



Commerce and Conflict: Navigating Myanmar's China Relationship

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Principal Findings

What's new?* The Rohingya crisis has strained Myanmar's relations with the West and much of the Global South, pushing it to rely more on diplomatic and economic support from China. With a China-Myanmar Economic Corridor proceeding, and smaller private-sector projects proliferating, China's investments in Myanmar are poised to shift into higher gear.

Why does it matter? Many of these projects are located in or near areas of active armed conflict, and are often implemented without sufficient transparency, consultation with local communities or awareness of the local context. They risk empowering armed actors, heightening local grievances and amplifying anti-Chinese sentiment, which could lead to a popular backlash.

What should be done? China needs to take more responsibility for ensuring that its projects benefit local communities and Myanmar's economy, and do not exacerbate conflict. The Myanmar government should enhance its China expertise to negotiate and regulate projects more effectively. Both sides need to practice greater transparency and meaningful community consultation.

** Crisis Group conducted the fieldwork for this report before the COVID-19 pandemic. Some dynamics examined in this publication may have changed in the meantime. Moving forward, we will be factoring the impact of the pandemic into our research and recommendations, as well as offering dedicated coverage of how the outbreak is affecting conflicts around the world.*

Executive Summary

China is Myanmar's most important foreign partner, a key source of investment, diplomatic protection and potential leverage over ethnic armed groups fighting the country's military. The relationship has always been coloured by mutual distrust, and Myanmar has tried to balance China's influence by seeking out other strategic relationships, in the region and beyond. But since the brutal violence against the Rohingya of 2016-2017 strained its relations with the West and much of the Global South, Naypyitaw has come to rely even more heavily on Beijing. As it is pushed further in this direction, both countries must ensure that the megaprojects and many other smaller private investments that China has proposed do not exacerbate armed conflict in various parts of Myanmar. Given the country's deep reservoir of anti-Chinese sentiment, it is critical that Beijing and Naypyitaw design and carry out commercial projects in a transparent and mutually beneficial way, in close consultation with the locals most affected.

China has big plans in Myanmar as part of its Belt and Road Initiative. These include a multi-billion-dollar China-Myanmar Economic Corridor connecting landlocked Yunnan province with the Indian Ocean seaboard in Rakhine State, via Mandalay. This set of infrastructure and commercial projects will bind Myanmar ever more closely to China's economy. There is also a large amount of private Chinese capital flowing into Myanmar, for everything from plantation agriculture to commercial property development. Locals, however, do not welcome all this investment, in which they sometimes see little benefit for their communities. Furthermore, at each end of the Economic Corridor – in northern Shan State and Rakhine State – armed conflict is raging, and it is far from clear that major investments will help quell the fighting or lessen the underlying grievances rooted in political economy.

Naypyitaw is also cautious about major Chinese investment, worrying about the consequences of being embraced too tightly by its giant neighbour. It continues to resist Beijing's pressure to make bigger concessions and faster progress. Xi Jinping made a state visit to Myanmar on 17-18 January, the first trip by a Chinese president in almost twenty years, but he was unable to sign any major new agreements while there.

China appears ready to move at Myanmar's pace for the moment, mindful of the fact that elections in November constrain the government's ability to move ahead with projects of which the public tends to be suspicious. While a focus on the coronavirus and its economic impact will likely afford Naypyitaw a further grace period, it is uncertain how long Beijing's patience will last.

If Beijing decides to adopt a more transactional or coercive approach to achieving its objectives, it will likely meet resistance from Naypyitaw and stoke public anger. While popular opinion in Myanmar may not be as negative toward China as in the past, there remains enormous apprehension. Should Beijing be perceived as extracting unwelcome concessions, its pressure could backfire, triggering a backlash similar to protests in 2011 that led Naypyitaw to cancel the Chinese-backed Myitsone dam.

Myanmar public opinion toward China is influenced not only by major state-to-state projects such as the Economic Corridor, but also by the numerous private-sector investments in everything from plantation agriculture to garment manufacturing

and small-scale mining operations. While Beijing can directly regulate state-to-state investments and exert its influence over private-sector projects that are included in the Economic Corridor framework, it has less influence over these smaller commercial ventures. It should, however, have a strong interest in regulating them better as well. The private initiatives can get embroiled in Myanmar's armed conflicts, and sharpen anti-Chinese feeling, thus undermining Beijing's broader project.

China should also take much greater responsibility for ensuring that its investments are a boon for Myanmar and its people. It needs to be particularly mindful of the risk of sparking or exacerbating conflict – either directly, or through the impact of major investment on a political economy dominated by armed groups and illicit activities.

For its part, Myanmar is right to be wary of China's ambitions in the country and the effects of proposed megaprojects. In negotiations, it has brought down the size of the Kyaukpyu port and special economic zone, reducing the likely debt burden and allowing a phased approach that should make it easier to identify and mitigate negative environmental or social consequences. It is also trying to ensure that large projects go through standardised approval, tender and financing processes. But it does not have the capacity to bargain over the details of several large projects simultaneously. The government should also improve transparency around these projects, which to date has been extremely limited.

Myanmar should not consider proximity to China only as a threat, however; if managed wisely, access to China's investment dollars and to its huge market offers enormous opportunities. Taking advantage of them will require more detailed understanding of what is at stake. To this end, Naypyitaw could tap the China expertise at a number of Myanmar think-tanks and other non-governmental organisations that are versed in these issues. The government should also invest itself in bolstering such knowledge, both inside and outside the state apparatus.

Myanmar is bound to China by geography and geopolitics, and increasingly by trade and investment. The unsettled history of the bilateral relationship, however, suggests that Myanmar's closer integration into China's markets and sphere of influence will not be smooth. Both countries need to ensure that current projects and those in the pipeline are mutually beneficial and do not exacerbate armed conflict or social tensions.

Yangon/Brussels, 30 March 2020

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I. Introduction

This year marks the 70th anniversary of China-Myanmar diplomatic relations.¹ Despite official proclamations of eternal brotherhood, the two countries have a history of mutual suspicion. For several decades up to 1989, China supported a now-defunct Communist insurgency and, in Myanmar's belief, for which there is some evidence, it is also backing some of the ethnic armed groups the Tatmadaw is fighting today. Naypyitaw has tried to balance Beijing's influence by seeking out other strategic relationships in the region and beyond. But since the Rohingya crisis of 2016-2017 prompted a large section of the international community to distance itself from the Myanmar government, Naypyitaw has had to rely even more heavily on Beijing.

The present relationship has several dimensions, the most important being the diplomatic and the economic. As a great power with a permanent UN Security Council seat, China can shield Myanmar from the worst of the international opprobrium it has faced since the Tatmadaw, moving to crush a Rohingya militant group in Rakhine State, drove hundreds of thousands of Rohingya into refuge in Bangladesh nearly four years ago. As the world's second-largest economy, China has billions of dollars to invest in emerging Asian markets, which it hopes to draw further into its geopolitical and commercial orbits.² With such megaprojects as the China-Myanmar Economic Corridor, as well as myriad smaller ventures, it aims to do exactly that in Myanmar.

The influx of money has drawbacks for Myanmar, however, which fears economic domination by its much larger ally. Chinese investment could also worsen the armed

¹ For Crisis Group reporting on Myanmar since the 2015 elections, see Asia Reports N°303, *A Sustainable Policy for Rohingya Refugees in Bangladesh*, 27 December 2019; N°299, *Fire and Ice: Conflict and Drugs in Myanmar's Shan State*, 8 January 2019; N°296, *The Long Haul Ahead for Myanmar's Rohingya Refugee Crisis*, 16 May 2018; N°292, *Myanmar's Rohingya Crisis Enters a Dangerous New Phase*, 7 December 2017; N°290, *Buddhism and State Power in Myanmar*, 5 September 2017; 287, *Building Critical Mass for Peace in Myanmar*, 29 June 2017; N°283, *Myanmar: A New Muslim Insurgency in Rakhine State*, 15 December 2016; and N°282, *Myanmar's New Government: Finding Its Feet?*, 29 July 2016; Asia Briefings N°158, *Myanmar: A Violent Push to Shake Up Ceasefire Negotiations*, 24 September 2019; N°157, *Peace and Electoral Democracy in Myanmar*, 6 August 2019; N°156, *An Opening for Internally Displaced Person Returns in Kachin State*, 22 May 2019; N°155, *Building a Better Future for Rohingya Refugees in Bangladesh*, 25 April 2019; N°154, *A New Dimension of Violence in Myanmar's Rakhine State*, 24 January 2019; N°153, *Bangladesh-Myanmar: The Danger of Forced Rohingya Repatriation*, 12 November 2018; N°151, *Myanmar's Stalled Transition*, 28 August 2018; N°149, *Myanmar's Peace Process: Getting to a Political Dialogue*, 19 October 2016; and N°147, *The Myanmar Elections: Results and Implications*, 9 December 2015; and Commentary, "Myanmar at the International Court of Justice", 10 December 2019.

² For another case study of China's grand strategy, see Crisis Group Asia Report N°297, *China-Pakistan Economic Corridor: Opportunities and Risks*, 29 June 2018.

conflicts that persist in various parts of Myanmar, whether because it provides rent-seeking opportunities for armed groups, bypasses the populations supporting the insurgencies, or accentuates the grievances that sparked them in the first place.

This report examines the implications of Chinese investment for armed conflict and social tensions in Myanmar. It is based on Crisis Group research since June 2019, including interviews with Myanmar government officials, members of parliament, diplomats, ethnic armed group and Border Guard Force representatives, civil society organisation staff, and local researchers and analysts. These interviews took place in Yangon and Naypyitaw, and in the course of research trips to rural Mandalay Region in September 2019 and to Myawaddy (Kayin State) and the adjacent town of Mae Sot in Thailand in October 2019. Due to the detention of Crisis Group's North East Asia Adviser Michael Kovrig in Beijing since December 2018, without charge or access to his family, Crisis Group has had to suspend research activities in China. Interviews in China or with Chinese officials there were thus not possible over the course of 2019 and 2020.

II. China and Myanmar: Uneasy Partners

A. 1948-1988: Early Post-independence Years

Since its independence in 1948, Myanmar has had a turbulent relationship with China. In the years following the establishment of the People's Republic in 1949, China was relatively weak and had few allies. It made efforts to forge links with its neighbours to secure diplomatic recognition and ensure peace along its borders. Myanmar was the first non-Communist country to recognise the People's Republic; diplomatic relations were established in June 1950. Beijing deployed significant resources to strengthen bilateral ties, including sending Premier Zhou Enlai to Myanmar nine times in the 1950s and early 1960s.³ Myanmar and Chinese officials began referring to their relationship as *pauk phaw*, meaning "fraternal" in Burmese, to emphasise its special nature.⁴

Even in these early days, however, bilateral ties were already under strain due to the presence of thousands of nationalist Kuomintang troops who had retreated to northern Myanmar from 1949.⁵ The Kuomintang presence was part of the reason for Myanmar's quick recognition of the People's Republic, amid fears that China might use it as a pretext for annexing parts of northern Myanmar to which Beijing had historically laid claim.⁶ The neighbours only agreed to a border demarcation in 1960, with China renouncing its claims to northern Kachin State.⁷

Relations deteriorated under the military regime of General Ne Win, who took power in 1962. Ne Win nationalised all private business (other than farming) and the xenophobia he promoted targeted Myanmar's South Asian and Chinese immigrants, causing hundreds of thousands to flee the country, including around 100,000 Sino-Burmese. He also banned all cross-border trade, including with China – although conflict on the frontiers and poor transport infrastructure meant that only smuggling had been taking place. Bilateral ties hit a low point when deadly anti-Chinese riots erupted in Yangon in 1967, sparked by fervent displays of Sino-Burmese support for Chairman Mao's Cultural Revolution. The countries withdrew their respective ambassadors and Beijing, which blamed Ne Win for complicity in the riots, soon began publicly supporting the Communist Party of Burma (CPB) insurgency, kicking it into high gear. By 1973, the CPB had taken most areas of Shan State bordering China. For the next fifteen years, it remained the biggest insurgent threat to Myanmar, weighing heavily on bilateral relations.⁸

³ “周恩来总理曾九次访问缅甸” [“Premier Zhou Enlai visited Myanmar 9 times”], Xinhua, 12 December 2001.

⁴ Bertil Lintner, “China and Burma: Not only pauk-phaw”, *The Irrawaddy*, 5 June 2017.

⁵ The Kuomintang were the Chinese nationalist army under the command of General Chiang Kai-shek, who after defeat by the Communists retreated with his main forces to Taiwan, while his troops in Yunnan province retreated into Myanmar.

⁶ David I. Steinberg, “China's Myanmar, Myanmar's China: Myths, Illusions, Interactions”, manuscript, May 2019 (publication forthcoming).

⁷ Lintner, “China and Burma: Not only pauk-phaw”, *op. cit.*

⁸ Steinberg, “China's Myanmar, Myanmar's China”, *op. cit.*; Martin Smith, *Burma: Insurgency and the Politics of Ethnicity*, 2nd edition (London, 1999), p. 224.

B. 1988-2010: A Military Regime Overdependent on China

The situation changed dramatically in 1988, after massive anti-government protests erupted across Myanmar. The uprising was brutally put down by the Myanmar military, or Tatmadaw, which grabbed power from Ne Win's failing socialist regime in September that year. In the following years, Myanmar was isolated from and sanctioned by the West. China seized the opportunity, becoming a lifeline for its neighbour. The military regime signed a border trade agreement with Beijing in 1988, opening up the possibility for legal overland trade for the first time; three border trade checkpoints were established in October that year. As relations grew closer, China eventually withdrew its support for the CPB insurgency, which collapsed in 1989; the stage was set for bilateral trade to flourish.⁹

From 1988 to 2011, Myanmar's external political and economic relations were heavily skewed toward China. Beijing was the key source of diplomatic protection, for example through its Security Council veto, which it used to quash a resolution on Myanmar in 2007 – the first time China had vetoed a non-Taiwan-related Council resolution since 1973. It also provided key military and economic support.¹⁰

Myanmar's military regime considered these close bilateral relations a necessity, but they were also a cause of angst. Acutely aware of its geostrategic location, Myanmar has historically adopted a foreign policy stance that reflects its position between giant neighbours China and India – embracing multilateralism and non-alignment to safeguard its sovereignty. It was always nervous about falling too deep into China's sphere of influence.¹¹

Beijing's support for the hugely unpopular post-1988 military regime amplified the generally negative, and at times antagonistic, public sentiment toward China. In recent decades, significant Chinese immigration into northern Myanmar exacerbated the phenomenon. Many people felt that China was stripping Myanmar of its natural resources without any benefit to its people or economy. By the late 2000s, there was a deep well of anti-Chinese feeling in Myanmar.¹²

C. 2011-2015: A Populist Rebalancing

On 30 March 2011, a semi-civilian government under President Thein Sein took over from the State Peace and Development Council military regime, following deeply flawed elections.¹³ China moved quickly to reaffirm its position as Myanmar's preeminent foreign partner. Only two days after the new government took office, it sent a 100-strong delegation to Naypyitaw – led by the fourth-ranking figure in the Communist Party – becoming the first country to meet the new government. A high-level

⁹ Smith, *Burma: Insurgency and the Politics of Ethnicity*, op. cit., chapter 18.

¹⁰ The draft resolution, co-sponsored by the U.S. and UK, condemned Myanmar's human rights situation and called on the regime to begin a substantive political dialogue with democratic forces and ethnic armed groups. Crisis Group Asia Report N°177, *China's Myanmar Dilemma*, 14 September 2009, Section II.B.

¹¹ Andrew Selth, *Burma's Armed Forces: Power Without Glory* (Norwalk, Conn., 2001).

¹² Crisis Group Report, *China's Myanmar Dilemma*, op. cit., Section IV.C. See also Thant Myint-U, *The Hidden History of Burma* (New York, 2020).

¹³ Crisis Group Asia Briefing N°118, *Myanmar's Post-Election Landscape*, 7 March 2011.

military delegation visited the following month, led by the vice chairman of the Central Military Commission. President Thein Sein then chose China as the place for his first state visit, also in May.¹⁴

Myanmar politics had changed in ways that China failed to appreciate, however. Part of the reason for the junta's decision to shift to a new political order was that it had come to see military rule as unsustainable, not just domestically but also geopolitically. The Thein Sein government wanted to demonstrate to the people of Myanmar that it was different from past regimes, and to rebalance its international relations. Recalibrating implied re-engaging with the West, particularly the U.S. – the only country able to provide an effective strategic counterweight to China.¹⁵

The government relaxed media censorship and allowed much greater freedom of expression than had been possible in the past. National debates suddenly became possible. The first issue around which a national movement quickly galvanised was a deeply unpopular Chinese venture, the Myitsone hydropower project on the headwaters of the Irrawaddy river in Kachin State. In 2007, the military government had agreed to the huge cascade of dams – equivalent in scale to China's Three Gorges project – with no public consultation although the project would have flooded a site of historical and cultural importance to the Kachin people. Concerns were not just local. The Irrawaddy river has symbolic power in Myanmar as the lifeblood of the nation, and many saw its damming as damaging this natural heritage. In some quarters, the project also touched a nationalistic nerve, reinforcing popular fears of rapacious Chinese encroachment, as virtually all of the electricity generated was to be exported to China.¹⁶

The government allowed an unusually free debate on the issue to take place in the media, which was permitted to carry strident criticism of the project. Nevertheless, President Thein Sein's announcement in parliament, on 30 September 2011, that he was suspending the project indefinitely came as a surprise, especially as construction was by then well under way. The president cited "public concern" as the reason for the suspension, saying the government "has to respect the people's will".¹⁷ No one was more surprised than China, which was given no advance notice of the announcement although the dam was its largest project in the country.¹⁸ Compounding the perceived insult, the decision coincided with Chinese National Day, at the start of the "golden week" of national holidays. Furious, Beijing was also alarmed that its officials – both in neighbouring Yunnan province, where the project was being run from, and in its Yangon embassy – had completely misread the mood in Myanmar

¹⁴ Crisis Group Asia Briefing N°127, *Myanmar: Major Reform Underway*, 22 September 2011, Section II.C.

¹⁵ Crisis Group Asia Briefing N°143, *Myanmar's Military: Back to the Barracks?*, 22 April 2014, section III.A.

¹⁶ Crisis Group Asia Report N°214, *Myanmar: A New Peace Initiative*, 30 November 2011, Section III.C.

¹⁷ The letter was published the following day in the state media. "The government is elected by the people, and it has to respect the people's will", *Global New Light of Myanmar*, 1 October 2011.

¹⁸ Crisis Group interview, Chinese academic, Kunming, October 2011.

and Naypyitaw's potential reaction.¹⁹ The shock led to a great deal of reflection in Chinese foreign policy and overseas investment circles.²⁰

For President Thein Sein, the decision on the dam achieved two important objectives: it demonstrated to a sceptical domestic audience that the new government was different from its authoritarian predecessors; and it signalled to the West that Myanmar was ready to break with China. The latter message caught the attention of the U.S., which responded quickly, dispatching Secretary of State Hillary Clinton to Yangon in November 2011 for talks with both the government and the opposition.²¹ A surge in Western and multilateral aid and investment followed.

For its part, China worried that it was losing a close and strategically important ally and being treated with unacceptable disrespect by a small country in its traditional sphere of influence. The way in which the Myitsone dam suspension was decided and communicated greatly amplified this concern, heralding a period of more prickly and distant relations. The fact that some of Thein Sein's top advisers were particularly suspicious of China and focused on nurturing ties with the West without too much effort to mollify Beijing made matters worse.²² As a result, China's influence in Myanmar declined significantly during the Thein Sein administration.

¹⁹ Ibid.

²⁰ For a detailed discussion, see "China's Engagement in Myanmar: From Malacca Dilemma to Transition Dilemma", Transnational Institute, July 2016.

²¹ For a first-person account, see Hillary Clinton, *Hard Choices: A Memoir* (New York, 2014), Chapter 6.

²² Crisis Group interviews, ministers and advisers to President Thein Sein, 2011-2015. See also Thant Myint-U, *Hidden History of Burma*, op. cit.

III. Post-2016 Relations: Back to Relying on China

A. *Building Relations with Aung San Suu Kyi*

China could have logically worried even more about its loss of influence at the prospect of an Aung San Suu Kyi coming to power. Her close personal ties and enormous popularity in Western countries, as well as the fact that she was raised in India, a regional rival to China, were in all likelihood not going to play in Beijing's favour. But in the wake of the Myitsone dam suspension, China had broadened its set of engagements in Myanmar, including with the democratic opposition, and had particularly invested in cultivating relations with Aung San Suu Kyi.²³ These interactions reassured it that the opposition leader would, should she be elected, be a constructive partner who would be sensitive to China's concerns. As early as 2012, China was signalling that there was a strong foundation for close relations with Suu Kyi, citing her mother's warm relations with Zhou Enlai.²⁴

Aung San Suu Kyi herself had the political space to cultivate improved relations with China. Unlike Thein Sein, a retired general, she enjoyed enormous popular support, and there was little risk that the public would see the daughter of the independence hero as selling out the country to China. Since her release from house arrest in 2010, she had consistently highlighted the importance of maintaining good Sino-Myanmar relations. She backed up this message by taking a domestically unpopular stance on a controversial Chinese mining project when she was still an opposition member of parliament.

The billion-dollar copper mine at Letpadaung in Sagaing Region is jointly operated by China's Wanbao company and the Tatmadaw's Union of Myanmar Economic Holdings Limited. Already controversial due to allegations of land confiscation and environmental degradation, it became a major national issue when, in November 2012, the Myanmar police used white phosphorus grenades against demonstrators. The assault caused serious burns to more than 100 people, most of whom were Buddhist monks.²⁵ Aung San Suu Kyi agreed to chair the ensuing commission of inquiry and faced angry demonstrations in March 2013 when she went to Letpadaung to explain the report's conclusions. Locals considered these weak on accountability (the report recommended improved training and equipment for the police) and on the project itself (it recommended continuing, and expanding, the project on the grounds that the need to maintain good relations with China and abide by investment agreements outweighed the negative environmental and social effects).²⁶

The copper mine episode set the stage for a warming of relations once Aung San Suu Kyi came to power in 2016. China also stepped up its engagement. A few months before Myanmar's elections, in June 2015, it took the unusual step of inviting Suu

²³ "Aung San Suu Kyi's Beijing visit aims to strengthen Burma's ties with China", Associated Press, 10 June 2015.

²⁴ Crisis Group interviews, Chinese government officials and think-tank scholars, Beijing, April 2012.

²⁵ "Complete Final Report of Investigation Commission into Letpadaung Taung Copper Mining Project, Salingyi Township, Monywa District, Sagaing Region", March 2013.

²⁶ "Burma recommends controversial mine continue", Voice of America, 12 March 2013; "Aung San Suu Kyi faces protesters at copper mine", *The Guardian*, 13 March 2013; "Fury over Letpadaung copper mine report", *Myanmar Times*, 18 March 2013.

Kyi on an official visit. Beijing billed her trip as a party-to-party invitation but granted her high-profile meetings with both President Xi Jinping – at the Great Hall of the People, normally reserved for visiting heads of state – as well as Premier Li Keqiang. Such top-level meetings for a foreign opposition leader were unprecedented.²⁷

The fact that Beijing was willing to bend protocol in this way was likely in part a reflection of its calculation that Suu Kyi was poised to wield significant power after the November 2015 elections. But it was also a sign of how unhappy Beijing was with the Thein Sein administration, for its tilt to the West and the way it had suspended the Myitsone dam. In 2015, fighting between the Tatmadaw and the Kokang armed group in Shan State had also sent 30,000 people fleeing across the border to China, and in March that year an errant strike by a Myanmar air force plane killed five people in China, enraging Beijing.²⁸ Suu Kyi's visit had been under discussion for at least a year, but was held up due to her insistence on a meeting with President Xi. As relations with Naypyitaw became more strained, the elections neared and its political calculations shifted, China made its move.²⁹

B. *Armed Conflict and Chinese Leverage*

By the time Aung San Suu Kyi took over as de facto leader on 30 March 2016, the elements were in place for improved bilateral ties with China. Less than a week later, Chinese Foreign Minister Wang Yi was the first foreign dignitary to be received by Suu Kyi in Naypyitaw – something China had strongly pushed for behind the scenes.³⁰

Beijing had a set of specific concerns on which it wanted progress, including resumption of the Myitsone dam project (or at least, compensation or a quid pro quo for its cancellation) and advances on its proposed deep-sea port and special economic zone on the Indian Ocean coast at Kyaukpyu, in Rakhine State. It was also unhappy with the close involvement of the U.S., the EU and Japan in the peace process, particularly the prospect that these countries might gain a strategic role along its border with Myanmar, where many armed groups operate.³¹ But beyond these matters, its priority was to ensure a decisive shift in Myanmar's foreign policy that would restore to it the respect and deference that it felt was its due.³²

²⁷ Crisis Group interviews, diplomats, Yangon, June 2015. See also "Myanmar opposition leader Aung San Suu Kyi wraps up visit to China", Agence France Presse, 14 June 2015.

²⁸ For details of the conflict, see "Military Confrontation or Political Dialogue: Consequences of the Kokang Crisis for Peace and Democracy in Myanmar", Transnational Institute, July 2015.

²⁹ Crisis Group interview, senior NLD official, Yangon, June 2015. See also Yun Sun, "Myths of Suu Kyi's mysterious trip to China", The Irrawaddy, 18 November 2014.

³⁰ Crisis Group interviews, Western and Asian diplomats, Yangon, April-May 2016. For more details, see Crisis Group Report, *Myanmar's New Government: Finding Its Feet?*, op. cit.

³¹ The Myanmar peace process was initiated in 2011 between the government and more than a dozen ethnic armed groups, aiming to bring an end to the seven-decade civil war. It was funded and supported mainly by Western donors. See Crisis Group Asia Report N°214, *Myanmar: A New Peace Initiative*, 30 November 2011. "Myanmar official accuses China of meddling in rebel peace talks", Reuters, 8 October 2015. The official subsequently retracted these claims under Chinese pressure. Crisis Group interview, Myanmar government official, Yangon, October 2015. For the retraction, see "Myanmar's negotiator expresses belief in China's willingness to help in peace process", Xinhua, 11 October 2015.

³² See Crisis Group Report, *Myanmar's New Government: Finding Its Feet?*, op. cit., Section IV.C.

In pursuing this objective, China did not rely solely on the positive signals coming from Aung San Suu Kyi and its parallel engagement with the Tatmadaw. It also deployed its considerable leverage over armed groups in northern Myanmar to show Naypyitaw that it had a virtual veto over the peace process, Suu Kyi's top manifesto priority. For example, Chinese pressure on the northern armed groups was decisive in convincing them to attend a key peace conference in August-September 2016.³³ While this move demonstrated China's potential usefulness in securing peace, it also reinforced suspicions in Myanmar that Beijing had encouraged or at least permitted an escalation by armed groups in northern areas following the Myitsone dam suspension and the ensuing deterioration in bilateral relations.³⁴

The suspicion that China fans the flames of conflict in Myanmar's north to increase its leverage on Naypyitaw has surfaced regularly since. In particular, the northern groups appear to have a plentiful supply of Chinese-made weapons and in some cases private financial support of which Chinese authorities must be aware. Specific allegations include:

- The Myanmar National Democratic Alliance Army, an ethnically Chinese Kokang armed group in active conflict with the Tatmadaw, openly used its verified account on Chinese social media network Weibo to crowdfund more than \$500,000 in donations from private Chinese citizens in the period 2015-2017. Payments were made via WeChat Pay and Alipay to accounts it held at Chinese banks, including at one of China's biggest state-owned lenders, AgBank. The group disclosed the donations on its public blog.³⁵
- The United Wa State Army (UWSA), Myanmar's largest ethnic armed group, received massive private financial support from a Chinese businessman – as much as \$1.5 billion, according to Chinese media reports – through a Ponzi scheme that defrauded nearly a million Chinese investors of some \$7.6 billion from 2014 to 2016. Chinese authorities cannot have been unaware of such large transfers to an armed group it had close relations with.³⁶
- The UWSA's well-known ties with China were on display in April 2019, when the group held 30th-anniversary celebrations at its headquarters, Pangsang, in the presence of Myanmar and Chinese dignitaries.³⁷ A large array of modern Chinese weaponry was showcased, including armoured personnel carriers, Type 63 surface-to-surface rockets, armed drones, towed anti-aircraft guns and FN-6 shoulder-launched anti-aircraft missiles. The group also has its own factories produc-

³³ Ibid.

³⁴ Crisis Group interviews, Myanmar government officials and other peace process actors, Yangon and Naypyitaw, September-October 2016.

³⁵ "China's AgBank suspends account being used to crowdfund Myanmar rebels", Reuters, 22 March 2017; Crisis Group interview, Myanmar government peace negotiator, Yangon, March 2017. The AgBank account was suspended after publication of the Reuters report.

³⁶ "Fraud probe alleges Chinese firm sent money to Myanmar insurgents", *Frontier Myanmar*, 3 February 2016; see also "Online lender Ezubao took \$7.6 billion in Ponzi scheme, China says", *The New York Times*, 1 February 2016.

³⁷ Myanmar was represented by Peace Commission member Thein Zaw and Immigration Minister Thein Swe; China, by its special envoy for Myanmar Sun Guoxiang (who, for diplomatic reasons, is designated as covering "Asian affairs"). There was no senior Tatmadaw representation.

ing Chinese-designed assault rifles and munitions. It is widely suspected of supplying both Chinese-made and home-produced weapons to its armed group allies including the Ta'ang National Liberation Army and the Arakan Army (see below).³⁸

As its casualties mount in clashes with the Ta'ang National Liberation Army (TNLA) and Arakan Army (AA), the Tatmadaw is increasingly frustrated that sophisticated Chinese-made weapons are finding their way to these groups, with Commander-in-Chief Min Aung Hlaing even raising the matter directly with President Xi.³⁹ The AA not only appears well supplied with small arms and ammunition, but it has also been using Type 63 rockets, including in a 2019 attack on a Myanmar navy vessel in Sittwe, Rakhine State; the two groups also used these rockets – which have a range of up to 8km – in an attack on Myanmar's top defence academy in Pyin Oo Lwin, near Mandalay, in August 2019.⁴⁰ On 22 November, the Tatmadaw seized a large cache of weapons from the TNLA in northern Shan State, including one Chinese-made FN-6 shoulder-launched anti-aircraft missile. Given the Tatmadaw's regular use of air-power in clashes in Rakhine and northern Shan States, such a weapon has the potential to shift the balance of power on the battlefield.⁴¹

C. *The Rohingya Crisis Boosts China's Position*

The geopolitical context of China-Myanmar relations shifted decisively after the Rohingya refugee crisis erupted in August 2017.⁴² The Tatmadaw's brutal "clearance operations" following attacks by the Arakan Rohingya Salvation Army, and the civilian government's possible complicity, are now the subject of international genocide and crimes against humanity investigations.⁴³ The crisis, which prompted over

³⁸ See Anthony Davis, "United Wa State Army military parade showcases ongoing modernization", *Jane's Defence Weekly*, 23 April 2019; "Masters of our destiny': Myanmar's Wa rebels in show of force", Agence France Presse, 18 April 2019. See also Andrew Ong, "After the fanfare, back to basics – the UWSA and ceasefire realities", *The Irrawaddy*, 13 May 2019. On the UWSA's role in supplying other armed groups, see Bertil Lintner, *The United Wa State Army and Burma's Peace Process*, United States Institute for Peace, April 2019; and "Myanmar's Wa hold the key to war and peace", *Asia Times*, 6 September 2019.

³⁹ See "President of People's Republic of China H.E. Mr Xi Jinping holds talks with Senior General Min Aung Hlaing", Senior General Min Aung Hlaing blog, 18 January 2020. Ahead of President Xi's visit, a Tatmadaw spokesperson expressed the hope that China would not support armed groups in Myanmar. "Tatmadaw hopes China will not support armed groups that oppose the government", *7Day News*, 17 January 2020. See also "Myanmar's generals make a show of displeasure at China's arming of rebels", *The Irrawaddy*, 26 November 2019.

⁴⁰ Crisis Group Briefing, *Myanmar: A Violent Push to Shake Up Ceasefire Negotiations*, op. cit.; "AA naval attack kills 2 Tatmadaw fighters", *The Irrawaddy*, 24 June; "15 Myanmar soldiers, police and civilians dead in coordinated attacks", *The Irrawaddy*, 15 August.

⁴¹ "Vast amount of arms, ammo discovered near a village in Shan State", *Global New Light of Myanmar*, 24 November 2019; Anthony Davis, "China's mobile missiles on the loose in Myanmar", *Asia Times*, 28 November 2019.

⁴² For detailed analysis of the crisis, see "My World is Finished': Rohingya Targeted in Crimes against Humanity in Myanmar", Amnesty International, 18 October 2017; and Crisis Group Report, *Myanmar's Rohingya Crisis Enters a Dangerous New Phase*, op. cit.

⁴³ The International Court of Justice ordered provisional measures in January 2020 and will now move to full examination of a case brought against Myanmar by The Gambia under the Genocide Convention; the International Criminal Court authorised its prosecutor to begin a formal investiga-

700,000 refugees to cross the border into Bangladesh, has resulted in Myanmar's estrangement from the West and much of the Global South.⁴⁴

In the wake of the Rohingya crisis, China moved into the role of Myanmar's chief diplomatic protector, with its Security Council veto ensuring that the strongest action the Council has taken is a presidential statement; the Council also made a visit to Bangladesh and Myanmar in May 2018.⁴⁵ The UK, which is the penholder on Myanmar in the Council, circulated a draft resolution in 2018 but did not put it to a vote due to Beijing's resistance and inevitable veto.⁴⁶ China is also once again the key source of foreign direct investment for Myanmar, as flows from the West have dried up following the crisis.⁴⁷

Thus, Aung San Suu Kyi's government finds itself back in the state of dependency on China that its predecessor tried so hard to get out of. Beijing logically sees this situation as an opportunity to push forward key projects that the previous government had stalled. It has repackaged many of them as part of a much more ambitious China-Myanmar Economic Corridor that would bind Myanmar and its economy more tightly to its giant neighbour (see Section IV.A below).

China has made the quid pro quo explicit, and Myanmar officials understand that continued support from Beijing comes with the expectation that their country accept closer economic and commercial ties.⁴⁸ For example, Suu Kyi's attendance at the first Belt and Road Forum in 2017, and her positive meeting with President Xi in May that year, led to immediate movement in the peace process: a few days later, Special Envoy Sun Guoxiang called the leaders of the northern armed groups to China, compelling them to fly to Naypyitaw on a charter plane to attend a peace conference.⁴⁹ Similarly, on 7 December 2019, the day before Suu Kyi travelled to The Hague to defend Myanmar on genocide charges at the International Court of Justice, Chinese Foreign Minister Wang Yi visited Naypyitaw.⁵⁰ Most of the substantive discussions focused on the China-Myanmar Economic Corridor, but the visit also included expressions of

tion of the Rohingya situation in November 2019; and, also in November 2019, a case against named military and civilian leaders in Myanmar for genocide and crimes against humanity was filed in Argentina's Federal Court under universal jurisdiction.

⁴⁴ The estrangement was dramatically illustrated by the adoption of the UN General Assembly's annual human rights resolution on Myanmar in December 2019, when only eight countries joined Myanmar in voting against the resolution, with 134 voting in favour (vote on UN doc. A/74/399/Add.3 Draft Resolution IV).

⁴⁵ Statement by the President of the Security Council on the Situation in Myanmar, S/PRST/2017/22, 6 November 2017. Such statements reflect consensus positions of the Council but are not legally binding. See also Security Council Press Statement SC/13331, 9 May 2018.

⁴⁶ Crisis Group interviews, diplomats and Security Council members, Yangon, Naypyitaw and New York, 2017-2019.

⁴⁷ See "Foreign Investment by Country" statistics compiled by the Myanmar Directorate of Investment and Company Administration.

⁴⁸ Crisis Group interview, Myanmar expert on relations with China, Yangon, December 2019.

⁴⁹ See Crisis Group Report, *Building Critical Mass for Peace in Myanmar*, op. cit., Section III.B; see also Yun Sun, "Why China is sceptical about the peace process", *Frontier Myanmar*, 3 October 2019.

⁵⁰ See Crisis Group Commentary, "Myanmar at the International Court of Justice", op. cit.

support for Myanmar in “protecting its legitimate rights and national integrity in the international arena”.⁵¹

While China has undoubtedly gained renewed leverage over Myanmar, that leverage may not always be as effective as it imagines. Longstanding angst about China's intentions and negative public opinion toward the country give Naypyitaw both strategic and political reason to be cautious. Thus, when President Xi visited Myanmar in January – the first trip by a Chinese leader since Jiang Zemin's in 2001 – there were no major new agreements for his signature. It is telling that Beijing was unable to use the visit to extract major concessions yet was still willing to proceed. Although Myanmar is in an apparently weak position, China is not achieving its objectives quickly or easily.

China's leverage also comes with risks. Its advantageous position may tempt it to fall back on a more transactional or coercive approach to achieving its objectives, which would likely meet resistance from Naypyitaw and stoke public anger in Myanmar. When the Chinese ambassador travelled to Kachin State in December 2018 to lobby Kachin political and religious leaders to support resumption of the Myitsone dam – and even announced, misleadingly, that they approved of the project – there was a strong anti-China backlash in the Myanmar media and online. Resumption of the dam project was apparently not even discussed during President Xi's visit.⁵²

While popular opinion in Myanmar may not be as negative toward China as in the past, there remains a deep reservoir of apprehension and distrust. If China overplays its hand and is perceived to be extracting concessions, it could trigger a reaction similar to the anti-Myitsone dam protests in 2011. Perhaps China's acceptance of Myanmar's go-slow approach to its Economic Corridor projects reflects a recognition of these risks – and a recognition that with elections coming in November 2020, the Myanmar government is particularly sensitive to public concerns.⁵³ Myanmar public opinion toward China, however, is also a function of the considerable private-sector investment flowing into the country.

⁵¹ “China, Myanmar pledge to boost ties to new high”, Xinhua, 8 December 2019; “State Counsellor, Chinese Foreign Affairs Minister Mr Wang Yi hold bilateral talks”, *Global New Light of Myanmar*, 8 December 2019.

⁵² “Behind the threats and warnings of Chinese ambassador's Kachin visit”, *The Irrawaddy*, 9 January 2019; “Kachin leaders condemn Chinese embassy dam comments”, *The Irrawaddy*, 14 January 2019.

⁵³ For discussion of why leverage over Myanmar is often ineffective, see Steinberg, “China's Myanmar, Myanmar's China”, op. cit.

IV. Corridors, Conflict and Casinos

Chinese infrastructure projects and commercial activities can have a major – often negative – impact on peace in Myanmar. This outcome is not necessarily intended, but rather is the result of how projects are conceived, the way they are implemented and the associated lack of contextual awareness or meaningful community consultation and transparency. The challenge relates not only to state-to-state projects, but also to the considerable private-sector investment flowing from China. The problems do not mean Myanmar should consider China only as a threat; if managed well, access to Chinese investment and proximity to its huge market also represent enormous opportunities.

To explore the relationship between Chinese investment and conflict in more detail, this section looks at three case studies: the state-backed China-Myanmar Economic Corridor; large-scale private Chinese investment in plantation agriculture; and the Shwe Kokko “new city” development on the Myanmar-Thailand border.

A. *The China-Myanmar Economic Corridor*

The National League for Democracy's tenure has coincided with Chinese efforts to expand and strengthen its Belt and Road Initiative (BRI) worldwide. While the state-backed global economic framework that Xi Jinping launched in 2013 could be an important source of investment for Myanmar, it also has the potential to exacerbate its armed conflicts.⁵⁴

At first the scheme struggled to gain momentum in Myanmar, but the warming of bilateral relations since 2016 created opportunities for China to put forward new projects and reinvigorate initiatives that had stalled during the Thein Sein administration. Under the BRI's auspices, Beijing in November 2017 proposed the development of a multi-billion-dollar China-Myanmar Economic Corridor (CMEC) that would stretch from Yunnan province to Rakhine State in Myanmar's west and to Yangon in its south.

The list of projects proposed under this scheme has not been made public, but official statements and Crisis Group interviews indicate that it contains a mix of existing plans (Kyaukpyu deep-sea port and Special Economic Zone, Mandalay-Muse Railway) and new initiatives (New Yangon City, new economic cooperation zones on the Sino-Myanmar border). All of these plans reflect a range of Chinese strategic and economic goals. These include facilitating the access of landlocked provinces in south-western China to maritime trade; offering China an alternative to the congested and strategically vulnerable Straits of Malacca; and giving it a presence on the Indian Ocean with the ultimate aim of becoming a two-ocean power.⁵⁵

Myanmar's growing economic and geopolitical dependence on China compels Naypyitaw to participate in the CMEC, but most civilian and military leaders remain uneasy at the prospect of binding their country more closely to the behemoth next

⁵⁴ BRI was originally referred to as One Belt, One Road but was rebranded in English in 2015.

⁵⁵ Crisis Group interviews, Yangon, July-December 2019. See also “Selling the Silk Road Spirit: China's Belt and Road Initiative in Myanmar”, Transnational Institute, November 2019; and “In Myanmar, China's BRI projects are old wine in a new bottle”, The Irrawaddy, 9 November 2018.

door. Aung San Suu Kyi's government has thus adopted a cautious approach. Since signing a memorandum of understanding in September 2018, progress has been much slower than China anticipated. The Myanmar government insisted on scaling back the size of the Kyaukpyu port and has delayed a resolution to the suspended Myitsone dam.⁵⁶ Ahead of the second Belt and Road Forum in April 2019, Myanmar also largely resisted Chinese pressure to sign off on a large number of "early harvest" projects.⁵⁷

President Xi's January 2020 visit allowed for limited progress with the signature of a number of agreements, but none represented the major acceleration of the CMEC for which China was hoping.⁵⁸ Uneasiness and lack of capacity within the Myanmar government, as well as political sensitivities around Chinese investment, mean that this trend is likely to continue through at least November 2020, when Myanmar is scheduled to hold a general election. Despite its frustration, Beijing has – at least for now – accepted Myanmar's go-slow approach. In the meantime, it has sought to make progress where it can, particularly by renegotiating terms of the Kyaukpyu deep-sea port project, working toward framework agreements for three economic cooperation zones on the shared border, and conducting studies and assessments for the Mandalay-Muse railway.

The CMEC will almost certainly materialise in some form, and when it does it will have significant implications for Myanmar's long-running armed conflicts. The Mandalay-Lashio-Muse section of the corridor bisects northern Shan State, an area that has seen almost continuous conflict for 70 years and is home to a greater number of armed groups than any other region in the country. Other CMEC projects are located close to conflict zones in Kachin and Rakhine States. In recent years, the intensity of fighting in these three regions has increased to levels not seen for several decades. China is involved in these ethnic conflicts, playing an important role not only as a peace mediator but also a source of weapons – though not necessarily directly – for armed groups fighting the government (see Section III.B above).

The deadlock in Myanmar's peace process since 2015 has encouraged China to promote the CMEC – and, in particular, the infrastructure and economic development that it might bring – as a solution to these conflicts. Beijing's logic is that economic integration and stability are a more likely path to peace than either a political settlement or military victory; China has influence over several of the armed groups but could not compel them to surrender.⁵⁹ This packaging of the CMEC may reflect political expediency, in that the "peace through development" concept aligns with some Myanmar leaders' thinking and may thus increase the CMEC's attractiveness.

⁵⁶ The port was originally envisaged as a \$7.5 billion project, with Myanmar taking loans from China to cover its 30 per cent stake. Amid fears that it would be a debt trap, the two countries agreed in November 2018 to instead undertake a \$1.3 billion first phase that would see Myanmar take no loans.

⁵⁷ "Belt and Road forum marks subtle shift in China-Myanmar ties", *Frontier Myanmar*, 8 May 2019. Early harvest projects are priority projects aimed at creating quick results to build confidence for longer-term cooperation under BRI.

⁵⁸ Crisis Group interview, China analyst, Yangon, January 2020.

⁵⁹ See, for example, Yun Sun, "Peace through development: China's experiment in Myanmar", *Frontier Myanmar*, 15 October 2019, and Yun Sun, "China, the Arakan Army and a Myanmar solution", *Frontier Myanmar*, 23 March 2020.

But it could also be naïveté, as there is a tendency for China to view other countries from the perspective of its own state capacity even when the context is vastly different.⁶⁰

Such a development model is unlikely to be the solution to Myanmar's conflicts, particularly in Shan State. First, it overestimates the ability of the Myanmar state to exert control – not just in peripheral areas of the country, but even along key economic corridors. It also ignores the historical background and current political economy: in the 1990s, then-Military Intelligence chief Khin Nyunt negotiated ceasefires with several armed groups and encouraged them to set up formal businesses.⁶¹ In the absence of a peace settlement addressing ethnic grievances, this arrangement resulted in a “ceasefire capitalism” that only strengthened conflict dynamics by laying the foundations for a political economy in which armed actors were given a major role.⁶² The repercussions of this approach last to this day.

Without addressing this political economy or ethnic grievances, infrastructure development and increased connectivity appear more likely to aggravate conflict than resolve it, particularly in the short to medium term.⁶³ Armed groups already appear to be positioning themselves to benefit financially from the implementation of key CMEC projects: conflict monitoring in 2018 revealed that many of the reported clashes with the armed forces occurred within or near the planned route going through northern Shan State.⁶⁴ Beijing has not explained how it or Chinese businesses plan to navigate the complex conflict environment when carrying out projects, but there are concerns they will simply “buy off” armed groups as and when the need arises.⁶⁵ That would risk further empowering non-state actors and complicating the peace process by entrenching the status quo.

The expectation that the CMEC will increase overland trade between the two countries also carries risks. Shan State is already at the centre of Myanmar's cross-border trade, both licit and illicit.⁶⁶ Almost half of the country's formal overland trade passes through the city of Muse, while Chinshwehaw (in northern Shan State's Kokang region) and Tachileik (in eastern Shan State) are also important border gates. At the same time, human trafficking and illicit trade in everything from cattle, timber and jade to drugs or wildlife have long been important sources of income for ethnic armed groups in the region. While improving infrastructure and connectivity will almost certainly increase trade volumes, it will also make this illicit trade easier and, in the process, boost revenues to ethnic armed groups, enabling them to sustain conflict.

⁶⁰ Crisis Group interview, Myanmar-based China analyst, Yangon, December 2019.

⁶¹ For example, the UWSA, which was deeply involved in the illegal narcotics trade, acquired a domestic airline and a bank as well as jade mines and other businesses. See Crisis Group Report, *Fire and Ice*, op. cit.

⁶² The term refers to a political economy dominated by armed groups that, because of ceasefires, retained their arms, thereby ensuring a competitive advantage in their business activities. Kevin Woods, “Ceasefire Capitalism: Military-Private Partnerships, Resource Concessions and Military-State Building in the Burma-China Borderlands”, *Journal of Peasant Studies*, vol. 38 (2011), pp. 747-770.

⁶³ See also “Finding Peace along the China Myanmar Economic Corridor”, Institute for Strategy and Policy-Myanmar, December 2019.

⁶⁴ “Annual Peace and Security Review 2018”, Myanmar Institute for Peace and Security, April 2019.

⁶⁵ Crisis Group interview, Myanmar-based China analyst, Yangon, December 2019.

⁶⁶ For details, see Crisis Group Report, *Fire and Ice*, op. cit.

The development of a multi-billion-dollar crystal methamphetamine (“ice”) industry in northern Shan State over the past five years illustrates this risk. The region has long been a centre for illicit drug production, particularly heroin and *yaba* (tablet methamphetamine), but this industry was mostly confined to remote areas outside the Myanmar state’s control, where transport infrastructure was limited. In contrast, crystal methamphetamine production is centred on an area around Kutkai that is on the CMEC corridor and largely under the control of militias allied to the Myanmar military. Improved infrastructure and rising trade volumes through nearby formal border gates appear to have drawn traffickers to the region, because it is easier to both move large consignments of precursor chemicals and conceal the crystal methamphetamine product among legally traded goods.⁶⁷

Infrastructure investment and trade expansion on the Mandalay-Muse corridor are also likely to result in further militarisation of northern Shan State due to the risk of projects in the area becoming targets for non-state groups. Although Myanmar’s ethnic armies have traditionally portrayed themselves as roving jungle fighters, in reality they have mostly preferred to hold territory through fixed headquarters and hilltop bases. But a new generation of armed groups active in northern Shan State – particularly the Arakan Army, the Ta’ang National Liberation Army and the Myanmar National Democratic Alliance Army – has employed different tactics, including asymmetrical warfare focused on economic targets. Since 2016, these groups have perpetrated two major attacks against roads, bridges and checkpoints on the Mandalay-Muse corridor. The proposed highway expansion and addition of economic zones will only make it more attractive.⁶⁸

In the wake of these attacks, the Myanmar military has focused on securing control of towns and roads, but the groups remain active in the region’s rural areas. Since neither the Chinese state nor Chinese security firms are likely to gain permission from Naypyitaw to provide armed security directly for projects in the region, the CMEC may thus compel the Tatmadaw to expand its presence further.⁶⁹ It may do this directly, but a more likely proposition is that investors will rely on militia groups allied to the Tatmadaw. These groups could thus develop both new sources of revenue and greater operational capacity.⁷⁰

Addressing ethnic grievances as well as the role of armed groups and the Tatmadaw in the economy will likely be a decades-long challenge for Myanmar. In the meantime, the CMEC will move forward. So far, Myanmar policymakers have largely focused on the economic challenges that the corridor poses, particularly the risk of contracting too much debt, and have responded by seeking to develop a sustainable framework for tendering and financing such projects. Avoiding debt is important,

⁶⁷ Crisis Group Report, *Fire and Ice*, op. cit.

⁶⁸ In November 2016, four armed groups calling themselves the Northern Alliance attacked Muse and another border town, closing down the Mandalay-Muse highway for several days. In August 2019, three of the same groups launched coordinated attacks on key targets along the highway, destroying a bridge and halting traffic for weeks. See Crisis Group Briefing, *Myanmar: A Violent Push to Shake Up Ceasefire Negotiations*, op. cit.

⁶⁹ Although Myanmar has been working for several years on a draft law to regulate private security firms, there is currently no regulation and armed private security would most likely remain illegal under the new law. Crisis Group interview, individual briefed on the issue, Yangon, March 2020.

⁷⁰ Crisis Group interview, Myanmar-based China analyst, Yangon, December 2019.

but the conflict risks must not be ignored. China's assurances that the CMEC will inevitably bring peace along its path, particularly in northern Shan State, should be treated with deep scepticism. While Chinese investment offers unique opportunities for Myanmar to improve infrastructure and enhance economic growth in the coming decades, Naypyitaw needs to consider carefully how the increased investment and trade will affect conflict dynamics, so that it can take practical steps to promote peace.

One obvious area to begin is ensuring transparency: to date, most state-to-state negotiations related to the CMEC and its associated projects have taken place behind closed doors, with no genuine public consultation. In the case of the Mandalay-Muse Railway, formal consultations occurred but were allegedly focused more on selling the project to locals than getting feedback or addressing residents' concerns.⁷¹ This approach makes it easier for elites, including those linked to armed groups, to capture economic opportunities. It also risks alienating affected communities, reinforcing the grievances that have driven conflict for so long. Another priority should be to ensure that safeguards to mitigate illicit trade are built into these projects from the outset, rather than once they are operating.

B. *Plantation Agriculture*

Small and medium-sized Chinese businesses are also growing in Myanmar, in sectors ranging from mining and manufacturing to agriculture and tourism. Although the scale of the individual investments tends to be much smaller, these constitute an important engine for Myanmar's economy and often deliver significant benefits to locals. Yangon's garment sector, which has created large-scale employment opportunities for young women, is a prime example of such positive impact.⁷²

But Chinese enterprises and the projects they pursue can also have negative implications for peace in Myanmar. In conflict-affected (but not necessarily unstable) areas where the state is weak, investors often partner with local militias out of expediency or necessity. Often, these partnerships operate outside the legal framework, and some are known to engage in illegal activities. For some investors, it is the absence of regulations, or the state's limited ability to enforce them, that makes Myanmar an attractive place to do business.

These ventures can be a driver of further conflict because they reinforce the role of armed actors in Myanmar's political economy. The income that they generate for armed groups strengthens their political and military authority. The projects they pursue can also create conflict in a variety of ways, such as contestation over resources with communities, the state or other armed groups.

⁷¹ Crisis Group interview, Myanmar-based China analyst, Yangon, December 2019. See also "Myanmar watchdog criticizes 'so-called' public consultation process for China's BRI project", *The Irrawaddy*, 2 December 2019.

⁷² The development of Myanmar's garment industry is considered one of the country's economic success stories since 2011. Exports have increased from \$337 million in 2010-2011 to more than \$4 billion in 2018-2019, and the sector is estimated to employ more than 500,000 people, most of them young women. Interviews and media reports indicate that more than 50 per cent – and as much as 80 per cent – of all foreign investment in the sector comes from China, as Chinese firms seek to take advantage of Myanmar's tariff-free access to the EU.

1. A mostly informal trade

Plantation agriculture illustrates both the potential and the pitfalls of small-scale Chinese investment. Over the past two decades, Myanmar has become an important source of agricultural products for Chinese markets, making this sector a major focus for small and medium-sized Chinese investors. Attracted by the availability of land, the lack of regulations and cheap labour, these businesses have heavily invested in vast plantations of cash crops, such as sugarcane, corn, watermelons and bananas.

These investments – and the associated trade in agricultural products – undoubtedly benefit the Myanmar economy and rural communities, through tax revenue, land rental fees and wages. But they are also largely unregulated and can be drivers of conflict. In the worst cases, investments fill the coffers of armed groups, either directly or indirectly, and reinforce the grievances that underpin conflict in northern Myanmar, particularly around land use.

Most Chinese investment in agriculture is informal and unrecorded due to the conflict setting, corruption and legal restrictions, particularly regarding foreign ownership and use of land. Often, this investment is in the form of contract farming or short-term land rental agreements. In other cases, however, Chinese investors have used Myanmar proxies, either individuals or companies, to secure long-term land leases, including in conflict areas. There is no reliable data on the size of the plantation sector, but informal Chinese investment in Myanmar's agriculture industry likely runs into hundreds of millions of dollars a year. Almost none of this money shows up in Myanmar's official investment statistics.⁷³ The scale of the industry is partially reflected in trade data, however. Myanmar's official exports to China of the four products mentioned above stood at more than \$1.2 billion in 2017-2018.⁷⁴

The informal nature of most Chinese investment has provided the agriculture sector with speed and agility, enabling it to respond quickly to market forces. It has also made the sector difficult to regulate, however – in terms of not just investment flows, but also labour rights, environmental rules, and the levying of taxes and duties. Much of the trade falls into a legal grey zone due to Chinese import restrictions and phytosanitary requirements, and exports are regularly disrupted by periodic crackdowns as well as conflict in northern Shan State.⁷⁵ Plantations are also often located in conflict-affected areas of Kachin and Shan states, close to the shared border. In these areas in particular, plantation agriculture has animated anti-Chinese sentiment among affected communities, even though members of these same com-

⁷³ Myanmar Directorate of Investment and Company Administration figures do not provide a breakdown of investment by both sector and country. While China is the second-largest source of contracted foreign investment after Singapore, total contracted foreign investment in agriculture since 1988 stood at just \$414.12 million as of 31 October 2019, accounting for 0.5 per cent of total foreign investment in that period.

⁷⁴ These numbers should be treated with some caution, as they include products from smallholders and Myanmar-owned plantations, as well as re-exports of sugar. Exports of watermelons and bananas are also significantly underreported in official data. China's recorded imports from Myanmar of rice, sugar, bananas and watermelons were barely \$60 million in 2017-2018, according to Trade-map data.

⁷⁵ Phytosanitary controls ensure that imported plant products are free from infectious diseases or pests. On disruptions of trade, see, for example, "Myanmar army shuts down border crossing to China, stranding hundreds of trucks", Radio Free Asia, 27 December 2018.

munities are often complicit, acting as either partners, fronts or brokers for Chinese businesses.⁷⁶

2. Bananas and conflict

The cultivation of tissue-culture bananas in northern Myanmar highlights the risks posed by unregulated Chinese investment in agriculture.⁷⁷ The industry emerged around a decade ago but has expanded significantly in recent years, particularly after similar plantations were banned elsewhere in South East Asia due to environmental concerns related to the excessive use of illegal pesticides.⁷⁸ In Myanmar, tissue-culture banana plantations have been widely linked to armed conflict actors, land confiscations and environmental damage, and have prompted a backlash from local residents and civil society.⁷⁹

Banana plantations cover a significant area of south-eastern Kachin State along the border with China, particularly in Waingmaw, Myitkyina and Bhamo townships, in both government and non-government-controlled areas. Non-government sources estimate that the total area under cultivation in Kachin State could be 150,000 acres or larger.⁸⁰ Investors often take advantage of the Myanmar state's weakness, the impunity of armed actors, corruption, longstanding connections between business elites on both sides of the border, and land tenure insecurity in border areas. Banana plantations thus reinforce conflict dynamics by enriching armed actors and adding fuel to the grievances that underpin the conflicts.

Although banana cultivation is lucrative, south-eastern Kachin State residents see few benefits. The workers are mostly migrants from central Myanmar, and the profits from the crop largely go to investors, corrupt officials and a small local elite. The excessive use of illegally imported agrichemicals has also been blamed for killing fish and making water sources unsafe.⁸¹

The cultivation of banana plantations has also been widely linked to legal or extra-legal land confiscations. In some cases, civilians displaced since 2011 by conflict between the Kachin Independence Army (KIA) and the Myanmar military have seen

⁷⁶ See, for example, "Kachin's plantation curse", *Frontier Myanmar*, 17 January 2019; and "Ex-ministers, armed groups operate farms in Kachin's conflict areas", *The Irrawaddy*, 3 October 2017.

⁷⁷ Tissue culture refers to the growth of tissues or cells outside the organism, usually in a laboratory. In the case of bananas, shoots (known as suckers) from high-quality plants are cloned repeatedly in a growth medium to produce saplings that are raised in nurseries before being sold to plantations. Advocates say tissue-culture bananas are uniform, higher-yielding and more resistant to disease than those grown with traditional techniques.

⁷⁸ Laos introduced a ban on concessions to Chinese banana plantations in 2017. Although the ban is not always enforced, a similar trend has been observed in northern Thailand. See "Chinese investors shift agriculture practices in North", *The Nation* (Bangkok), 16 September 2018; and "Lao government vows to enforce ban on concessions for new banana plantations", *Radio Free Asia*, 14 May 2019.

⁷⁹ Crisis Group interview, Kachin journalist, January 2019. See also "Kachin's plantation curse", *op. cit.*; and "'All the fish died': Kachin communities alarmed at impact of banana plantations," *Frontier Myanmar*, 22 March 2019.

⁸⁰ *Ibid.* See also "Villagers say banana business threatens their way of life", *The Myanmar Times*, 7 March 2019.

⁸¹ *Ibid.* Similar allegations have been made against Chinese banana plantations in Laos. See, for example, "Chinese banana plantations bring work and pollution to Laos", *China Dialogue*, 14 September 2019.

their former land leased to investors or have been coerced into leasing it at low rates.⁸² There are fears that many more of the 100,000 displaced civilians in Kachin State could soon lose their land to agriculture plantations, particularly as a result of recent amendments to Myanmar's Vacant, Fallow and Virgin Land Management Law. Kachin political and civil society leaders have been working with the Myanmar government since 2018 to enable displaced households to return to their homes or resettle elsewhere, but progress so far has been slow.⁸³ Some have also warned that displaced civilians resettling in new locations could legitimise land grabs and facilitate confiscations for BRI projects in their areas of origin.⁸⁴

Although Kachin civil society has drawn attention to the problems with tissue-culture bananas, authorities in Naypyitaw and Kachin State have been slow to act, even against illegal plantations in government-controlled areas. The delays prompted lawmakers in Myanmar's national parliament to take up the issue in December 2019. After several days of debate, they agreed to regulate and tax the plantations.⁸⁵ It is unclear, though, how lawmakers expect the government to address land grievances and environmental concerns. Given the Myanmar state's weakness, armed actors' involvement and the lack of political will to enforce such rules, there are few reasons to be optimistic.

3. Watermelons: A rural lifeline

Further to the south, in central Myanmar, watermelon cultivation has undergone a similar growth trajectory but mostly avoided popular pushback. Industry figures show that over the past decade, exports of watermelon to China by volume have increased almost six-fold, from 117,799 tonnes in 2008-2009 to 694,844 tonnes in 2018-2019.⁸⁶ Watermelon exports are likely worth at least \$200 million a year but could net double that amount when prices are high.⁸⁷

Crisis Group research in southern Mandalay Region and other research conducted in central Myanmar indicates that much of the investment for large-scale watermelon cultivation also comes from Chinese sources, albeit with Myanmar companies or individuals acting as proxies.⁸⁸ Few Myanmar smallholders have the capital required for this activity, and Chinese investors closely guard the cultivation method, particularly the agrochemicals used. Profits can be large – it is not uncommon for investors to double their investment in a single season – but prices are also highly volatile, and

⁸² "KIA objects to use of vacant IDP lands", *The Irrawaddy*, 22 December 2017.

⁸³ See Crisis Group Briefing, *An Opening for Internally Displaced Person Returns in Northern Myanmar*, op. cit.

⁸⁴ "No Camp Closure Without Restitution", *Transnational Institute*, 11 March 2020.

⁸⁵ "Myanmar MPs vote to regulate, tax Chinese-backed banana trade", *The Irrawaddy*, 17 December 2019.

⁸⁶ Figures provided by the Myanmar Fruit, Flower and Vegetable Producer and Exporter Association.

⁸⁷ Crisis Group interviews, agriculture industry sources, September and October 2019.

⁸⁸ See, for example, Koji Kubo, "Myanmar's fresh fruit export to China via cross-border trade", JETRO Bangkok, 2018; and Miriam Esmaragda Romero Antonio, "Patterns of Access to Land by Chinese Agricultural Investors and Their Impacts on Rural Households in Mandalay Region, Myanmar", Master's thesis, University of Hohenheim, March 2015.

investors anticipate a loss once every three or four years.⁸⁹ To reduce the risk, a typical investor will have several plantations, each in a different area.⁹⁰

Local attitudes toward watermelon cultivation in southern Mandalay Region were generally favourable. While most of the profits go to Chinese investors, the sector still delivers a significant cash injection – tens of millions of dollars – to these economically depressed rural communities each year in the form of wages and land rents.⁹¹ Each growing season – roughly October to April – investors rent land for plantations from local smallholders at the equivalent of around \$250, about three times what the owner could make cultivating a traditional crop over the same period.⁹² Plantations are also labour-intensive, requiring one to two workers per acre. Workers, who are typically a mix of locals and landless migrants, told Crisis Group that the \$100 monthly salary was more than they could expect from casual jobs in their villages.⁹³

The industry, however, is built on shaky foundations. It relies on a single market, China, and a border crossing that is subject to periodic closures. When the authorities shut the border in early 2020 to impede the spread of coronavirus, many Chinese site managers abandoned their fields in Myanmar, leaving workers unpaid and watermelons cracked and rotting on the ground. Politicians and civil society organisations have also openly criticised the widespread flouting of land use, immigration and import rules in the sector, and expressed concern about the potential environmental and health effects of excessive agrichemical use.⁹⁴ The intensive nature of watermelon cultivation mitigates some of the issues related to banana cultivation, however. Investors can grow only two crops consecutively on the same land, which creates little incentive to confiscate fields or acquire them on longer leases.⁹⁵ For now, watermelons are a mostly positive example of how informal Chinese investment can support Myanmar's economic growth.

4. A more sustainable business model

Myanmar's proximity to the growing Chinese market creates transformative opportunities for the country's agriculture sector. But Myanmar's strategy needs to evolve beyond simply generating higher export volumes and values for agricultural products. These numbers are often inaccurate, and do not usually reflect the extent to which rural communities and the economy more broadly actually benefit. Myanmar could take a number of steps to ensure that more of the profits from the business remain inside the country, particularly with rural people. Two such steps would be pursuing

⁸⁹ Early indications are that 2019-2020 will be a bad year for watermelon growers, with significant losses expected. Crisis Group interview, Myanmar researcher, December 2019.

⁹⁰ Crisis Group interviews, watermelon plantation site manager and village tract administrator, September 2019.

⁹¹ Crisis Group calculation based on the typical cost of land and labour per acre of watermelon.

⁹² Crisis Group interviews, plantation site manager and landowners, September 2019.

⁹³ Crisis Group interviews, plantation workers and landowners, September 2019.

⁹⁴ This pushback has mostly been concentrated in Sagaing Region. See, for example, “တရုတ်ဖရဲစိုက်ခင်းများနောက်ကွယ်က ပြဿနာတွေ” [“Problems behind Chinese watermelon fields”], BBC Burmese, 6 October 2019; and “Gov't set to ban leasing of land to foreign melon growers”, The Irrawaddy, 23 May 2019.

⁹⁵ Crisis Group interviews, watermelon plantation site manager and workers, September 2019.

negotiations with China to expand the range of Myanmar agricultural produce that can be exported legally and ensuring that the produce goes through legal channels. Myanmar could also introduce support mechanisms, such as credit and insurance, to allow smallholders to cultivate high-value agricultural produce themselves rather than rent their land to investors.

China, too, has a strong interest in promoting better standards and more equitable dealings among its private investors in Myanmar. As the contrasting examples of watermelon and bananas illustrate, Chinese investment and trade has the potential to be both a driver of conflict and a means of alleviating poverty. Too often, though, nearby communities not only miss out on the economic benefits of Chinese investment, but are also forced to bear the negative effects, such as environmental pollution. This imbalance reinforces negative views of Chinese investment in Myanmar and encourages the proliferation of anti-Chinese sentiment.

When intertwined with armed actors and conflict economies, such investments have the potential to worsen the impact of conflicts on civilians. This is most evident in the Myanmar's border areas, where the state is often weak or absent entirely, and investors are more likely to partner with armed actors or indirectly support them through taxes or payoffs. Here, even small projects can reinforce the underlying political economy – the “ceasefire capitalism” mentioned in Section IV.A – and enhance local grievances, which does little to benefit broader Chinese ambitions in Myanmar. A more conflict-sensitive approach to business and investment would better serve the interest of both countries.

C. *The Shwe Kokko Development, a Striking Example of “Grey Zone” Investment*

While some Chinese projects are clearly state-backed (such as the CMEC) and some are clearly private investments (such as the agricultural plantations discussed above), others fall in a grey zone between state-backed and private, licit and illicit. A revealing example of this ambiguity is the Shwe Kokko development, a gigantic economic zone under construction near the town of Myawaddy in Kayin State, adjacent to the Thai border.

1. Controversies and misinformation

Shwe Kokko sits in an area notorious for rampant smuggling and a string of glitzy casinos catering to gamblers and duty-free shoppers from Thailand.⁹⁶ It is also an area with a long history of armed conflict and multiple ethnic armed groups, where a relatively recent and very fragile ceasefire is in place, both among the groups themselves, and with the Tatmadaw (see below).

⁹⁶ On a visit to the area in October 2019, Crisis Group witnessed a huge volume of illegal trade openly taking place (in everything from beer to consumer electronics and appliances to cars), as well a booming cross-border casino business. See also “Armed groups behind illegal Myawaddy trade”, *Myanmar Times*, 26 January 2014; “Money Laundering and Casinos in Southeast Asia: A Summary of Realities and Risks”, UN Office on Drugs and Crime Policy Brief, February 2019; and “Investors in Myawaddy’s casinos are a law unto themselves”, *Frontier Myanmar*, 29 November 2019.

The developer of Shwe Kokko – an overseas Chinese run company called Yatai International Holding Group – has pitched the project in a glossy prospectus and YouTube videos as a \$15 billion, 180,000-acre special economic zone, that represents “a new chapter for the Belt and Road Initiative”.⁹⁷ According to these promotional materials, the development will be a “comprehensive international city” that integrates “science and technology, gambling and entertainment, tourism, culture and agriculture” and will include among other things an international airport, a “huge Safari World” and an “international firearms training centre”.⁹⁸ The local partner in the project is a Karen armed militia group allied with the Myanmar military.⁹⁹

Other sources are highly sceptical of Yatai International's claims and present the Shwe Kokko development in a very different light, reflecting more general worries about the rise of private Chinese investment and its consequences. Many media reports claim (incorrectly, see below) that Yatai International is linked to the formerly state-owned Chinese conglomerate Jilin Yatai, leading them to portray Shwe Kokko as a Chinese state-backed project since privatised state enterprises continue to receive preferential treatment from the state.¹⁰⁰ Others fear that the enormous scale of the project will dominate trade in the region and overwhelm local businesses, even in neighbouring Thailand. Some observers call it “terrifying” and see it as a potential tool for China “to observe and to some extent control traffic on Asia Highway 1”, a strategic road linking Myanmar and Thailand.¹⁰¹

The U.S. Congress has also taken an unexpected interest in the project. The Senate Report accompanying the 2020 Department of State, Foreign Operations and Related Programs Appropriations Bill devotes much of its one-page language on Myanmar (“Burma”) programs to Shwe Kokko, which it finds “in reality is an effort by the PRC [People's Republic of China] to colonize Karen territory with 320,000 Han Chinese and protect and expand regional BRI investments in Southeast Asia”.¹⁰² Describing Shwe Kokko as “alarming”, the report directs the U.S. Agency for Inter-

⁹⁷ Prospectus titled “缅甸亚太国际智慧产业新城发展规划书” [Myanmar Yatai International Smart Industry New Town Development Proposal], on file with Crisis Group; see also, for example, “亞太國際控股集團-緬甸亞太城官方宣傳片” [Yatai International Holding Group – Myanmar Yatai City Official Promotional Video], YouTube, 10 December 2018; and the company's website. The 180,000-acre figure appears in the English text in the prospectus. The Chinese text refers to “mu”, a traditional Chinese unit of measurement equivalent to 0.165 acres – which would be 30,000 acres.

⁹⁸ Ibid.

⁹⁹ The Karen ethnic group is referred to as “Kayin” in the Burmese language, and in official designations such as the name of the state.

¹⁰⁰ See, for example, “New city project by Chinese firm raises hackles in Kayin”, *Myanmar Times*, 18 September 2018; Bertil Lintner, “A Chinatown mysteriously emerges in backwoods Myanmar”, *Asia Times*, 1 March 2019; “Chinese developer's grand claims spark fresh concern in Karen State”, *The Irrawaddy*, 6 March 2019; “Chinese mega-project in Myanmar's Kayin State sparks resentment and worry”, *Radio Free Asia*, 13 November 2019.

¹⁰¹ “Kokko Chinatown project sparks concerns in Tak”, *Bangkok Post*, 23 June 2019; Lintner, “A Chinatown mysteriously emerges in backwoods Myanmar”, *op. cit.*

¹⁰² 116th Congress, 1st Session, Senate Report 116–126 (accompanying S.2583), 26 September 2019, p. 108. This presentation of the project is linked to broader concerns raised in the report in terms of “the PRC's efforts to create vassal states in Asia, particularly Cambodia, Burma and Laos, through the BRI, debt-trap transactions and other influence campaigns” (p. 14).

national Development administrator “to support Karen and Thai activists in increasing transparency and accountability surrounding this project”.¹⁰³

Such language gives unwarranted credibility to the developer’s implausible claims for the project and takes at face value erroneous media reports as to the Chinese state-backed nature of the project. Not only does Yatai International have no approval for its grand plans, but local authorities also have ordered it to halt unauthorised construction (see below). Yet construction on the site is in full swing, with one portion completed and operating. The company continues to promote its \$15 billion “comprehensive international city” project not only outside the country but also in Yangon, for example to the China-Myanmar Economic Cooperation and Development Promotion Association.¹⁰⁴

Based on detailed research into the project by Crisis Group, including a two-day visit to Shwe Kokko in October 2019, a longer visit to the surrounding area and another to neighbouring parts of Thailand, as well as interviews with the Border Guard Force involved in the project and other relevant organisations and individuals, it is clear that both the grand claims of Yatai International and much media and other reporting are inaccurate or misleading. Crisis Group contacted the company for comment on the information and findings in this report regarding Shwe Kokko, but had received no response at the time of publication.¹⁰⁵

2. The real nature of the project

The Myanmar Investment Commission, which verifies and approves major investments in Myanmar, says it has not approved or even received information about any plans for a city or economic zone in Shwe Kokko. A representative told a Myanmar media outlet that the developer “just submitted a proposal for high-end villas project. We don’t know about the rest”.¹⁰⁶ Investment commission data corroborates this statement, showing that Myanmar Yatai International Holding Group received approval from the investment commission on 26 July 2018 for a \$22.5 million investment to build residential villas on 62 acres of land. Myanmar Yatai’s shareholders are Yatai International (80 per cent) and the Kayin State Border Guard Force (20 per cent).¹⁰⁷

Yatai International has been confused with Chinese conglomerate Jilin Yatai due to the similarity in names. In fact, they are unrelated entities; Yatai International is registered in Hong Kong and based in Bangkok. The confusion does not appear to be a deliberate attempt by the developer to gain credibility from using a similar name,

¹⁰³ Ibid., p. 14.

¹⁰⁴ “Chairman of Yatai International Holding Group visited to CMECD”, 15 May 2019. This group might appear to be an official trade promotion association, but in fact it is a private initiative of mainland Chinese entrepreneurs with no official status. Crisis Group interview, Myanmar-based Chinese analyst, Yangon, November 2019.

¹⁰⁵ Emails to two addresses listed on the Yatai International website (one apparently containing a typographical error not in the other) bounced back with the message “address does not exist”. Crisis Group emailed another address listed on Yatai International’s Facebook page. At the time of publication, there has been no response.

¹⁰⁶ “MIC approves Border Guard Force-backed luxury villas project”, *Frontier Myanmar*, 1 August 2018.

¹⁰⁷ Myanmar Directorate of Company Administration and Myanmar Investment Commission data and summary of proposed investment. Also Crisis Group interview, local member of Parliament, Myawaddy township, October 2019.

but rather an error on the part of journalists working on the basis of English transliterations. The two instances of “yatai” are homonymous in English but are written with different Chinese characters.¹⁰⁸

There are other ways, however, in which Yatai International does appear to suggest connections with the Chinese state that do not necessarily exist:

- ❑ The developer explicitly links Shwe Kokko to the BRI, in its promotional materials as well as on the site itself, which has numerous “Belt and Road” signs and flags.¹⁰⁹ Yet the project has never been mentioned by either the Chinese or Myanmar governments as connected to the BRI, and the developer’s future plans do not appear to have any state backing from either country. Since the BRI is a deliberately vague and loosely governed framework, independent private actors are free to brand and promote their projects as part of the initiative.¹¹⁰ This lack of clarity makes it more difficult to identify and challenge projects that are branding themselves as part of the initiative purely in order to endow them with a legitimacy they would not otherwise have.
- ❑ The developer claims that the Kayin State government has endorsed its plans for Shwe Kokko. In fact, the chief minister says the state government has ordered a halt to unauthorised construction, committed to “closely watching” developments and highlighted the need for scrutiny from Naypyitaw.¹¹¹
- ❑ The developer presents Shwe Kokko as a Special Economic Zone. These zones are regulated under a specific Myanmar law. There are only three of them in the country, and Shwe Kokko is not among them – nor is it likely to be in the future, given legal requirements for environmental and social impact assessments to be conducted in advance, and approvals obtained from the government and national parliament.¹¹²
- ❑ The developer claims that it will “renovate the international airport” at Shwe Kokko, when in fact there is no airport currently there – international or domestic. In fact, plans for one have reportedly been dropped as it would interfere with Thai air traffic at nearby Mae Sot airport.¹¹³

¹⁰⁸ “亚太” (the simplified form of “亞太”) in “Yatai International Holding Group” versus “亚泰” in “Jilin Yatai”. Crisis Group interview, Myanmar-based Chinese analyst, Yangon, November 2019.

¹⁰⁹ Crisis Group observations, Shwe Kokko, October 2019.

¹¹⁰ There is no official or definitive list of BRI projects. See “Selling the Silk Road Spirit: China’s Belt and Road Initiative in Myanmar”, Transnational Institute, op. cit.

¹¹¹ The Yatai International prospectus states that the project is “under the leadership” of the Kayin State government (op. cit., p. 2). For the Kayin State chief minister’s comments, see “Shwe Kokko: A paradise for Chinese investment”, *Frontier Myanmar*, 5 September 2019; and “Chinese mega-project in Myanmar’s Kayin State sparks resentment and worry”, Radio Free Asia, op. cit.

¹¹² Special Economic Zones are established under the 2014 Special Economic Zone Law and its 2015 Rules, together with relevant environmental legislation.

¹¹³ Crisis Group interview, academic researcher following developments at Shwe Kokko, Mae Sot, October 2019.

3. Current status of the project

Although the state government in early 2019 ordered a halt to unauthorised construction at Shwe Kokko (see above), when Crisis Group visited in October 2019 major works were continuing far outside the area approved for the luxury villas – including concrete roads, warehouses, and multi-storey steel frame and reinforced concrete buildings. Much of the project's central part is already completed, including a hotel and numerous housing blocks, as well as shops and restaurants. Thousands of Chinese white-collar workers are already living and working on site, likely as support staff in the lucrative online gambling sector (see below). Other visitors have reported similar observations.¹¹⁴

In its prospectus, Yatai International claims that the first phase of the project covers 1,300 acres, with \$500 million already invested; this area is far larger than the villa development authorised by the Myanmar authorities.¹¹⁵ The construction under way at Shwe Kokko could plausibly represent an investment of that value.¹¹⁶ The construction company contracted by Yatai International turns out to be the China Metallurgical Group Corporation (known as MCC), which is a subsidiary of China Minmetals Corporation, a major Chinese state-owned enterprise.¹¹⁷ This does not necessarily imply that the project has Chinese state backing, but it explains why the development looks like a mainland Chinese town in almost every detail, down to the Chinese-manufactured and labelled recycling bins and ornamental pandas.

Shwe Kokko is connected to Asia Highway 1 and Myawaddy town by a poorly maintained and deeply potholed road. Although it is passable for large trucks, most construction equipment and supplies are coming across the Moei river from Thailand using a high-capacity cable ferry. Shwe Kokko is not connected to the Myanmar electricity grid; the Border Guard Force purchases power from Thailand under an informal arrangement and resells it at a profit to consumers in Shwe Kokko.¹¹⁸ When Crisis Group visited, many diesel generators were in use at the site, suggesting insufficient grid supply. Sector experts viewed the power situation as a major bottleneck and potential risk for the development.¹¹⁹

While it is possible to visit Shwe Kokko from Myawaddy, it is easiest to reach from Thailand by crossing the Moei river; passenger boats are permanently available

¹¹⁴ Crisis Group interview, individual who visited Shwe Kokko, November 2019; see also "Shwe Kokko: A paradise for Chinese investment", *Frontier Myanmar*, op. cit.

¹¹⁵ Again, this figure is according to the English text in the prospectus. The Chinese text refers to "mu", a traditional Chinese unit of measurement equivalent to 0.165 acres – which would be equivalent to 215 acres.

¹¹⁶ Crisis Group interview, construction engineer experienced in managing large civil works projects, November 2019.

¹¹⁷ See the MCC website, "中冶国际签署缅甸亚太水沟谷经济特区项目（一期）施工总承包合同" [MCC International Signs General Contract for Myanmar Yatai Shwe Kokko Special Economic Zone Project (Phase I)], 20 September 2017.

¹¹⁸ Crisis Group interview, local member of parliament, Myawaddy township, October 2019; and private-sector power expert who has visited Shwe Kokko, Yangon, November 2019.

¹¹⁹ The Border Guard Force has requested an additional 8 megawatts of power from Thailand but has been unable to secure agreement. Crisis Group interview, senior representative of the Border Guard Force, Myawaddy, October 2019; and private-sector power expert who has visited Shwe Kokko, Yangon, November 2019.

for this purpose. There are no immigration checks on either the Thai or Myanmar sides – as is also the case with the numerous casinos and duty-free complexes closer to Myawaddy that cater to informal cross-border visitors. The river crossing is a 30-minute drive from Mae Sot airport in Thailand, and a fleet of branded Yatai International minibuses is on hand to transfer passengers. Shwe Kokko is thus easily accessible for Chinese visitors, with regular flights to many cities in China reaching Mae Sot via Bangkok.

“Build first, say sorry later” is not an uncommon approach to constructing buildings in Myanmar.¹²⁰ But why would any investor commit hundreds of millions of dollars to a project that in addition to not having regulatory approval is entirely reliant on the acquiescence of the Thai and Myanmar authorities for the informal – if not illegal – arrangements essential to its existence and operations? The risk seems particularly great, especially given how controversial the project is locally and how intertwined with conflict dynamics (see below).

One explanation could lie in the enormous amount of capital available in China that is chasing a limited pool of opportunities. Hungry to invest, Chinese get involved in overseas projects without necessarily having sufficient contextual understanding to assess risk.¹²¹ For its part, to attract investors the developer needs to create a convincing impression of a legitimate, low-risk project. Such a scenario could explain the exaggerated and misleading claims in the Shwe Kokko prospectus. Finally, if the developer has opportunities for significant short-term profits, that developer need be less concerned about long-term viability. In short, the stated long-term goal may be a useful cover for more controversial short-term activities. In the case of Shwe Kokko, those short-term activities revolve around gambling. There are at least three physical casinos already operating on the site, catering to both local and cross-border clients, and a much larger one is under construction.¹²²

For the moment, the main focus at Shwe Kokko appears to be online gambling. A lucrative Chinese market for remote gambling has exploded in the last few years as platforms have shifted their attention from high rollers to middle-income punters in China; the industry was estimated to be worth \$24 billion across Asia last year.¹²³ It employs hundreds of thousands of Chinese-speaking online support staff to provide technical assistance and sales promotion. In 2019, Beijing launched a crackdown on what it sees as a major social problem, with diplomatic pressure on the Philippines and Cambodia – two major hubs – threatening the viability of operations in these countries.¹²⁴

Even a small slice of this market would be extremely lucrative. Already, it appears that thousands of Chinese-speaking white-collar workers are based at Shwe Kokko

¹²⁰ See “YCDC suspends unlawful Rangoon high-rises”, *The Irrawaddy*, 16 May 2016.

¹²¹ See, for example, “Selling the Silk Road Spirit: China’s Belt and Road Initiative in Myanmar”, *Transnational Institute*, *op. cit.*

¹²² Crisis Group observations, Shwe Kokko and Myawaddy, October 2019; Crisis Group interviews, local people and visitors to Shwe Kokko, October–November 2019.

¹²³ “The \$24 billion online casino boom China is struggling to halt”, *Bloomberg*, 12 September 2019.

¹²⁴ There are estimated to be some 100,000 Chinese online gambling workers in each of these countries, providing technical support and live chats with clients. See “Southeast Asia moves to cool lucrative online gambling industries amid China clampdown”, *Bloomberg*, 19 August 2019.

as online gambling support staff. At least 10,000 who were returning from Chinese New Year holidays were left stranded in Thailand when the informal border crossings to Myanmar were closed over COVID-19 concerns.¹²⁵ The fact that Yatai International's local partner, the Kayin Border Guard Force, has installed high-capacity internet connections and is profiting from reselling the huge bandwidth at a considerable mark-up also points to online activities.¹²⁶ The scale and non-transparent nature of the operations is already causing alarm among local people, and the development at Shwe Kokko represents a significant conflict risk.

4. Conflict risk

Shwe Kokko is located in an area of great historical significance for the Karen armed conflict. Known until 1995 as Kawmoora, it was a stronghold of the Karen National Union (KNU) armed group and a key black-market trading post. Situated on a sharp bend in the Moei river, it was easily defensible from attacks coming from the Myanmar side. There were several such Tatmadaw attacks over the decades, including some failed attempts to overrun Kawmoora under cover of darkness from Thai territory in the late 1980s.¹²⁷

In December 1994, the KNU was greatly weakened when a group of disaffected, mostly Buddhist fighters broke away to form the Democratic Kayin Buddhist Army (DKBA), which allied with the Tatmadaw. The KNU headquarters at Manerplaw fell to the military the next month, leaving Kawmoora as the last KNU bastion on the Thai border. It, too, was overrun in February 1995 in a major Tatmadaw offensive, assisted by the DKBA, with heavy casualties on all sides.¹²⁸

After Kawmoora was seized, it was handed over to the DKBA, who renamed it Shwe Kokko. It became the headquarters of the powerful 999 Special Battalion led by Colonel Chit Thu. In 2009, most DKBA units were transformed into Border Guard Force units under the partial command of the Tatmadaw. Colonel Chit Thu had de facto control of several of these and is now head of the Kayin Border Guard Force Coordination Committee, giving him authority – although not necessarily direct operational control – over all units. He appears to have considerable influence over Shwe Kokko, where he lives in a large mansion.¹²⁹ The Border Guard Force he commands is Yatai International's local partner in the Shwe Kokko development.

Relations between the KNU and the Kayin Border Guard Force thawed somewhat over the years, and the latter is now mainly involved in economic activities. It has agreed that the KNU take the lead on political matters and in the government peace

¹²⁵ Crisis Group interviews, Border Guard Force member and individual with direct knowledge of the border closure, February 2020.

¹²⁶ Data services were previously available via high-bandwidth fibreoptic cable from Thailand. The Border Guard Force later disabled this main cable and replaced it with a Myanmar fibre connection. Crisis Group interviews, individual with direct knowledge of the infrastructure and with academic researcher in Thailand, October-December 2019.

¹²⁷ For detailed discussion, see Smith, *Burma: Insurgency and the Politics of Ethnicity*, op. cit., chapter 19.

¹²⁸ See Ashley South, *Ethnic Politics in Burma* (London, 2008), chapter 3; and "Burmese suffer huge losses at Kawmoora", *Bangkok Post*, 10 February 1995.

¹²⁹ Ashley South, "Burma's Longest War: Anatomy of the Karen Conflict", Transnational Institute, March 2011; Crisis Group interviews, Shwe Kokko and Myawaddy, October 2019.

process, as well as local governance and service delivery, provided that the groups do not interfere in each other's economic activities.¹³⁰ This understanding creates some tensions, as the KNU has an important political role in representing the interests of local Karen people, many of whom view the Border Guard Force as involved in racketeering and illicit activities – for example, the numerous casinos near Myawaddy which it either operates or provides security for.¹³¹ The agreement between the two groups, however, constrains the KNU's ability to act on such grievances; local people are scared to complain to the Border Guard Force directly.¹³²

Within this delicate power-sharing arrangement, the Shwe Kokko development ups the stakes considerably. Its scale is such that it has become highly political. It is also deeply unpopular with local people, who fear the economic consequences of so many Chinese workers coming to the area and worry about gambling's social impact.¹³³ The lack of local consultation around the project, or any transparency about future plans and activities, only heightens the negative popular sentiment. There have already been demonstrations against the project, and Chinese shops have been vandalised, leading local authorities to ban all Chinese-language shop signs in Myawaddy town and launch random immigration checks.¹³⁴

There is a real risk that rising anti-Chinese sentiment prompted by the project could lead to more attacks on Chinese people and businesses, which could trigger violence by the Border Guard Force against local people. It could also lead to increased tensions with the KNU, upsetting the tacit understanding that has so far ensured relative peace in the region. The Border Guard Force's lucrative economic activities, particularly casinos and natural resource exploitation, are already altering the balance of power with the KNU, which has less access to economic rents or other sources of income. The KNU believes that Shwe Kokko could threaten its political dominance. A project that is deeply resented by local people, and alarming to a major armed group, Shwe Kokko could trigger armed conflict and shatter the fragile truce between the different Karen armed actors.

Armed group-controlled enclaves dominated by illicit activities are not new to Myanmar. Several are located on the Chinese border, including the notorious Wa Special Region 2 and Mongla Special Region 4, controlled by the UWSA and the National Democratic Alliance Army, respectively.¹³⁵ Their geographical location gives China the ability to intervene when it deems necessary in support of its interests. Shwe Kokko, on the other hand, is far from the Chinese border, yet is presented as a Chinese state-backed project in partnership with an armed group nominally under the command of the Tatmadaw. It is, for these reasons, an important test of Myanmar's ability to regulate and govern its periphery, of China's determination to improve

¹³⁰ Crisis Group interviews, local people and KNU representatives, Myawaddy, October 2019.

¹³¹ Crisis Group interviews, Myawaddy, October 2019. See also "Money Laundering and Casinos in Southeast Asia: A Summary of Realities and Risks", *op. cit.*

¹³² Crisis Group interviews, local people and KNU representatives, Myawaddy, October 2019.

¹³³ Crisis Group interviews, local member of parliament and civil society activist, Myawaddy township, October 2019.

¹³⁴ *Ibid.*

¹³⁵ For more details, see Crisis Group Report, *Fire and Ice*, *op. cit.*

its reputation in the country and prevent damage to the BRI brand, and of the Tatmadaw's willingness and ability to control the activities of the Border Guard Force.

V. Policy Implications for Myanmar and China

The relationship between China and Myanmar is largely one of mutual distrust. Myanmar suspects that China intends to dominate its smaller neighbours. China feels that it cannot trust Myanmar to prioritise its interests and that Naypyitaw is constantly on the lookout for new strategic partners, at its expense.

This basic tension has translated into a different tenor of relations at different times, depending on the bilateral and geopolitical context at play. Today, Beijing may feel that it can use Naypyitaw's strained relations with the West and much of the Global South to solidify its position as Myanmar's friend and thereby safeguard its interests in the country. Such an approach comes with risks, however. There is a deep reservoir of anti-Chinese sentiment in Myanmar, which pooled over the military regime years. If China overplays its hand, it risks a popular backlash similar to the one that led to the Myitsone dam suspension.

China should prioritise crafting mutually beneficial relations with Myanmar, rather than imposing its will. While Chinese officials often explain that they are willing to adjust projects to take Myanmar's concerns into account, the unequal nature of the relationship – in terms of both power and capacity – means that China ought to take greater responsibility in ensuring that its projects bring benefits to Myanmar's economy and citizens. It should be particularly careful that its investments do not spark or exacerbate conflict. It therefore needs better contextual understanding and a greater focus on transparency and genuine public consultation. It should listen to the concerns of the people most affected, rather than attempting to co-opt or buy off local elites, which has often been its approach in the past. In particular, pumping investment – for everything from major infrastructure to plantation agriculture – into conflict areas whose political economy is dominated by armed actors risks entrenching the dominant position of those actors rather than promoting peace.

While Beijing has the ability to directly regulate state-to-state investments, and to a lesser extent Chinese private-sector engagements under the Economic Corridor, it is more difficult for it to exert control over smaller commercial ventures such as plantation agriculture or schemes like Shwe Kokko with indirect links to the Chinese state. It should have a strong interest in doing so, however. These projects can both have significant conflict impact and fuel anti-Chinese sentiment in Myanmar, two eventualities detrimental to Beijing's broader interests.

The Shwe Kokko development provides a clear example of how these risks can interact. The project carries significant risk of exacerbating armed conflict, while its scale and lack of transparency have led to strong resentment locally, which has morphed into anti-Chinese sentiment. It has also reignited fears nationally of China imposing large projects against Myanmar's own interests, a situation similar to what preceded the backlash against the Myitsone dam and Letpadaung mine extension. The fact that Shwe Kokko is not in reality a state-to-state project does little to reduce those concerns or the impact on China's interests. The project is able to cloak itself in the BRI's legitimacy without being challenged, and although the developer is not mainland Chinese, it has hired a Chinese state-owned enterprise as the constructor. Moreover, one of the project's key revenue streams appears to be online gambling, something Beijing has made considerable efforts to crack down on in other countries of South East Asia. China can do more to regulate its private-sector investments, and

it should work more closely with Myanmar to enhance oversight capacity for such projects.

Naypyitaw is aware of the risks associated with heightened Chinese investment. It has adopted a cautious approach to major CMEC projects, negotiating down the size of the Kyaukpyu port and special economic zone, and trying to ensure that large projects go through standardised approval, tender and financing processes. But it lacks capacity to negotiate the details of multiple projects simultaneously, while Beijing continues to press for a faster tempo.

Naypyitaw could make greater use of knowledge and capacity outside government in this regard. A number of Myanmar think-tanks and other organisations are studying these issues and have China expertise. The number of institutions and individuals remains small for an issue of such import, however. The government should prioritise medium-term investment in such capacity, both government and non-government – through scholarships and funding of think-tanks, for example – and ensure that it makes best use of the capacity that is presently available. It should also improve transparency around these projects; often, the little information that is available is from English-language Chinese sources such as the Xinhua news agency, not from Myanmar or in Burmese.

Smaller private-sector investment projects are the purview of the normal regulatory machinery in Myanmar's different economic sectors, which is also limited in capacity and reach. These investments are driven in part by "regulatory arbitrage" – in which investors find jurisdictions with weak rules or implementation, to reduce red tape and increase profitability. Improved regulation and enforcement are vital – part of broader long-term public sector reform with which international partners can help.

VI. Conclusion

China is Myanmar's most important international trade and investment partner, as well as its most powerful ally. It has a key role to play in ending the armed conflicts in the country. In the wake of the Rohingya crisis, Myanmar's more strained relations with the West and its need for protection in the UN Security Council have further strengthened China's position. There has always been much distrust between the countries, however, and if China overplays its hand, it could spark a popular backlash that would be deeply detrimental to its interests.

Chinese projects in Myanmar range from large state-to-state infrastructure projects to private-sector initiatives under frameworks such as the CMEC to a plethora of smaller private investments across different sectors. Many of these projects carry conflict risks for Myanmar, and reputation and implementation risks for China. Bringing large-scale investment and infrastructure to conflict-affected areas, where the existing political economy favours armed actors, risks further entrenching those actors' economic role, rather than promoting a more peaceful and equitable future.

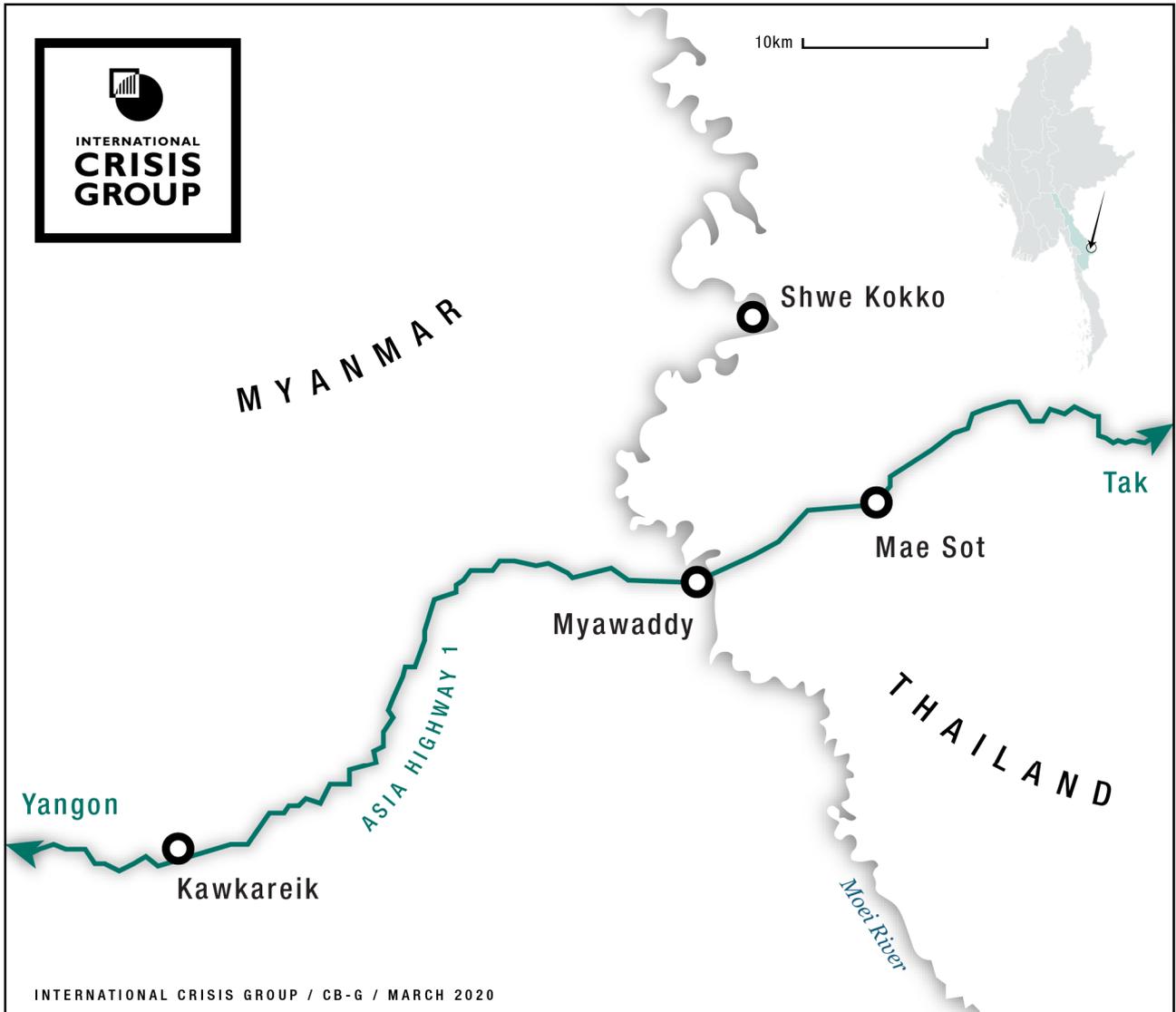
Myanmar needs to improve its negotiation capacity as well as regulation of these projects. It also needs to make more information about them available to the public. But given Myanmar's limited state capacity, China should take a more proactive role in ensuring that these projects are better regulated and beneficial to Myanmar's economy and people. Its investments in Myanmar, both state-backed and private, should be conceived and implemented more transparently and in closer consultation with the people living in their path.

Yangon/Brussels, 30 March 2020

Appendix A: Map of Myanmar



Appendix B: Map of Myawaddy Area



Appendix C: List of Acronyms

AA	Arakan Army
BRI	Belt and Road Initiative
CMEC	China-Myanmar Economic Corridor
CPB	Communist Party of Burma
DKBA	Democratic Kayin Buddhist Army
KIA	Kachin Independence Army
KNU	Karen National Union
TNLA	Ta'ang National Liberation Army
UWSA	United Wa State Army

Appendix D: About the International Crisis Group

The International Crisis Group (Crisis Group) is an independent, non-profit, non-governmental organisation, with some 120 staff members on five continents, working through field-based analysis and high-level advocacy to prevent and resolve deadly conflict.

Crisis Group's approach is grounded in field research. Teams of political analysts are located within or close by countries or regions at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, it produces analytical reports containing practical recommendations targeted at key international, regional and national decision-takers. Crisis Group also publishes *CrisisWatch*, a monthly early-warning bulletin, providing a succinct regular update on the state of play in up to 80 situations of conflict or potential conflict around the world.

Crisis Group's reports are distributed widely by email and made available simultaneously on its website, www.crisisgroup.org. Crisis Group works closely with governments and those who influence them, including the media, to highlight its crisis analyses and to generate support for its policy prescriptions.

The Crisis Group Board of Trustees – which includes prominent figures from the fields of politics, diplomacy, business and the media – is directly involved in helping to bring the reports and recommendations to the attention of senior policymakers around the world. Crisis Group is chaired by former UN Deputy Secretary-General and Administrator of the United Nations Development Programme (UNDP), Lord (Mark) Malloch-Brown.

Crisis Group's President & CEO, Robert Malley, took up the post on 1 January 2018. Malley was formerly Crisis Group's Middle East and North Africa Program Director and most recently was a Special Assistant to former U.S. President Barack Obama as well as Senior Adviser to the President for the Counter-ISIL Campaign, and White House Coordinator for the Middle East, North Africa and the Gulf region. Previously, he served as President Bill Clinton's Special Assistant for Israeli-Palestinian Affairs.

Crisis Group's international headquarters is in Brussels, and the organisation has offices in seven other locations: Bogotá, Dakar, Istanbul, Nairobi, London, New York, and Washington, DC. It has presences in the following locations: Abuja, Algiers, Bangkok, Beirut, Caracas, Gaza City, Guatemala City, Hong Kong, Jerusalem, Johannesburg, Juba, Mexico City, New Delhi, Rabat, Tbilisi, Toronto, Tripoli, Tunis, and Yangon.

Crisis Group receives financial support from a wide range of governments, foundations, and private sources. Currently Crisis Group holds relationships with the following governmental departments and agencies: Australian Department of Foreign Affairs and Trade, Austrian Development Agency, Danish Ministry of Foreign Affairs, Dutch Ministry of Foreign Affairs, European Union Emergency Trust Fund for Africa, European Union Instrument contributing to Stability and Peace, French Development Agency, French Ministry of Europe and Foreign Affairs, German Federal Foreign Office, Global Affairs Canada, Irish Aid, Iceland Ministry for Foreign Affairs, Japan International Cooperation Agency, Principality of Liechtenstein, Luxembourg Ministry of Foreign and European Affairs, New Zealand Ministry of Foreign Affairs and Trade, Norwegian Ministry of Foreign Affairs, Qatar Ministry of Foreign Affairs, Swedish Ministry of Foreign Affairs, the Swiss Federal Department of Foreign Affairs, the UK Department for International Development, and the United Arab Emirates Ministry of Foreign Affairs and International Cooperation.

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