	23,400.00	27,900.00	24,900.00	23,200.00	29,900.00	34,200.00
Saudi Arabia	69,800.00	90,200.00	115,000.00	95,600.00	107,000.00	132,000.00	156,000.00
United Arab Emirates	100,000.00	133,000.00	177,000.00	150,000.00	165,000.00	203,000.00	230,000.00
Yemen, Rep.	6,070.00	8,510.00	10,500.00	9,180.00	9,260.00	10,000.00	12,000.00
<b>Mid-east</b>	<b>354,470.00</b>	<b>443,110.00</b>	<b>568,400.00</b>	<b>480,280.00</b>	<b>545,560.00</b>	<b>642,500.00</b>	<b>710,800.00</b>

Source: WTO Statistics database

Unit: millions current US\$

## Exports of merchandise

国家	Country	2006	2007	2008	2009	2010	2011	2012
科摩罗	Comoros	9.93	13.81		14.96	20.61	25.17	18.84
吉布提	Djibouti	55.17	58.07	68.75	77.37	85.13	92.70	95.00
埃及	Egypt, Arab Rep.	16,700.00	19,200.00	26,200.00	23,100.00	26,400.00	31,600.00	29,400.00
厄立特里亚	Eritrea	12.27	13.22	11.00	11.00	12.00	400.00	480.00
肯尼亚	Kenya	3,500.00	4,080.00	5,000.00	4,460.00	5,170.00	5,760.00	6,130.00
马达加斯加	Madagascar	985.00	1,240.00	1,310.00	1,050.00	1,070.00	1,590.00	1,500.00
毛里求斯	Mauritius	2,330.00	2,240.00	2,380.00	1,940.00	2,260.00	2,570.00	2,670.00
莫桑比克	Mozambique	2,380.00	2,410.00	2,650.00	2,150.00	3,000.00	3,600.00	4,100.00
塞舌尔	Seychelles	380.00	360.00	430.00	395.00	400.00	483.00	497.00
索马里	Somalia							
南非	South Africa	58,200.00	69,800.00	80,800.00	61,700.00	80,900.00	98,000.00	87,300.00
苏丹	Sudan	5,660.00	8,880.00	11,700.00	8,260.00	11,400.00	9,690.00	3,370.00
坦桑尼亚	Tanzania	1,860.00	2,140.00	3,120.00	2,980.00	4,050.00	4,730.00	5,500.00
<b>东部非洲</b>	<b>East Africa</b>	<b>92,072.37</b>	<b>110,435.10</b>	<b>133,676.27</b>	<b>106,138.33</b>	<b>134,767.74</b>	<b>158,540.87</b>	<b>141,060.84</b>
印度尼西亚	Indonesia	104,000.00	118,000.00	140,000.00	120,000.00	158,000.00	201,000.00	188,000.00
马来西亚	Malaysia	161,000.00	176,000.00	200,000.00	157,000.00	199,000.00	228,000.00	227,000.00
缅甸	Myanmar	4,590.00	6,340.00	6,940.00	6,660.00	8,660.00	9,240.00	8,900.00
新加坡	Singapore	272,000.00	299,000.00	338,000.00	270,000.00	352,000.00	410,000.00	408,000.00
泰国	Thailand	130,000.00	154,000.00	178,000.00	152,000.00	193,000.00	223,000.00	230,000.00
东帝汶	Timor Leste	8.44	8.37	13.00	8.49	16.66	12.00	12.00



<b>东南亚</b>	<b>Southeast Asia</b>	<b>671,598.44</b>	<b>753,348.37</b>	<b>862,953.00</b>	<b>705,668.49</b>	<b>910,676.66</b>	<b>1,071,252.00</b>	<b>1,061,912.00</b>
孟加拉国	Bangladesh	11,800.00	12,500.00	15,400.00	15,100.00	19,200.00	24,400.00	25,100.00
印度	India	122,000.00	150,000.00	195,000.00	165,000.00	226,000.00	303,000.00	294,000.00
马尔代夫	Maldives	225.00	228.00	331.00	169.00	198.00	346.00	314.00
巴基斯坦	Pakistan	16,900.00	17,800.00	20,300.00	17,500.00	21,400.00	25,400.00	24,600.00
斯里兰卡	Sri Lanka	6,890.00	7,740.00	8,450.00	7,350.00	8,600.00	10,200.00	9,380.00
<b>南亚</b>	<b>South Asia</b>	<b>157,815.00</b>	<b>188,268.00</b>	<b>239,481.00</b>	<b>205,119.00</b>	<b>275,398.00</b>	<b>363,346.00</b>	<b>353,394.00</b>
澳大利亚	Australia	123,000.00	141,000.00	187,000.00	154,000.00	213,000.00	270,000.00	257,000.00
<b>大洋洲</b>	<b>Australia</b>	<b>123,000.00</b>	<b>141,000.00</b>	<b>187,000.00</b>	<b>154,000.00</b>	<b>213,000.00</b>	<b>270,000.00</b>	<b>257,000.00</b>
巴林	Bahrain	12,200.00	13,600.00	17,300.00	11,900.00	15,000.00	19,700.00	19,800.00
伊朗	Iran, Islamic Rep.	77,000.00	88,700.00	114,000.00	78,800.00	101,000.00	132,000.00	104,000.00
伊拉克	Iraq	29,400.00	41,300.00	61,300.00	41,900.00	52,500.00	83,300.00	94,400.00
以色列	Israel	46,800.00	54,100.00	61,300.00	47,900.00	58,400.00	67,800.00	63,100.00
约旦	Jordan	5,200.00	5,730.00	7,940.00	6,380.00	7,030.00	8,010.00	7,890.00
科威特	Kuwait	56,000.00	62,700.00	87,500.00	54,000.00	70,000.00	102,000.00	119,000.00
阿曼	Oman	21,600.00	24,700.00	37,700.00	27,700.00	36,600.00	47,100.00	52,100.00
卡塔尔	Qatar	34,100.00	42,000.00	67,300.00	48,000.00	74,800.00	114,000.00	133,000.00
沙特	Saudi Arabia	211,000.00	233,000.00	313,000.00	192,000.00	251,000.00	365,000.00	388,000.00
阿拉伯联合酋长国	United Arab Emirates	146,000.00	179,000.00	239,000.00	192,000.00	214,000.00	302,000.00	350,000.00
也门	Yemen, Rep.	6,650.00	6,300.00	7,580.00	6,260.00	8,400.00	10,800.00	8,600.00
<b>中东</b>	<b>Mid-east</b>	<b>645,950.00</b>	<b>751,130.00</b>	<b>1,013,920.00</b>	<b>706,840.00</b>	<b>888,730.00</b>	<b>1,251,710.00</b>	<b>1,339,890.00</b>

Source: WTO Statistics database

Unit: millions current US\$

## Imports and exports of merchandise

Country	2006	2007	2008	2009	2010	2011	2012
Comoros	124.93	151.81	186.52	224.96	253.61	302.17	291.84
Djibouti	391.17	531.07	642.75	528.37	459.13	603.70	675.00
Egypt, Arab Rep.	44,000.00	56,300.00	74,600.00	68,000.00	79,300.00	93,800.00	98,700.00
Eritrea	507.27	523.22	611.00	601.00	702.00	1,290.00	1,480.00
Kenya	10,730.00	13,070.00	16,100.00	14,660.00	17,270.00	20,560.00	22,430.00
Madagascar	2,785.00	3,880.00	5,090.00	4,250.00	3,590.00	4,500.00	4,550.00
Mauritius	5,960.00	6,130.00	7,030.00	5,670.00	6,650.00	7,720.00	8,020.00
Mozambique	5,250.00	5,460.00	6,660.00	5,910.00	7,600.00	9,910.00	10,900.00
Seychelles	1,137.00	1,219.00	1,520.00	1,189.00	1,050.00	1,233.00	1,297.00
Somalia							
South Africa	136,900.00	158,200.00	182,800.00	135,800.00	175,100.00	220,000.00	211,300.00
Sudan	13,730.00	17,660.00	21,050.00	17,950.00	21,400.00	18,930.00	12,850.00
Tanzania	6,110.00	7,480.00	10,820.00	9,390.00	11,920.00	15,530.00	16,800.00
<b>East Africa</b>	<b>227,625.37</b>	<b>270,605.10</b>	<b>327,110.27</b>	<b>264,173.33</b>	<b>325,294.74</b>	<b>394,378.87</b>	<b>389,293.84</b>
Indonesia	184,600.00	211,100.00	268,000.00	213,800.00	293,000.00	377,000.00	378,000.00
Malaysia	292,000.00	323,000.00	357,000.00	281,000.00	364,000.00	415,000.00	424,000.00
Myanmar	7,150.00	9,650.00	11,230.00	11,010.00	13,420.00	18,260.00	18,100.00
Singapore	511,000.00	562,000.00	658,000.00	516,000.00	663,000.00	776,000.00	788,000.00
Thailand	259,000.00	294,000.00	357,000.00	286,000.00	376,000.00	452,000.00	478,000.00
Timor Leste	109.44	191.37	282.00	303.49	314.66	352.00	392.00
<b>Southeast Asia</b>	<b>1,253,859.44</b>	<b>1,399,941.37</b>	<b>1,651,512.00</b>	<b>1,308,113.49</b>	<b>1,709,734.66</b>	<b>2,038,612.00</b>	<b>2,086,492.00</b>

Bangladesh	27,800.00	31,100.00	39,300.00	36,900.00	47,000.00	60,600.00	59,200.00
India	300,000.00	379,000.00	516,000.00	422,000.00	576,000.00	767,000.00	784,000.00
Maldives	1,152.00	1,328.00	1,721.00	1,132.00	1,288.00	1,816.00	1,864.00
Pakistan	46,700.00	50,400.00	62,600.00	49,200.00	59,200.00	69,400.00	68,800.00
Sri Lanka	17,190.00	19,040.00	22,450.00	17,350.00	22,100.00	30,500.00	28,580.00
<b>South Asia</b>	<b>392,842.00</b>	<b>480,868.00</b>	<b>642,071.00</b>	<b>526,582.00</b>	<b>705,588.00</b>	<b>929,316.00</b>	<b>942,444.00</b>
Australia	262,000.00	306,000.00	387,000.00	319,000.00	415,000.00	514,000.00	518,000.00
<b>Australia</b>	<b>262,000.00</b>	<b>306,000.00</b>	<b>387,000.00</b>	<b>319,000.00</b>	<b>415,000.00</b>	<b>514,000.00</b>	<b>518,000.00</b>
Bahrain	22,700.00	25,100.00	32,300.00	22,000.00	27,300.00	32,400.00	33,700.00
Iran, Islamic Rep.	117,800.00	133,600.00	171,400.00	129,600.00	166,400.00	193,800.00	161,100.00
Iraq	50,300.00	62,800.00	94,300.00	80,300.00	96,400.00	132,300.00	151,400.00
Israel	97,100.00	113,100.00	129,000.00	97,200.00	119,600.00	143,600.00	138,500.00
Jordan	16,700.00	19,430.00	24,940.00	20,580.00	22,630.00	26,910.00	28,590.00
Kuwait	73,200.00	84,100.00	112,300.00	73,900.00	92,700.00	127,400.00	144,900.00
Oman	32,600.00	40,700.00	60,800.00	45,600.00	56,600.00	71,100.00	80,700.00
Qatar	50,500.00	65,400.00	95,200.00	72,900.00	98,000.00	143,900.00	167,200.00
Saudi Arabia	280,800.00	323,200.00	428,000.00	287,600.00	358,000.00	497,000.00	544,000.00
United Arab Emirates	246,000.00	312,000.00	416,000.00	342,000.00	379,000.00	505,000.00	580,000.00
Yemen, Rep.	12,720.00	14,810.00	18,080.00	15,440.00	17,660.00	20,800.00	20,600.00
<b>Mid-east</b>	<b>1,000,420.00</b>	<b>1,194,240.00</b>	<b>1,582,320.00</b>	<b>1,187,120.00</b>	<b>1,434,290.00</b>	<b>1,894,210.00</b>	<b>2,050,690.00</b>

Source: WTO Statistics database

Unit: millions current US\$

## Outward foreign direct investment flows

Country	2006	2007	2008	2009	2010	2011	2012
Comoros							
Djibouti							
Egypt, Arab Rep.	148.40	664.80	1,920.20	571.10	1,175.50	625.50	211.10
Eritrea							
Kenya	23.95	36.04	43.77	45.99	1.58	9.43	16.05
Madagascar							
Mauritius	10.16	58.03	52.16	37.45	128.70	88.55	88.52
Mozambique	0.40	-0.30	-0.04	-2.83	0.77	-3.38	-8.51
Seychelles	8.01	17.83	12.96	5.34	6.15	7.92	4.00
Somalia							
South Africa	6,063.31	2,965.92	-3,133.68	1,151.45	-75.67	-256.85	4,368.71
Sudan	7.28	10.74	98.21	89.21	66.05	84.49	79.92
Tanzania	967.72	3,003.11	4,056.63	4,172.07	4,467.33	8,217.36	11,911.15
<b>East Africa</b>	<b>7,229.22</b>	<b>6,756.17</b>	<b>3,050.21</b>	<b>6,069.77</b>	<b>5,770.41</b>	<b>8,773.03</b>	<b>16,670.94</b>
Indonesia	2,726.00	4,675.00	5,900.00	2,249.00	2,664.25	7,713.00	5,423.00
Malaysia	6,021.02	11,313.89	14,964.88	7,784.37	13,399.08	15,248.88	17,114.75
Myanmar							
Singapore	18,637.07	36,897.29	6,812.19	24,050.92	25,341.29	26,249.42	23,080.15
Thailand							
Timor Leste	10,891.76	14,567.73	15,820.30	2,722.90	2,015.00	2,178.00	2,536.01

<b>Southeast Asia</b>	<b>38,275.86</b>	<b>67,453.91</b>	<b>43,497.37</b>	<b>36,807.18</b>	<b>43,419.61</b>	<b>51,389.30</b>	<b>48,153.91</b>
Bangladesh	3.60	21.00	9.30	29.30	15.40	13.04	52.78
India	14,284.99	17,233.76	21,147.36	16,031.30	15,932.52	12,456.13	8,582.75
Maldives							
Pakistan	109.00	98.00	49.00	71.00	47.00	62.00	73.00
Sri Lanka	29.00	55.00	61.70	20.00	42.50	60.00	80.00
<b>South Asia</b>	<b>14,426.59</b>	<b>17,407.76</b>	<b>21,267.36</b>	<b>16,151.60</b>	<b>16,037.42</b>	<b>12,591.17</b>	<b>8,788.53</b>
Australia	25,409.46	16,856.75	33,618.25	16,233.16	27,271.23	14,285.23	16,141.01
<b>Australia</b>	<b>25,409.46</b>	<b>16,856.75</b>	<b>33,618.25</b>	<b>16,233.16</b>	<b>27,271.23</b>	<b>14,285.23</b>	<b>16,141.01</b>
Bahrain	980.05	1,669.15	1,620.48	-1,791.49	334.04	893.62	922.34
Iran, Islamic Rep.	385.51	301.72	379.79	355.67	345.89	360.45	430.00
Iraq	305.00	7.90	33.60	71.90	124.90	366.00	548.60
Israel	15,437.96	8,604.65	7,209.99	1,751.36	8,656.10	3,308.83	3,177.64
Jordan	-138.08	48.10	12.82	72.39	28.45	30.85	5.35
Kuwait	8,211.85	9,778.27	8,857.56	8,583.82	1,529.87	8,895.75	7,561.95
Oman	276.00	-36.00	585.00	109.00	1,498.00	1,220.00	1,371.00
Qatar	127.43	5,160.25	3,657.77	3,214.57	1,863.17	6,027.47	1,840.11
Saudi Arabia	-38.60	-134.80	3,497.70	2,177.20	3,906.90	3,430.00	4,402.00
United Arab Emirates							
Yemen, Rep.	55.88	53.79	66.00	66.36	70.32	76.56	71.08
<b>Mid-east</b>	<b>25,603.01</b>	<b>25,453.02</b>	<b>25,920.71</b>	<b>14,610.79</b>	<b>18,357.64</b>	<b>24,609.53</b>	<b>20,350.08</b>

Source: UNCTADstat Databank  
Unit: millions current US\$

## Inward foreign direct investment flows

Country	2006	2007	2008	2009	2010	2011	2012
Comoros	0.83	7.68	4.63	13.78	8.34	23.09	16.97
Djibouti	108.29	195.35	228.95	99.63	26.80	78.00	100.00
Egypt, Arab Rep.	10,042.80	11,578.10	9,494.60	6,711.60	6,385.60	-482.70	2,797.70
Eritrea	15.38	7.21	39.00	91.00	91.00	39.00	73.67
Kenya	50.67	729.05	95.58	114.97	178.06	335.25	258.61
Madagascar	294.51	773.30	1,169.36	1,066.06	808.15	809.78	894.66
Mauritius	105.30	339.05	382.91	247.84	429.96	273.39	360.93
Mozambique	153.70	427.40	591.60	892.50	1,017.92	2,662.81	5,218.14
Seychelles	145.59	238.61	129.84	118.42	159.83	143.88	114.00
Somalia	96.00	141.00	87.00	108.00	112.00	102.00	107.33
South Africa	-526.76	5,694.53	9,006.30	5,365.44	1,228.35	6,004.30	4,572.49
Sudan	3,534.08	2,425.59	2,600.50	1,816.18	2,063.73	2,691.70	2,466.36
Tanzania	9,501.25	11,359.42	8,454.70	4,854.39	9,146.78	7,778.68	8,607.45
<b>East Africa</b>	<b>23,521.64</b>	<b>33,916.28</b>	<b>32,284.98</b>	<b>21,499.83</b>	<b>21,656.52</b>	<b>20,459.18</b>	<b>25,588.30</b>
Indonesia	4,914.00	6,928.00	9,318.00	4,877.37	13,770.58	19,241.25	19,852.57
Malaysia	6,060.25	8,594.67	7,171.98	1,452.97	9,060.04	12,197.58	10,073.93
Myanmar	275.81	709.92	863.00	972.53	1,284.60	2,200.00	2,242.98
Singapore	36,700.23	46,972.33	12,200.01	24,939.33	53,622.71	55,922.66	56,650.90
Thailand	8.48	8.70	39.70	49.93	28.52	47.08	42.00
Timor Leste	12,805.99	14,186.52	13,723.60	4,002.70	5,500.00	7,679.00	9,602.00
<b>Southeast Asia</b>	<b>60,764.77</b>	<b>77,400.14</b>	<b>43,316.28</b>	<b>36,294.83</b>	<b>83,266.45</b>	<b>97,287.56</b>	<b>98,464.38</b>

Bangladesh	792.48	666.36	1,086.31	700.16	913.32	1,136.38	990.04
India	20,327.76	25,349.89	47,138.73	35,657.25	21,125.45	36,190.40	25,542.84
Maldives	95.23	132.43	181.26	157.96	216.47	256.46	283.98
Pakistan	4,273.00	5,590.00	5,438.00	2,338.00	2,022.00	1,327.00	846.75
Sri Lanka	480.00	603.40	752.20	404.00	477.60	981.10	775.50
<b>South Asia</b>	<b>25,968.47</b>	<b>32,342.08</b>	<b>54,596.50</b>	<b>39,257.38</b>	<b>24,754.84</b>	<b>39,891.34</b>	<b>28,439.11</b>
Australia	31,049.65	45,534.57	47,009.68	26,701.19	35,241.62	65,296.97	56,958.94
<b>Australia</b>	<b>31,049.65</b>	<b>45,534.57</b>	<b>47,009.68</b>	<b>26,701.19</b>	<b>35,241.62</b>	<b>65,296.97</b>	<b>56,958.94</b>
Bahrain	2,914.89	1,756.12	1,793.88	257.18	155.85	780.85	891.22
Iran, Islamic Rep.	1,646.57	2,005.10	1,909.20	3,047.60	3,647.50	4,150.00	4,869.88
Iraq	383.00	971.80	1,855.70	1,598.30	1,396.20	2,082.30	2,549.00
Israel	15,295.88	8,798.28	10,874.70	4,607.03	5,509.57	11,080.56	10,414.13
Jordan	3,544.01	2,622.14	2,826.26	2,413.10	1,650.85	1,473.52	1,402.96
Kuwait	121.33	111.47	-5.96	1,113.85	456.03	855.01	1,851.14
Oman	1,597.00	3,332.00	2,952.00	1,485.00	1,243.00	739.00	1,514.00
Qatar	3,500.00	4,700.00	3,778.63	8,124.74	4,670.33	-86.81	326.92
Saudi Arabia	18,293.10	24,318.70	39,455.90	36,457.80	29,232.70	16,308.00	12,182.00
United Arab Emirates	403.04	581.51	1,383.25	952.61	1,813.25	1,229.38	1,706.00
Yemen, Rep.	1,120.98	917.30	1,554.62	129.19	188.63	-518.42	348.81
<b>Mid-east</b>	<b>48,819.79</b>	<b>50,114.42</b>	<b>68,378.18</b>	<b>60,186.40</b>	<b>49,963.90</b>	<b>38,093.38</b>	<b>38,056.06</b>

Source: UNCTADstat Databank

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Unit: millions current US\$

## Current account balance (BoP, million current US\$)

Country	2006	2007	2008	2009	2010	2011	2012
Comoros							
Djibouti	-16.57	-171.35	-225.39	-71.10	50.49	-171.84	-121.67
Egypt, Arab Rep.	2,635.40	411.60	-1,414.60	-3,349.30	-4,503.80	-5,483.90	-6,972.00
Eritrea							
Kenya	-510.43	-1,032.05	-1,982.60	-1,688.51	-2,368.67	-3,830.38	-4,252.51
Madagascar							
Mauritius	-604.41	-433.93	-975.76	-654.97	-1,005.77	-1,506.49	-1,174.87
Mozambique	-765.43	-786.20	-1,193.38	-1,221.29	-1,450.12	-2,997.32	-6,296.78
Seychelles	-133.77	-28.17	-32.28	-14.53	-17.61	-22.86	-20.31
Somalia							
South Africa	-13,744.82	-20,018.34	-20,109.67	-11,352.99	-10,117.29	-13,682.66	-24,068.51
Sudan	-4,605.43	-2,621.85	-2,256.10	-3,845.85	-680.00	767.55	-5,281.96
Tanzania	-1,102.05	-1,714.74	-2,577.09	-1,809.91	-1,960.10	-3,992.25	-3,639.83
<b>East Africa</b>	<b>-18,847.52</b>	<b>-26,395.03</b>	<b>-30,766.86</b>	<b>-24,008.46</b>	<b>-22,052.88</b>	<b>-30,920.14</b>	<b>-51,828.45</b>
Indonesia	10,859.49	10,492.59	125.58	10,628.49	5,144.28	1,685.07	-24,073.89
Malaysia	26,199.51	29,770.09	38,914.37	31,800.96	26,998.15	33,507.52	18,637.96
Myanmar	793.89	1,380.74	1,247.03	986.01	1,574.16	-1,423.85	
Singapore	36,082.19	46,347.57	28,838.31	33,482.03	62,025.51	65,323.01	51,437.24
Thailand	2,316.21	15,677.51	2,210.78	21,890.73	9,945.88	4,133.98	-1,431.06
Timor Leste	540.95	1,177.20	2,021.75	1,195.53	1,675.42	2,350.81	2,739.70
<b>Southeast Asia</b>	<b>76,792.24</b>	<b>104,845.71</b>	<b>73,357.82</b>	<b>99,983.75</b>	<b>107,363.41</b>	<b>105,576.54</b>	<b>47,309.96</b>



Bangladesh	1,196.06	856.79	985.63	3,556.13	2,105.90	-164.95	2,647.65
India	-9,299.06	-8,075.69	-30,971.99	-26,186.44	-54,515.88	-62,517.64	-91,471.25
Maldives	-301.98	-268.95	-611.70	-220.83	-196.08	-436.79	-600.45
Pakistan	-6,748.92	-8,301.00	-15,654.50	-3,993.43	-1,354.00	-2,234.02	-2,024.64
Sri Lanka	-1,498.01	-1,400.90	-3,885.40	-214.70	-1,075.03	-4,615.42	-4,003.32
<b>South Asia</b>	<b>-16,651.90</b>	<b>-17,189.75</b>	<b>-50,137.96</b>	<b>-27,059.27</b>	<b>-55,035.08</b>	<b>-69,968.81</b>	<b>-95,452.01</b>
Australia	-41,379.02	-58,947.93	-47,590.28	-44,998.54	-37,176.42	-33,633.81	-57,037.62
<b>Australia</b>	<b>-41,379.02</b>	<b>-58,947.93</b>	<b>-47,590.28</b>	<b>-44,998.54</b>	<b>-37,176.42</b>	<b>-33,633.81</b>	<b>-57,037.62</b>
Bahrain	2,187.45	2,906.57	2,256.89	559.98	770.07	3,247.34	2,938.03
Iran, Islamic Rep.							
Iraq	2,681.40	15,519.33	28,440.30	-1,128.50	6,488.30	26,126.00	29,541.00
Israel	6,995.70	5,532.80	3,060.90	7,914.20	7,171.60	3,253.40	849.70
Jordan	-1,725.95	-2,874.75	-2,054.19	-1,243.72	-1,882.28	-3,468.45	-5,693.71
Kuwait	45,311.78	41,330.13	60,239.35	28,383.77	36,957.62	67,156.95	79,209.32
Oman	5,664.40	2,462.16	5,018.99	-596.10	5,870.74	10,262.68	8,312.09
Qatar						51,977.94	61,585.35
Saudi Arabia	99,066.13	93,379.49	132,322.21	20,954.61	66,750.99	158,545.22	164,763.65
United Arab Emirates							
Yemen, Rep.	205.70	-1,508.33	-1,251.22	-2,564.87	-1,381.24	-1,029.27	
<b>Mid-east</b>	<b>160,386.60</b>	<b>156,747.40</b>	<b>228,033.23</b>	<b>52,279.36</b>	<b>120,745.80</b>	<b>316,071.81</b>	<b>341,505.43</b>

Source: World Bank WDI and GDF databank

Unit: millions current US\$

Capital and finance account balance (BoP, million current US\$)

Country	2006	2007	2008	2009	2010	2011	2012
Comoros							
Djibouti	70.33	253.52	187.49	105.83	72.78	211.02	51.47
Egypt, Arab Rep.	-3,268.80	-650.20	4,310.30	2,974.70	6,649.20	8,340.50	9,131.50
Eritrea	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Kenya	268.15	1,289.99	1,682.08	1,614.05	2,193.23	3,498.70	3,724.85
Madagascar	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Mauritius	310.11	57.36	763.68	367.14	859.24	1,234.65	1,255.72
Mozambique	631.53	720.68	1,075.03	1,337.07	1,425.45	3,110.07	6,295.69
Seychelles	132.09	24.48	20.36	3.52	11.50	14.21	19.96
Somalia	0.00	0.00	0.00	0.00	0.00	0.00	0.00
South Africa	12,462.49	17,986.91	9,795.68	14,401.90	7,539.27	1,778.31	18,671.52
Sudan	6,438.87	5,472.79	4,980.42	6,922.53	5,100.96	2,000.01	3,982.73
Tanzania	725.50	1,402.93	2,967.01	2,057.70	3,255.93	4,309.23	4,129.80
<b>East Africa</b>	<b>17,770.27</b>	<b>26,558.48</b>	<b>25,782.04</b>	<b>29,784.43</b>	<b>27,107.56</b>	<b>24,496.69</b>	<b>47,263.24</b>
Indonesia	-11,484.76	-9,124.52	112.74	-7,653.68	-1,643.69	1,710.41	24,728.34
Malaysia	-18,739.09	-24,568.99	-30,322.29	-26,559.38	-5,653.36	-23,542.40	-8,701.05
Myanmar	-168.20	-1,045.05	114.86	23.80	558.14	436.00	0.00
Singapore	-34,943.38	-43,958.55	-29,344.23	-35,883.58	-64,529.42	-61,289.14	-54,567.90
Thailand	-4,643.01	-18,746.79	-12,119.55	-26,641.40	-6,109.25	-1,860.04	9,111.99
Timor Leste	-538.01	-1,168.26	-2,014.48	-1,284.77	-1,661.81	-2,308.38	-2,731.46
<b>Southeast Asia</b>	<b>-70,516.44</b>	<b>-98,612.16</b>	<b>-73,572.94</b>	<b>-97,999.00</b>	<b>-79,039.39</b>	<b>-86,853.56</b>	<b>-32,160.08</b>

Bangladesh	-572.57	47.82	-806.66	-2,522.15	-2,052.15	1,333.12	-2,183.09
India	8,399.40	6,737.30	29,826.23	26,465.86	56,485.74	64,458.44	89,640.50
Maldives	193.74	189.49	300.21	182.06	73.51	40.12	121.02
Pakistan	6,207.00	8,270.00	15,705.80	3,252.00	2,083.00	2,116.77	2,709.33
Sri Lanka	1,604.00	1,566.06	3,157.74	-130.96	1,955.68	4,952.80	4,095.21
<b>South Asia</b>	<b>15,831.58</b>	<b>16,810.66</b>	<b>48,183.32</b>	<b>27,246.81</b>	<b>58,545.79</b>	<b>72,901.25</b>	<b>94,382.98</b>
Australia	41,469.98	59,407.09	46,633.51	44,426.87	36,071.67	32,425.71	55,828.88
<b>Australia</b>	<b>41,469.98</b>	<b>59,407.09</b>	<b>46,633.51</b>	<b>44,426.87</b>	<b>36,071.67</b>	<b>32,425.71</b>	<b>55,828.88</b>
Bahrain	-2,198.40	-2,916.74	-2,226.66	-494.33	-877.04	-3,318.88	-2,340.16
Iran, Islamic Rep.	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Iraq	-3,260.46	-11,859.70	-19,195.60	7,244.60	1,462.40	-22,857.00	-25,425.00
Israel	-9,929.50	-2,042.10	-179.50	-10,014.40	-10,946.10	-5,135.60	-5,419.10
Jordan	1,932.16	2,339.78	1,834.04	853.08	1,058.17	3,281.55	5,205.35
Kuwait	-52,398.84	-36,598.63	-50,189.88	-29,415.38	-44,346.60	-65,458.49	-85,196.50
Oman	-5,655.86	-2,672.56	-5,640.62	1,627.26	-5,930.04	-9,257.08	-7,155.53
Qatar	0.00	0.00	0.00	0.00	0.00	-48,240.22	-60,585.65
Saudi Arabia	-78,505.79	-77,750.41	-102,296.29	39,799.59	-32,371.22	-110,367.59	-122,157.29
United Arab Emirates	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Yemen, Rep.	-386.80	1,040.76	1,194.66	977.62	652.19	673.20	0.00
<b>Mird-east</b>	<b>-150,403.50</b>	<b>-130,459.60</b>	<b>-176,699.85</b>	<b>10,578.04</b>	<b>-91,298.24</b>	<b>-260,680.11</b>	<b>-303,073.87</b>

Source: World Bank WDI and GDF databank

Unit: millions current US\$

## Tax revenue (millions current LCU)

Country	2006	2007	2008	2009	2010	2011	2012
Comoros							
Djibouti							
Egypt, Arab Rep.	97,778.90	114,325.70	137,195.30	163,222.70	170,493.50	192,072.40	
Eritrea							
Kenya	281,940.26	326,185.42	396,385.59	445,166.93	498,637.04	594,197.70	
Madagascar	1,260,800.00	1,573,138.00	2,087,200.00				
Mauritius				52,729.10	55,483.73	59,531.40	
Mozambique							
Seychelles	1,385.33	1,610.38	2,045.99	2,911.13	3,260.01	4,155.56	4,414.64
Somalia							
South Africa	501,602.00	582,139.00	635,222.00	611,793.00	688,143.00	760,844.00	
Sudan							
Tanzania							
<b>East Africa</b>							
Indonesia	4,092,03,019.34	4,909,88,634.95	6,451,21,413.09	6,408,29,739.04	6,995,93,872.21	8,738,73,892.40	
Malaysia	86,630.34	95,168.39	112,897.30	106,504.41	109,515.19	134,885.00	151,643.00
Myanmar							
Singapore	27,940.00	34,961.00	37,679.00	36,584.00	41,807.10	46,049.30	
Thailand	1,313,608.09	1,374,438.47	1,493,400.00	1,370,973.49	1,613,942.20	1,850,017.28	
Timor Leste							

<b>Southeast Asia</b>													
Bangladesh	339,724.59	380,310.89	481,320.97	528,671.03	624,846.43	795,482.25							
India	4,735,120.00	5,931,470.00	6,052,980.00	6,245,270.00	7,868,880.00	9,324,400.00							
Maldives	2,370.40	2,905.10	3,366.80	2,732.00	2,931.10	4,892.98							
Pakistan	718,671.00	853,270.00	1,009,903.00	1,180,462.00	1,483,046.00	1,679,363.00							2,024,568.00
Sri Lanka	428,379.00	508,947.00	585,621.00	618,933.00	724,746.50	812,610.70							
<b>South Asia</b>													
Australia	245,218.00	261,979.00	285,659.00	278,000.00	267,161.00	288,066.00							
<b>Australia</b>													
Bahrain	81.14	93.56											
Iran, Islamic Rep.	1,518,48,968.54	1,928,14,785.00	2,409,53,673.98	3,022,47,053.87									
Iraq													
Israel	179,091.55	191,438.26	184,344.67	178,443.11	197,071.05	212,959.87							219,450.28
Jordan	2,621.33	2,995.20	2,758.10	2,879.90	2,985.90	3,062.20							3,351.40
Kuwait	286.00	354.00	347.00	296.00	324.00	340.00							
Oman	278.20	437.60	565.70	630.30	573.20	593.60							736.70
Qatar	44,436.11	59,786.60	66,811.01	70,928.26	66,745.27								
Saudi Arabia													
United Arab Emirates													
Yemen, Rep.													

Source: World Bank WDI and GDF databank

Unit: millions current LCU

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