



China-Myanmar Energy Engagements Challenges and Opportunities for India

Tuli Sinha

Research Officer, IPCS, New Delhi

In the context of energy diplomacy and security, for India and China, Myanmar is rapidly emerging as the primary gateway to their much needed energy supplies, particularly China having already established itself as the first investor in Myanmar. Recent gas discoveries by Daewoo in the Bay of Bengal have now attracted major Indian and Chinese operators to carve out a share of the significant gas and petroleum potential, and plans are being finalized for a petroleum pipeline linking south-western China to the Bengal coastline of Myanmar.

China and India are the second and third largest economies in Asia, respectively. The need for rapid economic development, industrialization, urbanization and improved lifestyles is driving the two countries' energy demand higher and making them increasingly reliant on world energy markets. Historically, China has been deeply involved both strategically and economically in Myanmar since the late 1980's. Recently, the Indian government also awakened to the fact that it holds significant advantage to engage Myanmar in regards with energy explorations. Therefore it becomes crucial to understand the strategic importance of Myanmar with respect to energy security for the two Asian giants.

I GEOSTRATEGIC INTERESTS IN MYANMAR

For both China and India, Myanmar's geostrategic location at the tri-junction of East Asia, Southeast Asia and South Asia is of critical significance. China and Myanmar share a common border of 2,200 km with easy access to each other's territory. Myanmar is not only a potential supply route bypassing the Malacca Strait, but also a strategic staging point for controlling access to Malacca Strait's western approaches. It is well understood that controlling Malacca Strait is a key strategic objective of China to the point of risking armed conflict with

the regional States and the US. Access to Myanmar's ports and overland transportation routes through Myanmar is seen as a vital and strategic security asset for China.

China's security interest in Myanmar is to gain promising land access to the Indian Ocean. Myanmar's location at China's southwest holds strategic importance for the People's Liberation Army Navy (PLAN) in terms of its reach to the Indian Ocean via Myanmar controlled islands. The PLAN would be able to shorten the distance by 3000 km by avoiding the Strait of Malacca to reach the Bay of Bengal.

In terms of energy security, this has also become increasingly important with China's growing dependence on imported oil, 80 percent of which is shipped to China via the Malacca Strait. Myanmar is critical to Yunnan and other Chinese landlocked provinces. Also, in terms of transportation, Myanmar is the only passage for Yunnan to reach South Asia and an important gateway to Indian Ocean. A resource-rich Myanmar deals in oil, gas, lumber and gemstones. Even in regards to the border security, counter-narcotic trafficking, money laundering and smuggling of arms are important issues for both neighbouring countries. Myanmar is therefore part and parcel of China's strategic design to develop its western region.

India and Myanmar share a 1,640 km long unfenced border. Myanmar has a long coastline of 2,276 km that shares parts of the Bay of Bengal, in particular the surrounding areas of the Coco Islands and the Andaman Sea, which is important to India's strategic consideration. Also, Myanmar's location is central to strengthening India's Look East Policy, energy security and counterbalancing China's influence in Southeast Asia.

Today, there seems to be a rivalry between India and China for Myanmar - from the tangles of

trade and investment to the intangibles of cooperation and support for their respective regional influence. Both countries are anxious to tap Myanmar's huge oil and natural gas reserves and are also seeking access, through Myanmar, to the Indian Ocean to help open up their poor landlocked provinces in their southwest and northeast, respectively.

II

RISING ENERGY COMPETITION IN MYANMAR

China's demand for oil doubled over the past decade, increasing from 3.3 million barrels per day (bpd) in 1995 to 6.6 million bpd in 2005, and is predicted to increase to 13.6 million bpd by the year 2020. Recent estimates of China's natural gas demand in 2020 range from 125 to 250 billion cubic meters (cm) and domestic natural gas supply run from 80 to 150 billion cm. These projections indicate that China could import as much as 130 billion cm of natural gas in 2020, accounting for almost 70 per cent of its total natural gas consumption.

For India, power shortages were 25 percent during 2006, and oil demand is set to increase from 2.8 million barrels per day (bpd) to 5.6 million bpd from 2020-2030. India's gas requirements for electricity production have been estimated at between 61 billion cm and 199 billion cm by the year 2030. India is becoming increasingly clear that large amounts of gas will need to be imported from abroad. Thus both India and China are making a global search for energy as part of their energy strategy.

Myanmar is rich in oil and has Southeast Asia's largest natural gas reserves. According to official estimates, Myanmar has oil reserves of around 600 million barrels, and total gas reserves of 88 trillion cubic feet (tcf) – only slightly less than Indonesia. New massive finds in three fields in the Gulf of Bengal – Mya, Shwe, and Shwe Phyu (jointly known as the Shwe project which is estimated to hold 5.7-10 tcf of gas) – have sparked an intense bidding war between Bangkok, Beijing and New Delhi, all of which are seeking exclusive rights to

Precisely, the progressive tightening of global oil and gas markets over the past seven years has led to a pronounced escalation in tensions among the major energy importing countries over energy security and long-term access to global energy supplies.

the gas. Natural gas from the Shwe field has become a contentious issue in China-India relations, and an obstacle to Sino-Indian energy cooperation.

The current Blocks A1 and A3 off the Rakhine coast (the site is called Shwe—the Burmese word for gold) are being explored by a consortium led by Daewoo (60 per cent), together with Korea Gas Corporation (10 per cent), and two Indian companies ONGC Videsh (a subsidiary of Oil and Natural Gas Corporation, 20 per cent) and GAIL (Gas Authority of India Ltd., 10 per cent). Further explorations of blocks adjacent to A1, specifically Block A3, have also begun. Chinese companies, although not involved in the early stages of gas exploration at Shwe, have bought exploration rights to seven blocks covering an area of over 9.56 million hectares.

In 2005 after a two-day tri-nation meeting of energy ministers from Myanmar, India, and Bangladesh in Yangon, a memorandum of understanding was signed with all parties pledging to cooperate in a project to pipe Block A1's natural gas output to India across Bangladesh. But further negotiations stalled in the following months as the two South Asian countries could not agree on the terms and conditions of the project.

III

RECENT DEVELOPMENTS AND ITS IMPLICATIONS

It was PetroChina which eventually signed a gas export Memorandum of Understanding with Myanmar in early 2006 and completed the survey for a 2,389-km pipeline from Kyakphu in Myanmar to China's Yunnan province. India was caught unaware when Myanmar had agreed to sell 6.5 tcf of gas from Block A1 to PetroChina over 30 years. The end-user agreement with PetroChina came really as a surprise to the Indian stakeholders, who had for several years negotiated for a Myanmar-Bangladesh-India gas pipeline.

In April 2007, the Chinese National Development and Reform Commission approved an oil pipeline linking Myanmar's deep-water port at Sittwe with Kunming. This pipeline would allow an alternative route for China's crude imports from the Middle East, reducing shipping time and its dependence on traffic through the Straits of Malacca.

In early 2009, China announced the construction of oil and gas pipelines through Myanmar into its South-western Yunnan Province. This project is of great importance for China, as it will open the fourth route for Beijing's oil and natural gas imports, after ocean shipping, the Sino-Kazakhstan

crude oil and natural gas pipelines, and the Sino-Russian oil pipeline. It will further increase China's gas import, which is projected to exceed 100 billion cubic meters over the next few years.

Recent developments in the gas field projects of Myanmar have served to highlight the intense energy diplomacy that is going on in this region. As a negative impact on India, Myanmar withdrew India's status as preferential buyer on the A1 and A3 blocks of its offshore natural gas fields, and instead declared its intent to sell the gas to PetroChina. However, India's current setback in the field of energy rivalry is unlikely to lead to a decrease in its attempts to compete with China in other fields, and to win greater cooperation from Myanmar over counter-insurgency efforts. On the other hand, Myanmar has been diversifying its foreign relations and expanding its diplomatic space, allowing itself to be courted by India, Russia and other big countries, so as to reduce its reliance on China. India will undoubtedly make more overt efforts to establish a stronger presence in Myanmar.

IV

CONCLUSION: WHAT CAN INDIA DO?

Major factors that should foster India's proactive relation with Myanmar are as follows: first, as a Look East Policy initiative to reach out to ASEAN on the whole; second, to coordinate efforts with Myanmar to develop the Indian Northeast region by controlling insurgency and promoting economic growth and development; and lastly, to counter and control the growing Chinese influence in Myanmar to further ensure a balance of power in Asia. But on a more crucial level, the priority of India's engagement with Myanmar is purely economic and in particular focussed to deal with the nations rising energy demand.

To maintain its current ties with the region and enhance it further in future India needs to perform in certain sectors. Infrastructure projects, such as the Trans-Asia Highway between Northeastern India and Bangkok passing through Myanmar are the key to opening new trading routes between India and the Southeast Asian neighbours. Myanmar sees itself increasingly as a regional hub for transport between South and Southeast Asia. A rail link between Delhi and Hanoi is also planned. Aside from that, the discussed projects on copper exploration and a hydro-electric project on the Chindwin River should also be completed. The Imphal-Tamu-Kalemayo road is another project pushed by the Indian government. All those will lead not only to further bilateral cooperation and trade, but will also open the Southeast Asian markets to Delhi and get India more involved in the Asian trade world. The issue of the trade and energy corridor between Bangladesh, Nepal and

As Myanmar is of special importance to China, the shift in New Delhi's stance has thus generated a sense of rivalry between the two for the affectations of Myanmar from the tangibles of trade and investment to the intangibles of cooperation and support for their respective regional influence.

Bhutan delayed India's final offer to Myanmar. Critical, however, were the security fears in Delhi who are worried about China's increased role in the region.

Projects like the reopening of the Stillwell road should also be seriously considered. The Stillwell road is an Indo-Chinese partnership, half to be constructed by India and half by China. Work on the Chinese side has already started, not only within China, but also in Kachin state near Bamo and between Bamo and Mitkyna, Kachin's capital. Another deal which was mentioned was India wanting to sell transmission lines and the Indian government being willing to give a soft loan of around US\$200 million at two percent and with a five-year grace period for 20 years. With regard to developing the Sittwe port, the offer to Myanmar has changed as India originally wanted to build, own and operate the port for three years. Since the Myanmar government was not too keen on this the nature of the project was changed and now India is offering to build and transfer the port.

It is also required to remove obstacles related to transport, banking or other infrastructure for boosting bilateral trade. Strengthening of the Banking arrangements to facilitate trade & investment as well as tourism, is of utmost importance. The India-Myanmar Joint Trade Committee (JTC) must play a prominent role in removing the existent obstacles/barriers to trade in a pro-active manner. Infrastructural bottlenecks at Moreh-Tamu border point must be removed on a priority basis. Trade between India and Myanmar is conducted largely through Indian companies with representative offices in Yangon. The trade is hampered by the fact that India and Myanmar do not accept direct payment methods because of the banking system; consequently trade is diverted through a third country, most often Singapore. Exports from Myanmar are paid for via advance telegraphic Transfer (TT) and Myanmar does not accept letters of credit (LoC), the preferred method used by Indian companies. Therefore Indian companies need a Singapore company which receives the TT from Myanmar and the LoC from India, reducing these

transactions considerably due to their complex administrative procedure.

The idea of opening a superhighway between Calcutta and Bangkok which was initiated between Indian and Myanmar during a foreign ministers meeting in Thailand in April 2004 should be taken into consideration. More needs to be developed further to become a state of the art border. Other border trading posts should also be developed further. The Northeast's connectivity to India and outside world is important. This especially warrants further thought if China and Bangladesh are going to be difficult. Besides Indian needs to cultivate closer cooperation with Indian businesses and offer soft loans to Nay Pyi Taw.

India should bid for at least three deep sea blocks. Beyond that, the development of Sittwe Port and Kaladan river project are key issues. The latter project involves dredging of the river to create a trans-shipment terminal. This would take two years and whole project would take around four to five years.

India also needs to develop a clear vision on how to deal with China's influence in Myanmar. China is seen as pre-empting India as they have no parliamentary committee. This is, however, an oversimplified vision of the situation on the ground. Myanmar is interested in balancing Chinese influence with Indian influence. This is especially the case with the Ministry of External Affairs vs. the Ministry of Commerce or Petroleum. Officials tend to shrug and say that the Chinese are better organised, were there early and have more resources to throw around. However no one is willing to drive forward with an Indian agenda. Uncomfortable relationships between the various ministries and their differing visions with regard to Myanmar and China are issues than need to be addressed.

There is also a need to expand India-Myanmar cooperation into the areas of culture, education, public health, protection of biodiversity and traditional knowledge, rural community development, small and medium-scale enterprise, construction, environment, information and communications technology, biotechnology, weather & climate research, natural disaster mitigation & management, naval expertise, etc. This would make the co-operation between the two countries broad-based and sustainable. The announcements that a joint business council would be set up was also welcomed by the traders in the Northeast of India as it would also facilitate private Indian investment into Myanmar. Thus, it's crucial for India to maintain its strategic engagements with Myanmar in years to come not

only for energy but with much larger goals in mind.

References

- Downs, E. S, 2004, "The Chinese Energy Security Debate", The China Quarterly 177, Cambridge University Press, pp 21-41
- Collier, R. 2005, "China on global hunt to quench its thirst for oil", San Francisco Chronicle, URL: <http://www.sfgate.com/cgi-bin/article.cgi?file=/c/a/2005/06/26/MNG27DF8HQ1.D>
- Thin Thin Aung and Soe Myint, "India-Burma Relations", http://www.idea.int/asiapacific/burma/upload/cha_p4/pdf
- Shee, Kim Poon, 2002, "The Political Economy of China Myanmar Relations: Strategic and Economic Dimensions", Vol 1, *Ritsumeikan Annual Review of International Studies*, pp 33-53
- Lall Marine, 2006 "Indo-Myanmar Relations in the Era of Pipeline Diplomacy", *Contemporary Southeast Asia*, Vol.28, No.3
- Than Maung Maung Tin, 2003, "Myanmar and China: A Special Relationship?" *Southeast Asian Affairs*
- Pant V Harsh, 2007, "India in the Asia-Pacific: Rising Ambitions with an Eye on China", *Asia-Pacific Review*, Vol.14, No.1
- Gideon Lundholm, 2007, "Pipeline Politics: India and Myanmar", *PINR Power and Interest News Report*
- Daojiong, Zha, 2009, "Oil Pipeline from Myanmar to China: Competing Perspectives", *RSIS Commentaries*.
- Madan, Tanvi, 2006, "Energy Security Series: India", The Brookings Foreign Policy Studies.
- Hong, Zhao, 2009, "China and India: the Energy Policies", *EAI Background Brief*, No 462.
- Tonneson and Kolas, 2006, "Energy Security in Asia: China, India, Oil and Peace", Report to the Norwegian Ministry of Foreign Affairs, International Peace Research Institute, Oslo.
- Medeiros and Fravel, 2003, "China's New Diplomacy", *Foreign Affairs*, Vol. 82, No.6, pp.22
- Daojiong, Zao, 2006, "China's Energy Security: Domestic and International Issues," *Survival*, Vol. 48, No. 1, pp. 182.
- Kraenner Muller Sascha, 2008, "China and India's Emerging Energy Foreign Policy", *DIE*, Bonn
- Gal Luft, 2006, "Fueling the Dragon: China's Race into the Oil Market," Institute for the Analysis of Global Security, URL: <http://www.iags.org/china.htm>
- Myoe Aung Maung, 2007, "Sino-Myanmar Economic Relations Since 1988, ARI Working Paper, No. 86.



**SOUTHEAST ASIA
RESEARCH PROGRAMME (SEARP)**
INSTITUTE OF PEACE AND CONFLICT STUDIES
B-7/3, Safdarjung Enclave, New Delhi, India, 110029, Tel: 91-11-4100 1900

SEARP is supported by the SAEA Group,
Singapore

