Fossil Energy Resources, Burma And Its Neighbours

Burma’s gas wealth and geostrategic position in the eyes of increasing energy demands of its neighbours. Implications on international politics and Burma’s domestic situation.
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Cover page: Signing of Production Sharing Contracts between ONGC Videsh and MOGE, 23rd of September 2007. From left to right: R S Butola, Managing Director of ONGC Videsh; Murli Deora, Minister of Petroleum & Natural Gas, India; Brig-General Lun Thi, Minister of Energy, Myanmar; U Myint Htay, Managing Director of MOGE.¹

### Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>ASEAN</td>
<td>Association of South East Asian Nations</td>
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<tr>
<td>bcf</td>
<td>billion cubic feet</td>
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<td>bcm</td>
<td>billion cubic meters</td>
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<td>BOC</td>
<td>Burmah Oil Company</td>
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<td>Btu</td>
<td>British thermal unit</td>
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<td>cf</td>
<td>cubic feet</td>
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<tr>
<td>cm</td>
<td>cubic meter</td>
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<td>CNOOC</td>
<td>China National Offshore Oil Corporation</td>
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<td>CNPC</td>
<td>China National Petroleum Corporation</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>IEA</td>
<td>International Energy Agency</td>
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<td>LNG</td>
<td>Liquefied Natural Gas</td>
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<td>mcf</td>
<td>million cubic feet</td>
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<td>mcm</td>
<td>million cubic meters</td>
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<td>MOGE</td>
<td>Myanmar Oil and Gas Enterprise</td>
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<td>MOU</td>
<td>Memorandum of Understanding</td>
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<td>NGO</td>
<td>Non Government Organisation</td>
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<td>PCL</td>
<td>Public company limited</td>
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<td>PTT</td>
<td>Petroleum Authority of Thailand</td>
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<td>PTTEP</td>
<td>PTT Exploration and Production</td>
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<tr>
<td>tcf</td>
<td>trillion cubic feet</td>
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<td>tcm</td>
<td>trillion cubic meters</td>
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<td>UN</td>
<td>United Nations</td>
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1. Introduction

Burma, also called Myanmar, is an impoverished country ruled by one of the most brutal military regimes of the present. It is located in a region that is undergoing deep economic and social transformations. The Asian continent, where more than 58% of the world population live, can today be considered as one of the principal motors of the world economy.\(^2\) It is however often forgotten, that vast amounts of energy are needed for this economic development and performance. This represents a problem for the region, as, apart from coal, it has very few fossil energy resources to satisfy its growing energy consumption. 28.1% of the world oil consumption and 14.2% of the world natural gas consumption in 2006 took place in Asia. However, only 3.1% of the world’s petroleum reserves and 6.8% of the world’s natural gas reserves are located on this continent.\(^3\) The region is importing large quantities of oil mainly from the Middle East. As a response to this dependency, the different national actors are trying to diversify their provisions geographically but also to further develop the use of gas. One of the unavoidable options is to systematically look within the region for any undiscovered resources. By doing so, considerable gas resources have also been discovered off the coast in Burma, which, like all other resources in the region have become subject to tough competition between the different national actors. Therefore they have a geostrategic impact that needs to be closely examined.

The purpose of this paper is to analyse what kind of impact the discovery of gas resources in Burma has had on its position on the level of international politics on the one hand, and on the internal position of the military regime, the State Peace and Development Council (SPDC), on the other hand. I will also analyse the impact of geostrategic aspects with respect to the Straits of Malacca and to the position of Bangladesh. In this way, this paper aims to contribute to a general understanding of how the situation in this country has evolved since the uprisings in 1988. I choose not to discuss Burma’s oil reserves and production because the quantities produced and the reserves known as of today are, on a regional level, not as significant as its gas resources.\(^4\) Also, I decided to focus mainly on the impact of regional actors. I did not examine the national actors within Burma to a large extent mainly because with regards to the production of gas, the military regime concentrates all the power in his hands and little place

is left for any other actors to play a role. Concerning the different fractions within the regime, it is very difficult to access any reliable information on internal power struggles.

For this paper, I decided to use, as far as possible, the official and traditional names of the country as a whole and the locations used before 1989, when the military regime changed all the names. Today’s official denomination of Burma is Myanmar and most locations have been renamed. For example, the former capital Rangoon is today officially called Yangon. The name changes were made by the military regime and this is also the reason why the governments of the United States (US) and the United Kingdom (UK) as well as the opposition groups in exile have never recognised the new denominations. Concerning the denomination of Asia as a continent, I decided, among others due to statistical reasons, to exclude New Zealand, Australia as well as Russia from this geographical region but to include India and Pakistan.

In the first chapters, I need to give some preliminary explanations in order to be able to analyse the problematic. It includes a description of the characteristics of natural gas and a brief elucidation of the historical and political context in Burma. I will have a quick look at the conditions for foreign direct investment in the country and then go over to examine the reserves, production and consumption of gas in the country today and in the past. I will continue my analysis by focusing on three principle actors in the region, that I consider most important for the evolution of the gas production in Burma: Thailand, China and India. The examination will end by concluding on the implications for Burma’s external and the regime’s internal position.

2. Natural Gas As A Source Of Energy In Asia

The use of natural gas as a source of energy in Asia has first been applied in the developed countries of the North East. This essentially resulted from the high investment costs needed for the installation of the infrastructure. However, Japan, South Korea and Taiwan themselves hardly possess any significant gas reserves. Today, they need to import almost their whole consumption, mainly by the seaway, using the technique of liquefied natural gas (LNG). Being isolated from the mainland and far away from the gas reserves of South-East Asia, these entities had no other choice than to develop the transportation by LNG even if the costs were high. With the economic development in Asia, many other countries started to

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6 Jean-Pierre Favennec, op.cit., p. 234.
increase the use of natural gas. Since 1980, the total consumption in Asia has quintupled and today the countries of the region are consuming 70% of the gas in the world shipped by LNG tankers.\(^8\) The proven gas reserves in Asia are at a level of about 12.21 trillion cubic meters (tcm). Most of it is located in China, India, Malaysia, and Indonesia. Compared to the world’s proven gas reserves of around 181.46 tcm, this is, as said above, only a small share. Gas production in Asia was at a level of 334.3 billion cubic meters (bcm) in 2006, which represents around 11.7% of the world’s production.\(^9\)

Natural gas is generally cheaper to produce than oil because it hasn’t to be pumped but comes spontaneously out of the ground. However, the transportation costs are much higher. One possibility is to transport the energy source gasiform through pipelines. In this case, less energy can be transported because it needs more space and this increases the costs of transportation. So the length of a pipeline has a much greater impact on the price of gas than in the case of oil. Another possibility consists in liquefying the gas and in transporting it on the seaway. In this case, it is the transformation into the liquid condition that is very expensive and causes the higher costs.\(^10\) On short distances the transportation through pipelines is much more cheaper than by LNG tankers. However for distances that comprise several thousand kilometres, shipments of LNG become competitive (see graphic in appendix). The worldwide LNG trade is expanding rapidly at the moment. Trade in LNG increased by 29% and the LNG fleet grew by 75% between 2001 and 2006. The reasons behind this increase are divers. One factor is that the distance between consumer countries and existing gas resources is increasing, another that the transport costs decrease relatively to the increase of the price of natural gas. The increase in LNG trade leads also more and more to a unification of the world gas market that is still very fragmented because of the high transportation cost.\(^11\) One important factor of the market unification is the flexibility and substitutability of LNG transports. One can easily exchange a customer or provider of natural gas by another, which is not the case when you have a pipeline.

So far, Burma only exports gas into Thailand and does so by means of a cross border pipeline. Since the regime intends to export the recently discovered gas resources, it will have to make a decision on the transport method. Through pipelines, gas could easily be exported to its neighbours India, China and Thailand. For longer distances, a LNG terminal could be worth to be considered. If the regime opts for a LNG terminal, the gas would be sold for the price

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prevailing in the Asian Pacific gas market. A pipeline solution implies that the partners need to agree on a method to fix the price of gas. The military regime depends today heavily on the incomes from the gas exports to Thailand. It is one of the only sources of hard foreign currency for the internationally isolated junta. This makes it also vulnerable to pressures from Thailand although its eastern neighbour has never carried out such pressures so far. It is possible that they opt for a LNG terminal in order to remain flexible. It would allow them to stay as independent as possible. However it has to be considered that gas pipelines have normally a peaceful effect on the relations between two countries, because of the high construction costs involved and for operating reasons.12

3. The Historic And Political Context In Burma

After the third anglo-burman war in 1885, Burma became part of British India. However, the colonial power never ruled over the whole territory attributed today to Burma. Its power and interests were essentially limited to the lower lands in the centre of the country. Many populations in the peripheral mountain ranges maintained de facto and sometimes also de jure their independence. They were mostly of another ethnicity. The Bamar constitute between 60 and 70% of the Burmese population. Among the remaining 30 to 40% are the Mon in the south, the Karen in the east, a Thai minority called Shan in the north east, the Kachin in the north and the Chin as well as the Islamic Rohingya in the west. There are countless little ethnic divisions among these populations that shall not be mentioned here. The British applied their principle of divide and rule also in Burma. “Clearly colonialism did immense damage to inter-communal relations”,13 states Martin Smith that has studied the interethnic problems in Burma. After the Second World War, general Aung San led the country into independence by signing the Aung San-Attlee Agreement with the British and the Panglong Agreement with the ethnic groups. Shortly after he was assassinated by a political rival. Independence was declared on the 4th of January 1948 and Burma received a constitution instituting a parliamentary democracy. However, the political system intended on paper did not match the reality in the country. The process of decolonisation from Britain and the founding of the independent Union of Burma ended in nationwide chaos. The central government was not able to establish an effective control over its territory and has not succeeded in doing so until today. Many armed groups opposing the government like the Communist Party of Burma (CPB) or fractions of the People Volunteers Organisation (PVO) made the ruling of the

12 Jean-Pierre Favennec, op.cit., p. 113.
country impossible. On top of that, ethnic insurgencies broke out in 1949 in the areas inhabited by the Karen and later also in other areas where ethnic minorities live. The armed struggle of the ethnic groups has continued until the present day. From 1948 to 1962 the central government ruled with the 1948 constitution in force and U Nu as the head of the government for most of the time. However, the problems of armed insurgencies and no effective control over the territory continued. It is important to know that until today, the only two institutions that were able to establish a nationwide organisational structure were the military and the Buddhist clergy. This factor has to be taken into account when we look at the military coups. The first one took place in 1962 and was carried out by general Ne Win. Under his power the country experienced what was called the “Burmese way to socialism”. The Burma socialist Programme Party (BSPP) became the only political party allowed in the country from 1964 to 1988. In this period the economic conditions and infrastructure of the country deteriorated. In 1974 the old constitution was abrogated and replaced by a new one based on socialist ideas. The BSPP pursued a policy of isolation towards the foreign world. In 1987, a demonetization program provoked large student protests, which, during the year 1988, evolved into a big pro-democracy movement that led to the resignation of Ne Win as chairman of the BSPP. However, his successor Sein Lwin crushed down the movement killing thousands in August of the same year. In September 1988, the military, lead by general Saw Maung, made a coup d’état under the pretext to establish the general order again. They set up what they called the “State Law and Order Restoration Council” (SLORC); but the protests continued. Finally the SLORC decided to organise general elections in May 1990. The National League of Democracy led by Aung San Suu Kyi, the daughter of general Aung San, won the elections with a majority of 80% of the vote. However, the military has not handed over the power until today. Instead, Aung San Suu Kyi spent 12 of the last 18 years under house arrest. In 1993 the junta, now lead by general Than Shwe, who has remained in power until today, established a national convention that was supposed to draft a new constitution. Since then no concrete result has been made in this process. In 1997 the SLORC renamed itself into “State Peace and Development Council” (SPDC) but nothing changed in its oppressive policies. Widespread human rights abuses by the Tatmadaw, the Burmese army, continued and large parts of the population are still living in very poor conditions. Nevertheless, the country was accepted to adhere to the Association of South East Asian

14 Ibid., pp. 106-112.  
16 Ibid., p. 17. 
Nations (ASEAN). In 2005, the SPDC moved the administrative capital from Rangoon to a place called Naypyidaw 320 km north of Rangoon. Economic hardship led to widespread protests in summer 2007, which evolved into the biggest uprisings since 1988. They were once again violently suppressed by the regime killing a dozen people by official sources, hundreds according to opposition groups. The reason was that the regime had raised the state controlled fuel and gas prices up to 500%.\textsuperscript{19} It was exactly in this economic sector that a policy change occurred after 1988.

4. Gas In Burma

4.1. Foreign Direct Investment Under Military Control

The change came in form of a law amendment concerning foreign direct investment (FDI). From 1948 to 1960s, foreign companies were allowed to operate in Burma, also in the oil production sector. The 1955 “Investment policy statement” as well as the 1959 “Union of Burma Investment Act” were intended to assure and attract foreign investors.\textsuperscript{20} The Scottish Burmah Oil Company (BOC) for instance, that had already produced oil under British colonial rule, continued its production in the Magwe division. After Ne Win came to power, the company was nationalised and all foreign direct investment became virtually impossible. In 1988, two months after the coup on November 30, the country was still under martial law when the SLORC issued “The Union of Myanmar Foreign Investment Law”. It may have looked like a good signal to the outside world that the military finally made a turnaround in their economic policy and would open the country to the world. However, if one looks closer at the document and considers that it was issued already two months after the coup, many factors indicate that the regime was rather desperate for hard foreign currency than preoccupied with a long-term economic strategy for the country.\textsuperscript{21} This motive has not changed since then. The law regulated that foreign investment had to be done either by providing 100% foreign capital or by joint venture agreements with Burmese companies. The new legislation set some important incentives concerning taxes and provided a guarantee for investors that enterprises would not be nationalised. However, one big hindrance was that the foreign companies needed to use the official exchange rate when they wanted to bring in or

take out foreign currency.\footnote{Ibid., p. 236.} This exchange rate was and still is highly overvalued. The official rate lies today at around 6 Kyat for 1 US $.\footnote{Bloomberg.com, „Currency Calculator“. 19th on November 2007. http://www.bloomberg.com/invest/calculators/currency.html.} In total opposition to the unofficial black market rate which indicates 1325 Kyat for 1 US $.\footnote{The Irrawaddy – Covering Burma and Southeast Asia. „Exchange Rate“. 19th of November 2007. www.irrawaddy.org.} However, in practice a solution had been found for both parties using foreign currency certificates.

The lion’s share of foreign investment occurred for the purpose of oil and gas exploration. From 1988 to 2005, US $ 2.5 billion were invested in the oil and gas sector of Burma. This represents 33% of the total amount of FDI, which has been at a level of 7.6 billion US $.\footnote{The Irrawaddy, Foreign investment in Burma hits US $ 7.6 billion. (published 18th of November 2005). 26th of November 2007. http://www.burmanet.org/news/2005/11/18/irrawaddy-foreign-investment-in-burma-hits-us-76-billion.} In the oil and gas sector foreign companies needed to conclude profit sharing contracts with government owned companies.\footnote{Stephen MacCarthy, op.cit., p. 237.} From all the western and Asian companies that carried out drillings in the early 1990s only the French Total and the American Unocal (today owned by Chevron) decided to actually start producing. It was only after the year 2000 that other companies dared to become active.

### 4.2. Reserves

The opening of the country to FDI had as a consequence that more natural gas reserves were discovered. In 1988 the country reported 0.27 trillion cubic meters (tcm) of proved reserves. This number doubled to 0.54 tcm in 2005.\footnote{BP. op.cit., 15th November 2007. http://www.bp.com/statisticalreview.} However, they only represent 0.3% of today’s proven gas reserves in the world. So why should companies or national governments in Asia be interested in such a little reserve? To understand the interest of Burma’s neighbours we need to compare the reserves of these countries with each other. Burma’s proven reserves at the moment are equivalent to 22 % of China’s, 50 % of India’s and even 179 % of Thailand’s proven gas reserves. Thus for these countries Burma’s gas is indeed important and can contribute to their energy security. If Burma continues to produce at the same level as in 2006, their reserves will last for another 40 years (Reserves-to-production ratio).\footnote{Ibid.} Another reason for the interest can be found in the proximity. Burma’s gas doesn’t need to be liquefied for transportation but can be transported through pipelines if the destination is India, China or Thailand. This lowers the cost and makes it more attractive than LNG shipping. The International Energy Agency (IEA) estimated the length of Burma’s pipeline network in 1999
at approximately 1120 km.\textsuperscript{29} Today MOGE claims it to be 1800km long.\textsuperscript{30} Apart from the pipeline to Thailand, it is essentially a domestic network that serves to link the gas fields onshore with the urban areas of the country.

The largest reserves known today are located on three fields in the Bay of Bengal and the Bay of Martaban (Andaman Sea). The Yadana field encompasses blocks M5, M6 and M8; the Yetagun field is located on the blocks M10, M12, M13 and M14 and the Shwe field stretches over block A1 and A3 (see map in appendix).

4.3. Domestic Production

The authority for oil and gas production in Burma lies within the hands of the Myanma Oil and Gas Enterprise (MOGE). It is owned 100\% by the state and placed under the supervision of the Ministry of Energy, which is headed by the military.\textsuperscript{31} It follows, that MOGE’s profit shares provide the army directly with financial means. MOGE has divided the areas with supposed oil or gas reserves into blocks and put them on auction for exploration and production purposes. Multinational and state owned companies from France, the United States, South Korea, Thailand, India, China, Singapore and even Russia are working in Burma either onshore or offshore. Burma used to produce gas already on onshore fields before 1988 whereas offshore production began only with the arrival of Total (F) and Unocal (US). The recently discovered reserves are located mainly offshore in the Bay of Bengal and the Andaman Sea. The junta intends to reserve the onshore production for domestic use and to export mainly the offshore production.\textsuperscript{32}

With the opening of the country to FDI, the quantity produced also rose. In 1988 Burma produced 1 billion cubic meters of gas. Ten years later, when Total and Unocal arrived, production had only risen to 1.8 bcm. From then on it increased gradually to achieve 3.4 bcm in 2000, 9.6 bcm in 2003 and 13.4 bcm in 2006. This is equal to around 55 \% of Thailand’s, 23 \% of China’s and 42 \% of India’s production in 2006. 8.98 bcm, or 67 \% of its production, was exported to Thailand and provided the military regime with the hard currency so

\textsuperscript{31} Ibid.
desperately needed. In 2007 Thailand will pay around US$ 2.8 billion for its gas imports from Burma.

4.4. Domestic Consumption

The total consumption of energy in Burma in 2005 was at a level of 252 trillion British thermal units (Btu) and per capita consumption at around 5.4 million Btu. This makes the country be among the 35 countries with the least energy consumption per capita in the world. As a comparison, Thailand, which is of comparable size, consumes 3626 trillion Btu in total and 29.3 million Btu per capita. In 1999, the IEA wrote, “Ensuring a sufficient supply of electricity is a challenge in Myanmar. Blackouts occur frequently due to the lack of water and gas resources for power generation, and the deteriorated state of hydro power stations.” This situation has not much changed until today. The blackout in Burma’s cities is almost permanent and citizens need to buy expensive diesel power generators if they want to have a reliable source of electricity. Fuel and gas prices are controlled by the regime and often sold below the international market prices. Because of increasing prices of fuel and gas on the international markets, the regime needs to readjust the prices from time to time in order to not having to pay too high amounts of subsidies. However they make it in a very radical way. In October 2005, the regime increased the price of gasoline nine fold and in August 2007 five fold, as already mentioned. This led finally to the biggest protests since 1988. The Irrawaddy, a Thailand based monthly publication reporting on Burma, asked understandably, “How can a country so rich in gas and oil be unable to provide its own citizens with affordable supplies?” For the answer one needs to look among other factors also at Burma’s refinery capacities. “It is a great irony that while Burma sells unrefined natural gas to neighbouring countries, due to lack of capacity to purify such gas domestically, it must import

refined gas products at substantially higher prices.” All this can only reinforce the impression, that the SPDC is not interested at all in improving the country’s energy conditions, but wants just to get foreign hard currency for their own purposes. At the moment they get this currency from their historical enemy: Thailand.

5. Thailand, The First Partner: Yadana, Yetagun And Human Rights

Thailand’s gas imports from Burma covered 29% of the country’s gas consumption in 2006. The gas is mainly used for electricity production and generates about 20 percent of the national electricity supply. Thailand is today the only exporting partner of Burma in the gas sector. However, this will change in the near future. The gas is extracted from two fields in the Gulf of Martaban (Andaman Sea): the Yadana and the Yetagun fields.

In 1982 the Burma National Oil Company found gas in the Yadana field. The French company Total signed a production-sharing contract with MOGE in 1992 and is today the operator of the exploitation. In 1995, a joint venture of Total, the American company Unocal, the Petroleum Authority of Thailand (PTT) and MOGE was created. They agreed to extract 14.9 million cubic meters (525 million cubic feet) of natural gas per day and to export it by pipeline to Thailand. 3.54 mcm (125 mcf) were reserved for domestic use. This investment over 30 years was worth US $ 1.4 billion. The project was completed in 1998. The 649 km long pipeline from the production platform to the power station in Thailand was only “the second transnational gas pipeline project to be built in Asia. A gas pipeline between Malaysia and Singapore was the first project.” Yadana gas field is thought to have around 161 bcm (5.7 tcf) of proven gas reserves.

Premier Oil (UK), Texaco (US) and Nippon oil (JP) discovered a second gas field in 1992, the Yetagun gas field. The three companies signed a sales contract with PTT Exploration and Production PCL (PTTEP) in 1997 and agreed to provide 5.7 mcm (200 mcf) of gas to the Thai border. For this, an offshore pipeline was built that joined the existing onshore pipeline of the Yadana project. The production started in April 2000.

41 Ibid.
44 International Energy Agency, op.cit., p. 64.
45 Stephen MacCarthy, op.cit., p. 245.
The companies involved in these two projects have been severely criticised by human rights activists for two reasons. Firstly, the cooperation with the junta provides the SPDC with the necessary financial means to oppress its own people. Secondly, during the construction and the operation of the Yadana and Yetagun pipelines, the oil companies were accused for complicity in severe human rights abuses. These abuses included among others forced labour, forced relocations, extrajudicial killings, torture, rape and extortion. The Burma Campaign UK writes about the area where the pipeline of the Yadana project was built: “In 1991, to ‘secure’ the area for Total and other foreign oil companies, the entire pipeline region was militarized; thousands of troops renowned for their extreme brutality were drafted into [the] area”. Total and Unocal have been taken to court by victims in France, Belgium and the US. “In 1997, the US Federal District Court in Los Angeles found that ‘the evidence does suggest that Unocal knew that forced labour was being utilized and that the Joint Ventures benefited from the practice’”. The pressure from human rights organisations led to compensation payments for the victims. However the companies did not withdraw from Burma and continue their productions until today. Other companies took different decisions. Texaco decided to cede to the pressure and withdraw in 1997 from the Yetagun project selling its part to the British Premier Oil. Premier Oil on its part followed in 2002 and sold its shares to the Malaysian Petronas.

Via the Yadana and the Yetagun projects, Thailand was the first country to profit from Burma’s gas wealth. In return, the SPDC received large amounts of hard foreign currency. This inflow of money has had visible consequences for the position of the SPDC on the domestic level. However, nobody can know exactly for what purposes the money has been used. The practise of the junta in the past indicates that it has surely not been invested for economic or social development projects. The New York Times claims that, “The cash has allowed the generals […] to buy weapons from China and helicopters from India, order a nuclear test reactor from Russia and construct their new administrative capital north of Rangoon”. In the same direction points The Burma Campaign UK: “The windfall of income generated through the sale of natural resources and the investment of oil exploration companies has helped the regime to defer essential economic reform and to massively expand

50 Ibid., p. 13.
Burma’s armed forces. Foreign capital has bred a 'new class' within Burma exclusively tied to the senior generals. The people of Burma have been left poorer than when the investment bonanza began.53 Looking at several armed groups, fighting for more autonomy and against the oppression in the areas with ethnic minorities, it can be observed that since the inflow of foreign currency, the Tatmadaw has better military equipment at their disposal. The army was thus able to get the upper hand over the armed resistance of the minorities. They have either been forced into ceasefire agreements with the SPDC (e.g. Democratic Karen Buddhist Army in Karen State) or been reduced to an unimportant size (e.g. Karen National Liberation Army in Karen State). Thus it can be asserted that the financial situation of the junta improved through the gas exports to Thailand and that this lead to a stronger internal position of the SPDC specially towards the armed groups in the areas of the ethnic minorities.

On the international level, Thailand’s policy towards Burma has often been ambiguous. The two countries have fought many wars in the past. The Burmese occupied the former Thai capital Ayutthaya two times in 1569 and 1767 and many people in Thailand see Burma as their historical enemy.54 During the times when communist regimes ruled over Indochina, Thailand was very worried about its security on the eastern border. “Therefore, Thai-Burmese border issues fell into a state of disrepair. These circumstances encouraged the minorities to increase their border attacks against the Burmese government while the Thai side turned a blind eye”.55 Once the situation on the eastern border got better, Thailand made it more difficult for the armed groups of the Mon, Karen, Karenni and Shan to operate in its territory but they continued to tolerate their presence. Burma has repeatedly accused Thailand to support the armed resistance against the regime in the areas of the ethnic minorities. After the 1988 crackdown, the Thai government seemed to join the international community in its condemnation of the military junta, but in the end ”overwhelming economic interests completely dominated the decision-making on Burma”.56 At the time, when the question of Burma’s membership within ASEAN arose, Thailand was very occupied with its internal political issues and was not able to influence the association’s decision significantly. At that moment, the Yadana pipeline was already in construction. Shortly after its admission into ASEAN, the naval forces of the two countries had a direct confrontation over fishing rights. However the SPDC needed the money from the gas exports so desperately that it had no

55 Ibid., p. 119.
56 Ibid., p. 120.
consequences on the gas projects in the Gulf of Martaban. Thai-Burmese relations continued to alternate like the weather until Thaksin Sinawatra came to power in Thailand in 2001. His policy was almost only motivated by economic interests and by the aim to fight the drug production and trade in Burma. He made large telecommunication deals with the junta and remained silent about their unacceptable behaviours.

Thaksin followed Indian and South Korean enterprises in the bid for the development of the A1 and A3 fields off the Arakan coast. However, since Thailand joined the bid a little bit too late, it depended if the Korean Daewoo wanted to sell a part of its portion of shares. PTTEP has also been granted the exclusive rights to explore the blocks M3, M4, M7, M9, and M11 which are located near the Yadana and Yetagun gas fields in the Gulf of Martaban. “As the sole importer of Myanmar's gas, the company was long granted preferential treatment from the junta. But now, says a company official, they are ‘alarmed’ at the new competition for the A1 and A3 blocks”.

Since India and China became interested in Burma’s gas, Thailand has seen its bargaining position weakened. The junta doesn’t need to rely on Thailand for the foreign currency incomes anymore but can play the three governments out against each other. Thailand is interested to import more gas from Burma. Currently the PTTEP considers developing block M-9 jointly with a Chinese company. This means, that it cannot take a tough stance towards the regime as it did sometimes in the past. Bangkok has to be careful that the bilateral relation remains stable. Otherwise a disappointed military junta will prefer to deal with neighbours that don’t ask critical questions. In the bilateral relationship between Thailand and Burma, the SPDC has strengthened its position because more actors cooperate with the regime in the gas exploitation than before. They depend not on Thailand anymore. The most important among these partners is today China.

6. China, A Political Partner: Gas, Oil and The Straits Of Malacca

China is implicated in many ways in Burma. Economically the trade between the two countries is growing. Burma exports mainly raw materials while China is selling

manufactured goods to Burma. Politically, Beijing has always been a reliable partner since the 1988 crackdown. One has not to forget that the communist regime carried out a similar repression one year later in 1989 on the Tiananmen Square. The demands of the protesters and the reaction of the regime were quite analogous. Historically, Burma has always been the backdoor entry into China or put differently, the Chinese access to the Indian Ocean. Concerning fossil energy resources, Burma is today interesting for China for two reasons. The first lies in Burma’s gas wealth. The second is of geostrategic nature and has to do with the Chinese access to the Indian Ocean and the vulnerable dependency of Beijing on the Malacca Straits.

New gas reserves have been discovered in 2004 of the Arakan (today Rakhine) coast and have attracted the interest of the Chinese government. The reserves are located in the blocks A1 and A3, and are also called the “Shwe field”. Shwe is the Burmese word for gold. In August 2000, the Korean company Daewoo signed a production-sharing contract with MOGE on this area. Later it sold some of its shares of this contract to other companies. Today the Indian companies Gas Authority of India Ltd (GAIL) and Oil and Natural Gas Corporation Videsh Ltd (ONGC Videsh) own 10% and 20% respectively of the shares. KOGAS from South Korea is in possession of another 10% and the remaining 60% still lie in the hands of Daewoo. The production of the Shwe field is expected to start in 2009.

This distribution of the shares doesn’t necessarily determine the destination of the gas flow. That became clear when a somewhat secret Memorandum of Understanding (MOU) was signed in 2005 between the junta and PetroChina, a subsidiary of the China National Petroleum Corporation (CNPC). It stipulated to sell 185 bcm of gas from the A1 block to China through an overland gas pipeline that would be built between Akyab (today Sittwe) and Kunming, the capital of the Chinese Yunnan province. The proven reserves of block A1 are estimated to be between 161 and 283 bcm (5.7 to 10 tcf). In August 2007, this decision was confirmed. This means, that even though Indian and Korean enterprises are involved in the production of gas on this field, neither India nor South Korea will get the biggest share of the gas reserves. The reasons of this development will be explained later in the text. The pipeline

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is expected to cost about one billion US $.\textsuperscript{66}

While the Akyab-Kunming gas pipeline project is the largest stake of China in Burma concerning natural gas, it is by far not the only one. According to Earth Rights International, “China currently has at least 17 onshore and offshore oil and gas projects in Burma, with investment from at least seven companies, including the three major Chinese oil and gas companies Sinopec, CNPC and China National Offshore Oil Corporation (CNOOC)”.\textsuperscript{67}

The route from Akyab to Kunming is also interesting for China under another aspect. China has today one major concern regarding its energy security. It relies too much on the Malacca straits for its energy imports and trade flows. More than 50’000 ships pass Malacca in one year. 50% of the global trade of oil on sea and 80% of crude petroleum imported by China go through this point.\textsuperscript{68} The region between the Sumatra, Singapore and Malaysia is very well known for its piracy attacks. However, it is more the geostrategic situation that worries Beijing. For example in case of a crisis with the US, the US Navy would have no problem to close the straits for traffic. China has no blue water navy to protect its sea routes. But a simple accident would also be sufficient to disturb the traffic in a way that would harm the flow of fossil energy sources and trade to China.

Many solutions have been proposed to resolve this dependency. They include for example building an inter-Asian rail system that would carry oil from the Indian Ocean to China or building a pipeline between the west and the east coast of Thailand. It has been even considered to build a channel through southern Thailand to rely the Andaman Sea and the Gulf of Thailand, the so-called Kra Canal.\textsuperscript{69} But all these proposals did not persuade the Chinese government, either because of their limited shipping capacity or because of their high costs. The solution of the Kra Canal might also “complicate China’s relationship with the three countries that sit on the Malacca Strait, Indonesia, Malaysia, and Singapore. As the completion of the canal would lessen the traffic of the Malacca Strait, the three littoral states’ business interests would be negatively affected, particularly Singapore’s”.\textsuperscript{70}

Instead the South-east Asia Institute of the Yunnan University came up with an idea that met with Beijing’s approval. It proposed to build an oil pipeline from Akyab to Kunming. The

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\textsuperscript{70} \textit{Ibid.}, p. 42.
length of the pipeline would be around 2380 km\textsuperscript{71} and the costs about 2 billion US dollars. Compared to the estimated costs of 20 billion US dollars to build the Kra Canal, this is an affordable figure.\textsuperscript{72} The pipeline would save about 2000 km in shipping route. The vessels would then dock at the port of Akyab and discharge their load. From there the oil would be shipped to the Chinese border through the pipeline. The proposal won the approval of the National Development and Reform Commission (NDRC) in early 2006. \textsuperscript{73} Constructions were expected to begin in 2007.

China is also planning to rely the Burmese coast to its territory by rail. In this way goods could also be traded through Burma and be transferred onto vessels in the Bay of Bengal. The railway as the two pipelines help also to develop the south western region of China, that doesn’t experience the same economic boom like on the east coast.

How did these three projects and the gas reserves in the Shwe field influence the relations between Burma and China? Since 1988, China has always been a close ally of the military junta. For example, large arms selling took place between the two countries and contributed to the successes of the Tatmadaw against the armed groups of the ethnic minorities.\textsuperscript{74} Today Burma is vital for Chinese interests. The main interest lies in my eyes in the access to the Indian Ocean. It is for the moment the only alternative to the Straits of Malacca concerning the transport of energy sources, if a route through Indian territory is excluded in advance. In this way it constitutes an essential part of a strategy aiming to improve China’s energy security. Secondly, the gas resources from Burma are a welcoming source to cover the demand of energy that cannot be satisfied by domestic Chinese production. Hence China has surely the interest to maintain the situation in Burma as stable as possible and to continue the good relationship with Naypyidaw. This strengthens the position of the SPDC in respect to China. The full support for the junta could be observed during one of the rare occasions when the Security Council treated the subject. On January 12\textsuperscript{th} 2007, China together with Russia vetoed a resolution on Burma calling for the release of political prisoners and for the acceleration of the democratic process as well as expressing its deep concern on several other issues.\textsuperscript{75} On October 11\textsuperscript{th} 2007, following the crackdown on the large scale protests, the

\textsuperscript{72} Bo Kong, \textit{op.cit.}, pp. 42-43.
Security Council was able to issue a common statement, strongly deploring “the use of violence against peaceful demonstrations”.\(^{76}\) It had been the first time ever that the UN Security Council had issued an official statement on Burma. However, no member proposed a resolution taking concrete action because it was clear that such a move would be vetoed by China.

From another point of view, the SPDC could also become too much dependent when relying only on his main political partner China. For instance selling the domestic gas resources only to China would certainly not be a wise decision. Beijing would then get in a position where they can decide over the income of foreign currency of the junta. All in all I would say that Burma’s gas wealth contributes to strengthen the SPDC’s position towards China, but that the geostrategic reasons are just as important. The good relationship between Burma and China, as well as the Chinese military projects in the Indian Ocean have had an alarming effect on Burma’s western neighbour India. Also there, geostrategic reasons are evoked when it comes to justifying the cooperation with the military regime.

7. India, A New Partner: Repositioning Of The 1990s And A Bangladeshi Problem

When in August 1988 the country rose up against Ne Wins rule, India supported the movement. They were also a lot of reasons to do so. India as the biggest democracy in the world had a moral responsibility to support the democracy movement. In addition to that, the principle figure of the movement, Aung San Suu Kyi had been educated in India while her mother was ambassador for Burma to New Dehli. In 1992 Aung San Suu Kyi received the Nehru Award for International Understanding honouring her non-violent struggle for democratic change in Burma. Already in 1988, Buddhist monks were involved in the protests, and as a country that calls itself land of the Buddha India could not remain silent.\(^{77}\)

The recent protests show a completely different picture. India remained most of the time silent and did not publicly support the movement or condemn the junta. The reasons of this behaviour are divers. Jürgen Haacke denominates three causes for this policy shift.\(^{78}\) A first can be found in the fear of encirclement by China. New Dehli has been more and more afraid since the mid 1990s that alliances between China and its neighbours Pakistan, Bangladesh and Burma led to an isolation of India. A second reason can be found in the new “Look East


\(^{78}\) Jürgen Haacke, Myanmar’s foreign Policy – Domestic influences and international implications. 1st ed. (Oxon: Routledge, 2006). p. 34.
Policy” of the Narasimha Rao government. It aimed at increasing economic ties with South East and East Asia. As a third reason, he points to the internal security problems in the northeastern provinces of India. How did the discovery of gas influence this picture then?

India has not missed to assure itself a stake in the newly discovered gas resources off the Arakan coast. GAIL and ONGC Videsh Ltd hold together a 30% share of the gas projects on the blocks A1 and A3. The Indian government hoped to extract the gas and to ship it either through pipeline or by LNG ships to Calcutta in the Indian West Bengal state. The cheapest solution would be to build a pipeline through Bangladesh’s territory. In January 2005, Bangladesh, India and the military regime in Burma agreed in principle to realise this pipeline project. However, a few days after the agreement, Bangladesh already placed additional condition to India. In fact, they asked for a bilateral treaty with India to fix some concession in questions that trouble the relationship between the two countries already for some years. These include the Bangladeshi demand, “to have overland access to hydroelectricity generated in Nepal and Bhutan as well as trade routes for commodities between Bangladesh and the two Himalayan kingdoms”. This showed clearly that Dhaka was determined to gain as much out of its geostrategic position as it could.

In December 2005 the Indian authorities were caught in surprise when they heard from the Memorandum of Understanding between China and Burma, to pump gas from Akyab to Kunming through a pipeline. The Burmese junta seemed to have lost patience with India and Bangladesh and thought that a solution with China would be less complicated. Also, China needs to build a pipeline from Akyab to Kunming anyway for its oil supplies from the Middle East. So they can be some synergies when building a gas pipeline on the same route. However, the junta assured India several times that they had enough gas to provide both, China and India with energy. But nevertheless, the Indian position in respect Burma seems to be a weak one compared to the Chinese position. China has much more to offer to the SPDC and has been a strategic ally for a long time. China’s permanent membership in the UN Security Council can prevent any resolution against Burma.

These were bad news for India and as a reaction they started to look for alternative solutions. One possibility that would please the South Korean companies would be to liquefy the gas

and to ship it by sea to India and other places. In this way South Korea would also get something of this gas. “But the cost could be prohibitive and it could be several years before an LNG facility in Myanmar would come on-stream. Thus, constructing pipelines is the more likely option”. Indeed, the construction of an LNG terminal would bring along costs between 3 and 5 billion US $. Also it would bolster the dependence of East Asia on the Malacca Strait.

Remained the possibility to build a pipeline around Bangladesh exclusively on Indian territory. This seems the solution that has been adopted by New Delhi. However whereas the first pipeline option through Bangladesh costs about 1 billion US $ and is 900 km long, the second option would cost 1.3 billion US $ and would be 1200 km long.83

Even, if India seems to have lost the first round against China, this was only one battle in a possible long competition to win the SPDC’s favour for their energy needs. That there are more opportunities open for India could be seen in September 2007. Amidst the large-scale protests led by the monks, the Indian Minister of Petroleum and Natural Gas Murli Deora travelled to Burma to attend the signing of new Production Sharing Contracts (PSC) between ONGC Videsh Ltd and MOGE.84 The agreement concerned the three deep-water exploration blocks, AD2, AD3 and AD9 (not indicated on the map joined). “All three blocks have good hydrocarbon potential as they are close to shallow water blocks A-1 & A-3”,85 explains ONGC Videsh Ltd on their website. In the meanwhile, Deora has been severely criticised by human rights and democracy activists for this trip. But Indian politicians are also divided on the policy of the actual Indian government. Former defence minister George Fernandes stated, “It’s time we forgot oil and China and took the lead in aiding the democracy movement in Burma. The junta, for me and for those fighting it, is a bunch of criminals and the [Indian] government should view it so”.86 However, Jürgen Haacke observed that “India has sustained its pragmatic policy towards Rangoon under different governments in New Delhi, including the current Congress-led administration”.87

The policy shift of the 1990s has not directly been caused by the discovery of fossil energy resources in Burma. However, they have made it very likely that this shift remains permanent.

87 Jürgen Haacke, op.cit., p. 37.
India has courted the SPDC with large-scale arms deals and military cooperation including trainings for military personnel. New Delhi has defended Burma at the UN Human Rights Commission and needs Naypyidaw’s cooperation to fight armed groups in its northeastern provinces. However India’s position in the competition about Burma’s gas is weak compared to the Chinese one and also economically, China has much more to say in Burma. Some analysts think more critically about the cooperation with Burma, also under a purely strategic eye. “The gas from the explored blocs in Arakan has been given over to the Chinese. The Burmese army has not undertaken a big operation against our north eastern rebel groups like Bhutan did in 2003. The junta has taken us for a ride, so we have no reason to support their survival”

Believes Burma specialist Nandy. The overall picture shows a Burmese military regime that has much improved its position towards India since 1988. In this picture, the gas resources are an essential factor to attract Indian interest. But the Chinese influence is as well a reason for Indian’s activity in Burma. For India, one big problem concerning their energy security remains. The country doesn’t lack the proximity to fossil energy resources, but two crucial neighbours have a hostile attitude towards New Delhi. It is, at least in part, a historical burden that impedes the country to accede to these resources.

8. Conclusion

After 1988, the SLORC/SPDC followed a precise strategy that has been successful in respect to their international and internal position. On the domestic level, the regime has been able to get the upper hand over the armed groups of the ethnic minorities. However, the areas where ceasefires have been concluded are not stable. The ceasefires have not led to effective peace talks. They are better characterised as business deals and a division of spheres of interests. No armed group has been disarmed and the situation concerning the cultural expression of the ethnic minorities has not improved. Instead they are allowed to grow poppy, cut teak and extract natural resources like gems, to make money. The so-called ceasefire groups are pressured to fight on the side of the Tatmadaw against the remaining armed groups of the ethnic minorities. A long-term solution to establish effective and legitimate civilian rule over the whole country has still not been found. Hence, when I affirm, that the position of the SPDC has improved on a domestic level, I refer to the military situation, to the force of the Tatmadaw and the respective weakened armed groups of the ethnic minorities. This has also as a consequence that the civilian population of the ethnic minorities are not protected by their

armed groups anymore and are exposed to the arbitrariness of the Tatmadaw. Severe human rights abuses and crimes against humanity continue to occur on a regular basis in these areas. On the international level, the SPDC has become definitely accepted as a partner by their three most important neighbours. While this was already the case for the case of Thailand and China in 1988, India has made a major policy shift in the 1990s. The acceptance of the SPDC is only partly due to their gas resources. In the case of China and India, geostrategic aspects play an important role. For Thailand, the energy argument is probably the most valid. Generally it can be affirmed for all three governments, that energy concerns prevail over human rights issues. The lack of a regional supranational body like the European Union transforms the interest in Burma’s gas wealth into to a zero-sum competition. Instead of cooperating with each other, the three nations overbid each other in order to get the biggest piece of the cake. This game is played for the benefit of the SPDC. It undermines also the economic sanctions taken by the US and some European countries. The SPDC has no problems to bypass them and its neighbours benefit from the growing trade flows. Today the SPDC stands more stable than ever in the international scene, in defying all criticism of the international community.

However, the growing interconnection of the country with its neighbours can also be a chance since they can exercise a bigger influence on Burma. More India, China and Thailand will depend on Burma’s gas; more they will be interested in a stable situation in the country. In the long-term, stability cannot be achieved exclusively with repression and the voice of violence. Sooner or later, the Burmese regime will need to tackle the fundamental problems of Burma. But if the three neighbours want to exercise an effective influence on the domestic situation in Burma, they will need to cooperate with each other and to agree on their strategies. Otherwise the zero sum game is likely to continue. They will also need to give up their sacrosanct principle of strict non-interference in domestic affairs. Anyway, the Aids epidemic, drug trade and consumption in Burma as well as refugee flows are affecting human security issues in the border regions of the three nations. Hence it is also in their interest to give up this principle.

One plan clearly has not much chance to succeed in Burma. No government in the region is interested to overthrow the SPDC. In this respect, the United States and the European actors should rethink their strategies. It cannot be in the interest of Burma’s partner in the gas trade, to have disruption of gas supplies and chaos on their border. It seems that a change in this country is only possible in changing the nature and attitudes of the regime. But this is exactly what has been tried already many times and has not been successful yet. ASEAN’s constructive engagement policy failed to show any positive results concerning national
reconciliation or democratic progress. The recent missions of UN Secretary General’s Special Reporter Ibrahim Gambari and UN Special Reporter for Human Rights Paulo Sergio Pinheiro are not very encouraging. Also too little is known in the outside world about the internal functioning of the military regime. Here more research is necessary. It is possible that a change within the leadership of the SPDC will take place soon. The actual head of the SPDC, general Than Shwe will turn 75 in 2008 and apparently his health situation is not very good. A change in leadership would surely raise a gleam of hope for political change among the people of Burma.
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10. Appendix

10.1. Political map

10.2. Map of gas blocks

10.3. Transport costs of gas: Gas pipeline vs. LNG

10.4. Map of the Yadana and Yetagun fields

91 Jean-Pierre Favennec, op.cit., p. 19.
10.5. Map of the pipeline projects from the Shwe field