

CRS Report for Congress

Burma-U.S. Relations

Updated October 4, 2007

Larry A. Nicksch
Specialist in Asian Affairs
Foreign Affairs, Defense, and Trade Division



Prepared for Members and
Committees of Congress

Burma-U.S. Relations

Summary

By the end of September 2007, the Burmese military regime had suppressed with force anti-regime protests that began in late August, escalated in mid-September, and were led by Buddhist monks and pro-democracy activists. This drew new protests from the United States over the regime's abusive human rights record. According to human rights reports by the U.S. State Department and private organizations, Burma's poor record worsened in 2004, 2005, and 2006. These reports have laid out a familiar pattern of government and military abuses of civilians. As in the past, U.S. diplomatic initiatives in September 2007 did not prevent the regime's crackdown. China blocked a U.S.-European Union proposal to have the United Nations Security Council consider imposing sanctions on Burma. However, Burmese military leader Than Shwe proposed to a United Nations envoy that he would meet with opposition leader Aung Sann Suu Kyi if she would cease encouraging confrontation with the government and foreign economic sanctions.

The SPDC appears unaffected by sanctions imposed by the United States and other Western nations. Western sanctions are uneven with U.S. sanctions being the heaviest. Burma has been able to expand exports of a variety of commodities, including growing earnings from natural gas production. China and India have signed deals with the SPDC for substantial purchases of natural gas. Burma also reportedly earns between \$1 billion and \$2 billion annually from exports of illegal drugs, heroin and methamphetamines. Most of these earnings go to drug traffickers connected to the Wa and Shan ethnic groups; but Burmese military officials have means to gain a substantial share of these earnings. Burma's fellow members in the Association of Southeast Asian Nations (ASEAN) have grown more critical of the SPDC, but they continue to oppose sanctions. Chinese diplomatic support of the SPDC and military and economic aid is very important: \$2 billion in military aid since the early 1990s, \$200 million annually in economic aid, substantial foreign investment including new investment in natural gas, and a huge influx of Chinese migrants into Burma, mainly traders. China's role is a prime justification for India's "constructive engagement" policy toward Burma. Burma has reestablished diplomatic relations with North Korea amidst reports of growing military cooperation between them.

Since 1988, the United States has imposed sanctions against Burma, including congressional passage in 2003 of the Burma Freedom and Democracy Act (P.L. 108-61) banning imports from Burma (renewed by Congress in 2006). The Bush Administration proposed that the U.N. Security Council consider the Burma situation and introduced a resolution in the Council. China and Russia vetoed the resolution in January 2007 and blocked a U.S. attempt to secure Security Council consideration of sanctions in September 2007. The Administration also faces limits on its flexibility in using sanctions in U.S. diplomacy. Contacts with the SPDC are extremely limited. The Administration has indicated that it would use sanctions to initiate a "road map" process with the SPDC, but Congress appears to be against a "road map" approach and stated in the Burma Freedom and Democracy Act that the full range of U.S. sanctions should remain until the SPDC ends human rights abuses and makes fundamental political concessions to Aung Sann Suu Kyi.

Contents

Most Recent Developments	1
Burma's "Extremely Poor Human Rights Record" and Political Deterioration ..	3
International Pressure Mixed With Foreign Support for the SPDC	6
U.S. Policy	13

List of Figures

Figure 1. Map of Burma	17
------------------------------	----

Burma-U.S. Relations

Most Recent Developments

By October 1, 2007, the Burmese military government had suppressed with force large-scale anti-government protests that began in late August 2007 and escalated in size and objectives in mid-September. Small-scale protests occurred in several cities after the government announced on August 15, 2007, a doubling of diesel fuel prices and a five-fold rise in the price of natural gas. The government resorted to selective arrests, and the protests remained small until an incident between Burmese soldiers and Buddhist monks on September 5, 2007. That incident sparked the entrance of young monks into the protests. By September 18, thousands of protesters led by monks were marching in Rangoon and Mandalay, Burma's two largest cities. The size of the protests reached a reported 100,000 in Rangoon on September 24. Anti-government, pro-democracy activists joined the protests along with thousands of ordinary citizens.

Equally as important, the objectives of the protests changed from the economic to the political. The early protests called for a rescinding of the August 15 fuel price increases. The main goal of the monks immediately after September 5 was to secure an apology from the government for the September 5 incident.¹ But after the protests grew in size, spokesmen for the monks joined the pro-democracy activists in calling for political reforms, including a release of political prisoners and negotiations between the government and opposition leader Aung Sann Suu Kyi. Several hundred monks visited Aung Sann Suu Ky on September 22, 2007, at her home where she is under house arrest. An organization called the All Burma Monks Alliance issued a statement calling for an expansion of protests "in order to banish the common enemy evil regime from Burmese soil forever; in short, regime change."²

The growth of the size and objectives of the protests led to the government's decision to crack down with military force. The crackdown began on September 25, 2007, with a ban on assemblies and a curfew. Troops entered Rangoon and Mandalay. They employed tear gas and warning shots, and there were reported instances where the troops fired into crowds of protesters. The military began mass arrests, especially of monks. Troops surrounded and fenced off Buddhist monasteries. The government announced ten deaths, but opposition groups claimed a much higher death toll. The government cut off access to the internet and arrested

¹ Mydans, Seth. "Monks in Myanmar march in protest for third day," *New York Times*, September 21, 2007, p. A3.

² Mydans, Seth. "Monks' protest is challenging Burmese junta," *New York Times*, September 24, 2007, p. A1.

a number of domestic and foreign journalists.³ A Japanese journalist was murdered by Burmese soldiers in Rangoon. Arrests continued into October 2007.

The United States and the European Union reacted strongly against the actions of the Burmese military government. The Treasury and State Departments issued list of names of Burmese officials under Executive Order 13310 of July 28, 2003; the Executive Order had banned Burmese officials from receiving visas and had frozen their financial assets in the United States. The Bush Administration and the European Union called on the United Nations Security Council to take up the Burma situation and consider sanctions against the Burmese government. The Administration also urged China, the Burmese government's main foreign supporter, to pressure the Burmese government to end suppressive tactics and enter into a dialogue with Aung Sann Suu Kyi.⁴

China held to its traditional position that protests in Burma and the government's responses were an "internal matter" and that China would not interfere. China called for restraint and reconciliation by all parties in Burma. It stated that the Burmese government should "push forward a democracy process appropriate for the country." However, China continued to refuse to publicly call for the government to release Aung Sann Suu Kyi and enter into negotiations with her. China blocked the attempt by the Bush Administration and the European Union to get the U.N. Security Council to consider sanctions.⁵ It did agree to the dispatch of a U.N. envoy to Burma, who did meet with Aung Sann Suu Kyi and General Than Shwe, the government's top military official.

Other countries with major relations with Burma expressed differing degrees of concern and criticisms; but none of them backed the Bush Administration's call for new sanctions. Burma's partners in the Association of Southeast Asian Nations (ASEAN) criticized the government's suppressive tactics and called on the government to hold serious discussions with the U.N. envoy. India took a low posture toward the crackdown. Russia indicated that, like China, it would oppose a U.S. effort to get the U.N. Security Council to consider sanctions. The Japanese government stated that it would consider sanctions against Burma in response to the killing of the Japanese correspondent by Burmese troops.⁶

On October 4, 2007, the official Burmese media reported that General Than Shwe, the top official of the government told the U.N. envoy that "he would meet directly with her [Aung Sann Suu Kyi] for dialogue" if she promised to stop

³ Cody, Edward. "Deadly crackdown intensifies in Burma," *Washington Post*, September 27, 2007, p. A1.

⁴ Sanger, David E., and Steven Lee Myers, "U.S. steps up confrontation with Myanmar's rulers," *New York Times*, September 29, 2007, p. A6.

⁵ Hoge, Warren. "China blocks move to condemn crackdown," *New York Times*, September 27, 2007, p. A12. Gordon Fairclough and Jason Leow, "Myanmar clash escalates, posing challenge to China," *Wall Street Journal Asia*, September 27, 2007, p. 1.

⁶ Cody, Edward. "Caution by junta's Asian neighbors reflects their self-interest," *Washington Post*, September 28, 2007, p. A16.

“promoting four things — confrontation, utter devastation, economic sanctions on Myanmar, and other sanctions.”⁷ The government’s media did not provide explanations of these conditions, but they appear to focus on Aung Sann Suu Kyi promising not to encourage street demonstrations and protests against the government and to cease calling on foreign governments to impose economic and other sanctions on Burma. Than Shwe’s statement appears to be the first regime offer of any kind to engage in dialogue with Aung Sann Suu Kyi since 1994 when she met with Than Shwe and Burmese intelligence chief Khin Nyunt.

Burma’s “Extremely Poor Human Rights Record” and Political Deterioration

In 1988, the Burmese military established rule through a military junta (subsequently called the State Peace and Development Council — SPDC). One of its first acts was to change the official name of the country from Burma to Myanmar. However, the U.S. government has continued to use “Burma” in official statements, and this report will use “Burma” unless statements are quoted using “Myanmar.”

Since 1988, numerous reports, including the annual reports of the U.S. State Department, have described extensive abuses of human rights perpetuated by the SPDC and the Burmese military. These assessments have changed little over the subsequent 17 years. The State Department’s human rights report for 2004 concluded that the SPDC has an “extremely poor human rights record”; and the 2004 and 2005 reports asserted that the situation had “worsened” in each year. Numerous reports throughout 2006 indicate a continuation of this trend. The Department’s reports and reports of private groups have laid out a familiar pattern of government and military abuses: extra-judicial killings, torture, rape, arbitrary arrests for political reasons, forced impressment into the service of the military, forced labor and relocations, and tight restrictions on the press, speech, and assembly. The 2006 World Report of Human Rights Watch stated that there was no improvement in the situation, including the virtual solitary confinement of the leader of the opposition, Aung San Suu Kyi, in her home (which the SPDC extended for one year in May 2006 despite an appeal from United Nations Secretary General Kofi Annan); restrictions on her National League for Democracy (NLD); and the incarceration of over 1,000 political prisoners (including the house arrest of NLD deputy leader Tin Oo).⁸ However, while extending Aung San Suu Kyi’s house arrest, the SPDC did allow a United Nations envoy to meet with her twice in 2006, the first foreign official allowed to meet with her since early 2004.

A new opposition challenge to the government arose in September and October 2006 when a group of former political prisoners and student activists proclaimed an

⁷ “Burmese junta’s Than Shwe willing to meet Suu Kyi if she ends sanctions call,” Agence France Presse, October 4, 2007. “Myanmar junta chief willing to meet opposition leader Suu Kyi — but with conditions,” *Associated Press*, October 4, 2007.

⁸ “No progress on Burma rights,” British Broadcasting Corporation, January 18, 2006. “Myanmar freed 40 political prisoners — opposition,” *Reuters News*, January 4, 2007.

organization “1988 Generation,” named after the massive pro-democracy demonstrations in 1988. It began to circulate and collect signatures on a petition calling on the SPDC to release all political prisoners. Leaders of the group claimed at the end of October 2006 that they had collected 530,000. The SPDC arrested five leaders of 1988 Generation.⁹

Many human rights abuses reportedly are committed by the military against members of Burma’s ethnic minorities. The government negotiated cease-fire agreements with 17 ethnic insurgencies in the 1990s; but three groups, the Karen, Karenni, and Shan have continued to fight. Ethnic minorities make up the bulk of an estimated 540,000 internally displaced people in eastern Burma and over 150,000 refugees who have fled across the border into Thailand. A large-scale Burmese military offensive against Karen insurgents throughout 2006 and 2007 reportedly has included burning of villages, forced relocations of civilians, mine-laying in civilian areas, and rapes.¹⁰ Government policies reportedly are particularly oppressive against members of the Muslim Rohingya minority in western Burma, whom the SPDC has barred from citizenship.¹¹

The worsening human rights situation has been influenced by the deteriorating political situation since 2002. It began with the physical attack by SPDC supporters on Aung San Suu Kyi and her followers in May 2003 and her subsequent house arrest. In October 2004, the SPDC arrested Khin Nyunt, chief of Burma’s Defense Intelligence organization, and scores of his intelligence officials. Khin Nyunt had been the arm of the SPDC in dealing with foreign governments, including the United States and Burma’s partners in the Association of Southeast Asian Nations (ASEAN). He reportedly had advocated that the regime open negotiations with the NLD and be responsive to some of the international criticisms of the SPDC. He reportedly had convinced the junta to release Aung San Suu Kyi from house arrest in April 2002, and his representatives had contacted U.S. officials, urging a positive U.S. response to the SPDC’s decision. Khin Nyunt’s fall from power apparently removed from within the SPDC the main element in favor of greater flexibility.¹² Since the purge, younger Burmese military commanders have assumed higher positions of power. Many have been field commanders in areas of reported high levels of human rights abuses. They have had little foreign contacts and little apparent awareness of foreign attitudes toward Burma.¹³

⁹ "Myanmar junta accuses activists of terrorism." *Reuters News*, October 2, 2006. "Myanmar activists pray for jailed colleagues." *Reuters News*, October 29, 2007.

¹⁰ Faiola, Anthony. "Misery spirals in Burma as junta targets minorities." *Washington Post*, November 17, 2006. p. A1.

¹¹ U.S. Department of State. *Country Reports on Human Rights Practices — 2005*. March 8, 2006. Chapter on Burma.

¹² Casey, Michael. "Burma muzzles Suu Kyi, her party." *Washington Times*, December 17, 2005. p. A10.

¹³ Jagan, Larry. "Rangoon’s generals prepare for the changing of the guard." *Bangkok Post* (internet version), October 12, 2005.

With Khin Nyunt's ouster, power in the SPDC is vested in 75-year-old Senior General Than Shwe and Vice Senior General Maung Aye, the army's commander-in-chief. Rumors of a power struggle between them have not been substantiated. Many analysts believe that Maung Aye's power has increased since the ouster of Khin Nyunt.

In August 2003, shortly after the re-arrest of Aung San Suu Kyi, Khin Nyunt announced a "roadmap" to democracy beginning with the reconvening of a dormant constitutional convention. The convention convened several sessions, but it has produced no new constitution. The NLD boycotted the convention because of Aung Sann Suu Kyi's incarceration. The SPDC clamped a virtual news blackout on the convention; reports indicated that the regime limited free discussion of issues and proposals. SPDC sources have suggested that the convention will complete a constitution and that a referendum will be held on it by 2008. The conventional reportedly has drafted "basic principles" on a number of articles of the constitution, including the head of state, the executive, the legislature, judiciary, the armed forces, and the rights and duties of citizens. The draft reportedly gives the military formidable powers, including 25% of the seats in national and state legislatures, budgets and procurement practices outside the oversight of the national legislature, the power to declare states of emergency, and a description of the president that likely would restrict candidates to military leaders.¹⁴

In November 2005, the SPDC ordered government ministries to leave the capital city of Rangoon and move to a new designated capital of Pyinmana, 200 miles north of Rangoon. Foreign embassies were given no notice of the move. They were told to communicate with government offices by fax and that foreign governments could build new embassies after December 2007.¹⁵ The move came as a new U.S. Embassy was being constructed in Rangoon and had been half completed.

There is no evidence of instability within the regime or any likelihood of a regime collapse. There have been several bomb blasts in Rangoon and Mandalay since 2002. It is unclear who carried out the bombings. They have been infrequent and have not been followed up by expanded armed actions by opponents of the regime. The purge of Khin Nyunt and his followers was carried out efficiently. The SPDC's suppressive policies prevent any viable political opposition from functioning. Armed opposition is confined to the three ethnic groups that operate along Burma's border with Thailand: the Shan State Army, whose armed strength probably is below 5,000; the Karen National Union (KNU) with an armed strength estimated at 4,000-6,000; and the Karenni National Progressive Party, with an armed strength estimated at several hundred. Khin Nyunt negotiated a provisional cease-fire with the KNU in 2004. However, since his fall from power, the chief of Defense Intelligence reportedly no longer coordinates SPDC policies toward the ethnic

¹⁴ Kazmin, Amy. "Desperate Burmese willing to settle for small change." *Financial Times*, October 21, 2006. p. 7. Zin Linn. "Burma question: so near, yet so far." Mizzima (internet version), January 10, 2007. Mizzima is a news agency run by Burmese journalists in exile.

¹⁵ "Embassies can move to new Myanmar (Burma) capital in two years, says junta." *Thai News Service*, January 5, 2006. Sipress, Alan. "As scrutiny grows, Burma moves its capital." *Washington Post*, December 28, 2005. p. A1.

nationalities. Maung Aye appears to be in control of nationalities policies, and army field commanders have more authority. This probably explains the army's resumption of offensive operations against the Karen guerrillas, which reportedly has caused considerable hardship for Karen civilians.¹⁶

International Pressure Mixed With Foreign Support for the SPDC

The SPDC seems relatively unaffected by the economic and diplomatic sanctions placed on Burma by the United States, the European Union, Japan, and Australia. This was symbolized in January 2006 by the resignation of a United Nations envoy appointed to promote the democratization of Burma, whom the SPDC barred from visiting Burma after his last visit in March 2004. The situation was demonstrated in early 2006 when the SPDC expelled several foreign organizations that had been involved in political and human rights affairs, including the International Red Cross, which had been monitoring prisons, and the Swiss Centre for Humanitarian Dialogue. The SPDC also announced new restrictions on other foreign non-government organizations (NGOs), including the requirements that government officials must accompany NGO officials during travel within country, that the government must approve the hiring of local staff, and that the government must approve dealings between the NGOs and local banks.¹⁷ The SPDC relented slightly in December 2006 when it rescinded an order for the International Red Cross to close five branch offices, but this did not include permission for the Red Cross to inspect prisons.¹⁸

There are five apparent reasons for the failure of international sanctions to pressure the regime to institute political reforms. The SPDC undoubtedly has benefitted by the lack of uniformity of the sanctions imposed on it. U.S. sanctions are the broadest (see section on U.S. Policy). European, Japanese, and Australian sanctions are more limited in scope and do not totally cut off trade and investment with Burma. The European Union (EU) has imposed a visa ban on Burmese officials, an arms embargo, a freeze on Burmese assets in EU countries, and a suspension of most-favored-nation trade treatment; but there is no ban on imports of Burmese products or EU private investments in Burma. Great Britain reportedly is the third largest private investor in Burma with investments valued at \$1.4 billion in 2004. In 2005, the EU provided nearly \$45 million in aid primarily for health,

¹⁶ "Major ethnic rebel groups in Myanmar." *Reuters News*, January 30, 2006. "End to Myanmar's ethnic insurgencies unlikely, say rebels." Dow Jones Commodities Service, January 31, 2006. "Myanmar offensive sees Karen refugees fleeing to Thailand." *Dow Jones International News*, May 2, 2006.

¹⁷ Cropley, Ed. "Red Cross says Myanmar junta stops prison visits." *Reuters News*, February 27, 2006. "Myanmar refuses Swiss rights group new permit." *Reuters News*, March 3, 2006.

¹⁸ Burma allows reopening of ICRC branch offices; National League welcomes moves. *Democratic Voice of Burma*, December 15, 2006.

education, and the environment.¹⁹ Japan has funded aid projects in Burma reportedly totaling more than \$18 million in 2004, including hydro-electric power and the Rangoon airport. The Japanese government defines its aid as “humanitarian,” but other governments, including the Clinton and Bush administrations, have countered that the aid is actually infrastructure aid.²⁰

Even U.S. sanctions do not include the biggest U.S. business activity in Burma, the Yadana offshore natural gas production and the gas pipeline into Thailand constructed and operated by a consortium that has included the U.S. UNOCAL Corporation (UNOCAL recently was taken over by Chevron). Chevron has a 28% share of the consortium. The other consortium members are the French corporation Total with a 31% share, PTT Exploration and Production Public Company of Thailand with a 26% share, and the Burmese government-owned Myanmar Oil and Gas Enterprise with a 15% share. The newspaper, *The Myanmar Times*, reported in its August 20-26, 2007, edition that the Yadana project earned \$2.16 billion in 2006. An estimate for the consortium’s earnings in 2007 is \$2.8 billion.²¹ Chevron’s 28% share of the \$2.16 billion profit in 2006 would be approximately \$600 million. A conservative estimate of the Burmese government’s income from the Yadana project in 2006 is about \$500 million. Of the \$2.16 billion profit, the Myanmar Oil and Gas Enterprise would receive about \$330 million based on its 15 percent share. Top Burmese military officials are believed to control and profit from a number of these major government corporations. A conservative estimate of Burma’s corporate income tax intake would be 10% of \$1.83 billion (the consortium’s 2006 profit minus the share of the Myanmar Oil and Gas Enterprise): about \$183 million. The government may be able to draw in additional money from the project in other ways, but this is not known.

The second factor is the ability of Burma to expand exports of a variety of commodities to countries of Asia and beyond. These include natural resources such as natural gas, nickel, precious gems, and timber; shrimp and other sea-based products; and illegal drugs (heroin and methamphetamines). Reportedly, exports of textiles have picked up since the U.S. import ban of 2003, as Burma has found other markets in Asia and Europe.²² Burma earned an estimated \$1 billion in exports of

¹⁹ Brake, Z. “Messages of investment: acceptance of the Burmese regime.” *BurmaNet News* (internet), August 11, 2004. Rogers, Benedict. “Burma needs a stronger international effort.” *Asian Wall Street Journal*, August 26, 2003. p. A7. Sieg, Linda. “EU presses Myanmar on prisoner release, dangles aid.” *Reuters News*, May 6, 2005.

²⁰ “Japan’s aid to Burma criticized as U.S. calls grow for international sanctions.” *Carbaugh Daily Report*, October 13, 2004. Lederer, Edith. “U.S. plans to pursue U.N. resolution on Myanmar but Russia, China and Japan object.” *Associated Press*, May 31, 2006.

²¹ Thomas Fuller, “For Myanmar’s neighbors, mutual needs trump qualms,” *New York Times*, October 2, 2007, p. A8.

²² Sipress, Alan. “Asia keeps Burmese industry humming.” *Washington Post*, January 7, 2006. p. A11.

natural gas in 2004 and 2005,²³ and earnings could grow substantially in the future from new natural gas explorations and production. The South Korean company, Daewoo, announced in August 2006 the discovery of a gas field off Burma's coast that could produce between 5.7 and 10 trillion cubic feet of gas that could lead to annual production for the next 20-25 years. The British Petroleum Statistical Review puts Burma's proven gas reserves at 19 trillion cubic feet. China and India have signed deals with the SPDC, which would make them primary customers for this gas and future discoveries of gas. The Chinese deal reportedly would have Burma supply 6.5 trillion cubic feet of gas to China over 30 years. In April 2006, Russia's Zarubezhneft oil company signed an agreement with the SPDC's energy ministry, which reportedly will open the way for Russian investments in Burma's oil and gas industry.²⁴ Investors must conclude profit or production-sharing agreements with state-owned corporations or with regional military commands, which insures a significant flow of money to the SPDC and members of the ruling, military-based elite.

Burma reportedly earns between \$1 billion and \$2 billion annually from exports of the illegal drugs, heroin and methamphetamines. This seems to be at least as much and possibly substantially more than the \$900 million annually, which the U.S. Embassy in Rangoon estimated that Burma earned in the mid-1990s.²⁵ Most of these earnings, predominately foreign exchange, go to drug traffickers who produce and ship the drugs across Burma's borders. Most of the traffickers are connected to particular ethnic groups along Burma's borders with China and Thailand, such as the Wa and the Shan. However, Burmese military officials at various levels have a number of means to gain a substantial share of these earnings. Local military commands reportedly collect high government taxes on the drug traffickers as well as fees for military protection and transportation assistance. U.S. State Department annual international narcotics reports have stated that "there is no reliable evidence that senior officials in the Burmese Government are directly involved in the drug trade."²⁶ However, the SPDC allows and encourages drug traffickers to invest in an array of domestic businesses, including infrastructure and transportation enterprises. The SPDC reportedly gets start-up fees and taxes from these enterprises. Military officers sometimes are partners in them. The traffickers usually deposit the earnings from these enterprises into banks controlled by the military. Military officers reportedly deposit much of their drug-related money in foreign bank accounts in

²³ Ibid. Malik, Mohan. "Regional Reverberations from Regime Shake-up in Rangoon." Asia-Pacific Center for Security Studies. January 2005. p. 6.

²⁴ Johnson, Tim. "While others push to free Myanmar, China takes a more profitable path." *Philadelphia Inquirer*, March 8, 2006. p. A2. "Myanmar keeps gas options open with India pact." *Reuters News*, March 8, 2006. "Russia, Myanmar agree to strengthen economic ties." *Dow Jones International News*, April 3, 2006. Battersby, Amanda. "Chinese in frame for Burmese gas." *Upstream News*, January 20, 2006.

²⁵ Europa Publications. *The Far East and Australasia 2005*. London and New York, Europa Publications. p. 718. Lintner, Bertil. "Burma: a blind eye to drugs." *Far Eastern Economic Review*, November 7, 1996. p. 88.

²⁶ U.S. Department of State. *International Narcotics Control Strategy Report. Volume I: Drug and Chemical Control*. March 2006. p. 244.

places like Bangkok and Singapore.²⁷ However, in 2005, the SPDC did shut down three banks allegedly due to drug-related money laundering.

The Burmese military has had an especially close relationship with the Wa tribe, including the Wa drug producers and traffickers. In a cease-fire agreement of 1989, the military allowed the Wa wide autonomy, including the maintenance of armed Wa military forces and the freedom to produce drugs. The Wa soon became a dominant factor in the heroin trade. In 2001, Burmese military intelligence officials and the Wa leadership reportedly concluded an agreement under which the Wa were encouraged to reduce their production of opium and heroin but were given a free hand to expand production of methamphetamine pills for export.²⁸ Opium production dropped from an estimated 2,500 metric tons in the mid-1990s to 953 tons in 2001 to just over 600 tons in 2002, and to 380 metric tons in 2005, according to U.S. estimates.²⁹ Nevertheless, at the same time, the Wa were expanding their production of methamphetamine pills; smuggling into Thailand rose from an estimated 300 million tablets in 1999 to 1 billion in 2003.³⁰ Wa earnings from methamphetamine sales was estimated at \$300 million in 2002, and Wa earnings from heroin smuggling was estimated at \$250-\$300 million.³¹ Reports on the 2001 agreement between the Burmese intelligence officials and Wa leaders assert that the agreement included profit sharing provisions, which give the military a share, possibly as high as 50%, of Wa earnings from drug trafficking.³²

A third factor limiting the impact of international sanctions is the “constructive engagement” policy of Burma’s fellow members in the Association of Southeast Asian Nations (ASEAN), which eschews sanctions and diplomatic pressure. Thailand has important economic interests in Burma, including \$1.29 billion in private investments in 49 projects within Burma in 2004 and imports from Burma valued at \$1.06 billion in the Thai FY2003-2004. Singapore’s investments in Burma

²⁷ Wren, Christopher S. “Road to riches starts in the golden triangle.” *New York Times*, May 5, 1998. p. A8. Gelbard, Robert S. “Slorc’s drug links.” *Far Eastern Economic Review*, November 21, 1996. Davis, Anthony. “The Wa challenge regional stability in Southeast Asia.” *Jane’s Intelligence Review*, January 2003. p. 6.13.

²⁸ “Minority misuses Burmese land gift.” *Far Eastern Economic Review*, December 20, 2001. p. 8. Jinakul, Surath. “Dangerous escalations.” *Bangkok Post* (internet version), May 20, 2001.

²⁹ Mydans, Seth. “Small victories in recorded in Burmese war on drugs.” *New York Times*, July 7, 2002. p. NE4. “Burma urges more US cooperation in war on drugs.” *Agence France Presse* (Hong Kong), March 2, 2003. U.S. Department of State, *International Narcotics Control Strategy Report. Volume I: Drug and Chemical Control*. March 2006. p. 241.

³⁰ Jagan, Larry. “Fighting Burma’s drug trade.” *Bangkok Post* (internet version), January 19, 2003.

³¹ Davis, Anthony. “The Wa challenge regional stability in Southeast Asia.” *Jane’s Intelligence Review*, January 2003, p. 12.

³² “Wa and Burmese commanders strike a new deal.” *BurmaNet News*, October 1, 2001. Jinakul, Surath. “Dangerous escalations,” *Bangkok Post* (internet version), May 20, 2001.

reportedly totaled \$1.4 billion in 2004.³³ However, several ASEAN governments turned more critical of Burma after the re-arrest of Aung Sann Suu Kyi in 2003. This is due in part to the increasing democratization within these states, especially Indonesia, and Burma's disruptive influence on ASEAN's relations with the European Union and the United States. Malaysian and Indonesian officials have stepped up criticisms of the SPDC.³⁴ Members of ASEAN country parliaments have formed an ASEAN Inter-Parliamentary Caucus on Democracy in Myanmar. In 2005, ASEAN governments pressured Burma to either institute political reforms or give up its scheduled chairmanship of ASEAN in 2006. The SPDC chose to give up the chairmanship, another indication of its continued resistance to outside pressures. Malaysian Foreign Minister Syed Hamid Albar went to Burma in March 2006 as a special ASEAN envoy to discuss democratic reforms, but his visit accomplished little. The SPDC did not allow him to meet with Aung Sann Suu Kyi.

Despite diplomatic pressure, ASEAN leaders stressed to the Bush Administration that ASEAN assertiveness has limits and will not include economic sanctions against Burma. However, ASEAN took a first diplomatic step when its Secretary General publicly called on China and India to "take a larger role in encouraging Myanmar to speed reform measures."³⁵ Indonesian Foreign Minister Hassan Wiradjuda followed up with a statement on May 19, 2006, in Washington, D.C., that China, India, and South Korea should use their aid and investments in Burma "to make sure that Myanmar changes itself to be more democratic."³⁶ Nevertheless, Indonesia demonstrated the limits of ASEAN's assertiveness when it abstained in the U.N. Security Council vote in January 2007 on a U.S. resolution condemning the SPDC and calling for reforms. Malaysian Prime Minister Abdullah Badawi also expressed opposition to the U.S. resolution.³⁷ In the September 2007 crisis, ASEAN leaders criticized the Burmese government, but they indicated no support for the U.S.-EU effort to get the U.N. Security Council to consider sanctions.

The fourth and probably biggest factor is Chinese economic and military aid to Burma. China takes the position that political and human rights conditions in Burma are the "internal affairs" of Burma. The SPDC's Prime Minister, Soe Win, stated after his February 2006 trip to China that Chinese Premier Wen Jiabao had pledged China's unwavering support and said that Beijing would oppose the imposition of

³³ Brake, Z. "Messages of investment: acceptance of the Burmese regime." *BurmaNet News* (internet), August 11, 2004.

³⁴ "Indonesian foreign minister urges 'measurable' democratic progress in Burma." British Broadcasting Corporation, January 7, 2006.

³⁵ "Malaysia tells U.S. official ASEAN to seek 'acceptable' role on Burma." British Broadcasting Corporation, January 16, 2006. "S.E. Asian nations ask China, India, to prod Myanmar." *Reuters News*, March 30, 2006.

³⁶ Eckert, Paul. "Indonesia urges Myanmar trade partners to use clout." *Reuters News*, May 19, 2006. Wiradjuda said that his reference to South Korea was in reference to South Korea's recent investment activities in natural gas and construction.

³⁷ "SE Asian leaders push Myanmar to reform, but softly." *Dow Jones International News*, January 13, 2007.

economic sanctions by the United Nations.³⁸ China fulfilled that apparent pledge when it vetoed the U.S. resolution in the U.N. Security Council in January 2007 and blocked the U.S.-EU initiative in the Security Council in September 2007. China (and Russia) argued that despite Burma's internal problems, Burma does not constitute a threat to regional and international peace and security that would bring it within the purview of the Security Council. China reportedly has counseled the SPDC to moderate its behavior and has expressed concern over the flow of narcotics into southern China, but it claims to have minimal influence and shows no willingness to risk its expanding role in Burma over political/human rights issues.³⁹ China reportedly has initiated quiet contacts with exiled Burmese opposition leaders,⁴⁰ but it refuses to pressure the SPDC publicly, and apparently privately, to free Aung Sann Suu Kyi and negotiate with her.

China took a diplomatic initiative in June 2007 when it arranged a meeting in Beijing between a State Department official and Burmese government representatives. The State Department provided little information on the content of the meeting. Chinese officials have not discussed publicly their objectives in setting up the meeting. It may be that China seeks to facilitate a sustained U.S.-Burma dialogue similar to the U.S.-North Korean dialogue that China encouraged and helped to facilitate in late 2006 and throughout 2007.

China's extensive role in Burma has five components. First, China has provided Burma with an estimated \$2 to \$3 billion in military aid since the early 1990s, which has enabled the Burmese army to expand from 180,000 to 450,000 in 2005. China was active in shipping weapons to Burma in 2006, coinciding with the Burmese army's offensive against the Karens.⁴¹ Second, China's economic aid is estimated at \$200 million annually, much of which goes into infrastructure, including electric power.⁴² Third, China is believed to be the largest foreign investor in Burma. A report by an expert at the Asia-Pacific Center for Security Studies, a research organization of the U.S. Pacific Command, estimated that China "controls more than 60 percent of the Burmese economy."⁴³ Visitors to Burma report a large Chinese economic presence in Burma from Mandalay northward, including an estimated one million or more Chinese migrants into Burma since 1995, mainly traders. Fourth, China officially has been Burma's third largest trading partner, but there reportedly is a huge, informal cross-border trade that is unrecorded. The Burmese and Chinese

³⁸ Agence France Presse report, December 14, 2005. Statement by Chinese Foreign Ministry spokesman Liu Jianchao. Johnson, Tim. "While others push to free Myanmar, China takes a more profitable path," *Philadelphia Inquirer*, March 8, 2006, p. A2.

³⁹ Jagan, Larry. "Burma, China strengthen bilateral ties," *Bangkok Post* (internet version), February 15, 2006.

⁴⁰ Buckley, Chris. "China quietly reaches out to Myanmar opposition." *Reuters News*, September 26, 2007.

⁴¹ Democratic Voice of Burma broadcast, December 13, 2006.

⁴² Cochrane, Joe. "Stubborn survivor." *Newsweek International* (internet version), March 21, 2005. State of Zarni, Chairman of the Free Burma Coalition, February 11, 2005.

⁴³ Malik, Mohan. "Regional Reverberations from Regime Shake-up in Rangoon." Asia-Pacific Center for Security Studies (internet version), January 2005, p. 8.

governments projected bilateral trade reaching \$1.5 billion in 2006.⁴⁴ The fifth component is China's interest in Burma's natural gas and potential pipelines across Burma into China. The Chinese-Burmese natural gas deal, discussed earlier, undoubtedly will increase China's interest in supporting the SPDC. China also reportedly is planning the construction of oil and natural gas pipelines from Burma's coast on the Indian Ocean northward into China, through which Chinese oil purchased in the Middle East and Burmese natural gas could be transported to China rather than by sea through the Strait of Malacca and the South China Sea.⁴⁵

China's growing role also is cited by Indian officials as a prime justification for India's "constructive engagement" policy toward Burma. This has included India-Burma agreements on Indian aid, trade, and counter-insurgency cooperation, and as stated previously, an agreement for Indian purchases of Burma's natural gas.⁴⁶ In 2006, India began to sell arms to the Burmese military.⁴⁷

Another negative development is the reestablishment of Burma's diplomatic relations and military links with North Korea. Burma broke diplomatic relations with North Korea in 1983 after North Korean agents planted a bomb in Rangoon which killed 17 high-ranking South Korean officials. In April 2006, they reestablished diplomatic relations. It is known that since the late 1990s, Burma has purchased artillery and ammunition from North Korea, has sent military delegations to Pyongyang, and has received North Korean technicians at a Burmese naval base. North Korean ships and diplomats have been caught carrying heroin with Double U-O labels, a brand of heroin produced in the Golden Triangle region of Burma. There also are reports that Burma is interested in acquiring North Korean short-range surface-to-surface missiles and submarines, although no purchases have been confirmed. Observers, too, have speculated that Burma and North Korea might collaborate in developing nuclear facilities inside Burma, but there appears to be little hard evidence to substantiate this.⁴⁸

A likely fifth factor in the failure of U.S.-led sanctions to pressure the SPDC into making political concessions is that the SPDC requires significant income, including foreign exchange, for a relatively narrow segment of Burma's population.

⁴⁴ Sipress, Alan. "Asia keeps Burmese industry humming." *Washington Post*, January 7, 2006. p. A11. Jagan, Larry, "Burma, China strengthen bilateral ties," *Bangkok Post*, February 15, 2006.

⁴⁵ Perlez, Jane. Myanmar is left in dark, an energy-rich orphan. *New York Times*, November 17, 2006. p. 1. Lam, Willy. "China's energy paranoia." *Asian Wall Street Journal*, July 30, 2004. p. A9.

⁴⁶ Cropley, Ed. "Myanmar junta leader to make historic India visit." Reuters News, October 21, 2004.

⁴⁷ Zaheer, Kamil. Indian arming of Myanmar fuels abuses — rights group. Reuters News, December 7, 2006.

⁴⁸ Lintner, Bertil and Crispin, Shawn W. "Dangerous bedfellows." *Far Eastern Economic Review*, November 20, 2003. Selth, Andrew. *Burma's North Korean Gambit: A Challenge to Regional Security?* Canberra, Strategic and Defence Studies Centre, The Australian National University, 2004. p. 17-41.

Several hundred high-ranking military officers and their families are the core of the ruling elite. They reportedly are involved in many business ventures and manage state corporations that regulate and enter into partnership agreements with private companies, including foreign investors.⁴⁹ Income earned domestically and from foreign transactions appears to be easily sufficient to ensure that the ruling class enjoys a high standard of living. Moreover, the priority given to the military in government budgets appears to provide adequate resources for rank and file military personnel.

U.S. Policy

Since 1988, the United States has imposed a wide range of sanctions against Burma. By 2004, these had terminated nearly all economic relations with Burma. The main sanctions currently are: a suspension of aid, including anti-narcotics aid; opposition to new loans to Burma by the international financial institutions; an executive order by President Clinton on May 20, 1997, prohibiting U.S. private companies from making new investments in Burma; and congressional passage of the Burmese Freedom and Democracy Act (P.L. 108-61) banning imports from Burma into the United States, affecting mainly imports of Burmese textiles. The United States has not had an Ambassador to Burma since 1992 when the Senate Foreign Relations Committee refused to confirm the nomination of an Ambassador because of the human rights abuses. The State Department also concluded that Burmese officials were profiting from groups that produced and exported heroin and other illicit drugs despite some SPDC moves to limit opium production and drug-related money laundering. Burma is on the U.S. list of uncooperative drug-producing or transit countries.

The Bush Administration gave Burma greater priority in U.S. diplomacy in 2005 into 2006. President Bush raised the issue with other heads of government at the APEC summit of November 2005. The Administration stepped up bilateral diplomacy with the ASEAN countries; and apparently for the first time, the Administration included Burma on the U.S. bilateral agenda with China. The Administration's major initiative was the effort to have Burma placed on the agenda of the U.N. Security Council. A report issued in mid-2005 by Nobel Peace Prize winners Vaclav Havel, former president of the Czech Republic, and Archbishop Desmond Tutu of South Africa proposed that the Security Council take an initiative on the human rights situation in Burma. The Bush Administration succeeded in securing a private Security Council meeting on Burma in December 2005. After the SPDC extended the house arrest of Aung San Suu Kyi in May 2006, the Administration proposed a formal resolution on Burma in the Security Council.

The U.S. draft resolution included the following points: Burma "poses serious risks to peace and security in the region"; the SPDC should release Aung San Suu Kyi and all political prisoners; the SPDC should allow full freedom of expression and

⁴⁹ Harden, Blaine. "The new Burmese leisure class: army capitalists." *New York Times*, November 21, 2000. p. A3. Economist Intelligence Unit. *Country Profile: Myanmar (Burma)*, 2005. p. 17, 21.

allow the National League for Democracy and other political parties to operate freely; the SPDC should “begin without delay a substantive political dialogue, which would lead to a genuine democratic transition, to include all political stakeholders”; the SPDC should “cease military attacks against civilians in ethnic minority regions” and end human rights violations against ethnic minorities; the SPDC should allow international humanitarian organizations “to operate without restrictions” and cooperate with the International Labor Organization to eradicate forced labor.

Despite its diplomatic efforts, the United States suffered a major defeat in January 2007 when China and Russia vetoed the U.S. resolution in the U.N. Security Council and Indonesia abstained on the vote. Future U.S. diplomatic options in the United Nations appear minimal, given China’s blockage of the U.S.-EU initiative in the Security Council in September 2007. The Administration says that it would support the stated intention of the International Labor Organization (ILO) to refer the situation of forced labor in Burma to the International Court of Justice and to provide documents on forced labor to the International Criminal Court.⁵⁰ It is uncertain whether the International Court of Justice could mount any substantive measures against Burma, and the United States is not a member of the International Criminal Court. The Administration’s stepped-up diplomacy with China on Burma may be the only realistic option to bring about a change in the status quo; but that no doubt would be a problematic, long-term process, given China’s current support of the SPDC and its growing economic and security roles inside Burma. Some pro-sanctions activists have suggested that the Bush Administration threaten a U.S. boycott of the Beijing Olympics in 2008 if China does not end its support of the Burmese government.

The Administration faces limits on its flexibility in using sanctions in U.S. diplomacy. Contacts with the SPDC are extremely limited; with the downfall of Khin Nyunt, the Administration has the problem of finding a viable component of the SPDC for dialogue. A key diplomatic issue now is whether the Chinese-arranged meeting between a State Department officials and Burmese government representatives in June 2007 will lead to a sustained U.S.-Burma dialogue similar to the U.S.-North Korea bilateral negotiation that China also has encouraged. In the past, the Administration has indicated that it would use sanctions to initiate a kind of “road map” process with the SPDC in which the Administration would respond to a positive measure by the SPDC by selectively lifting an individual sanction with the prospect of additional lifting of sanctions in response to additional positive measures by the SPDC. U.S. business groups and several U.S. academic experts support such a strategy. They argue that sanctions will not produce a total SPDC capitulation or a regime collapse and that U.S. sanctions are contributing to China’s increased role in Burma. They assert that the United States should engage the SPDC.⁵¹ When the SPDC released Aung San Suu Kyi from house arrest in 2002, the

⁵⁰ Kessler, Glenn. “U.S. wants U.N. resolution on Burma.” *Washington Post*, November 18, 2006. P. A18. ILO seeks to charge Myanmar junta with atrocities. Reuters News, November 16, 2006.

⁵¹ Steinberg, David I. “Engage Burma.” *Washington Post*, July 15, 2003. p. A19. The National Bureau of Asian Research in Seattle issued a lengthy report in March 2004, which
(continued...)

State Department discussed with Burmese officials a resumption of anti-narcotics aid. The Department reportedly considered recommending that Burma be certified as eligible for U.S. anti-narcotics aid in view of the SPDC's apparent success in reducing opium and heroin production. However, this initiative drew strong negative reactions from the press and especially from key Members of Congress, which reportedly resulted in its abandonment.⁵²

In a statement of May 23, 2006, Assistant Secretary of State Christopher Hill indicated that the Bush Administration might consider a road map process if the SPDC took some specific actions. He mentioned the release of "the many hundreds, even thousands of political prisoners," the release of Aung Sann Suu Kyi, and "a resumption of dialogues" between the SPDC and the opposition. Hill suggested that if the SPDC took a positive measure on any of these issues, the Administration would initiate a positive measure in return: "If we see a movement in this direction, if we see an effort, of course we'll respond."⁵³

However, sentiment in Congress appears to be against a "road map" approach and favors maintaining the full range of U.S. sanctions until the SPDC and the Burmese military terminate major human rights abuses and make fundamental political concessions to Aung Sann Suu Kyi in a comprehensive agreement for a democratic system. The Burmese Freedom and Democracy Act, which Congress renewed in the summer of 2006, specifies that the ban on imports from Burma and other restrictions are to remain until the President certifies to Congress that the SPDC has made major progress to end human rights violations; has released political prisoners; has allowed political, religious and civil liberties; and has reached agreement with the NLD for a civilian government chosen through democratic elections.⁵⁴ A sense of the Senate resolution, passed unanimously on May 18, 2006 (S.Res. 484), called on the Bush Administration to take the lead in securing a U.N. Security Council resolution calling for the immediate and unconditional release of Aung San Suu Kyi and other political prisoners, condemning the Burmese army's "atrocities" against the Karen, and "supporting democracy, human rights, and justice in Burma." U.S. human rights organizations and most Burmese exile groups appear to back this approach and emphasized in 2006 the need for the United States to push for U.N. Security Council consideration of Burma.⁵⁵

⁵¹ (...continued)

contained essays from seven leading critics of U.S. sanctions strategy. See *Reconciling Burma/Myanmar: Essays on U.S. Relations with Burma*, National Bureau of Asian Research, Seattle, 2004.

⁵² Kessler, Glenn. "Reward for Burma's Anti-Drug Efforts Unlikely." *Washington Post*, December 18, 2002. p. A29. "Top Senators keep pressure on Burma." *Far Eastern Economic Review*, March 20, 2003. p. 8. Kessler, Glenn. "U.S. may take Burma off 'major' drug list." *Washington Post*, November 22, 2002. p. A25.

⁵³ "U.S. urges Myanmar to release prisoners." *Associated Press*, May 23, 2006.

⁵⁴ See also McCain, John and Albright, Madeleine. "A need to act on Burma." *Washington Post*, April 27, 2004. p. A21.

⁵⁵ For an example of the debate between critics and supporters of strong sanctions against (continued...)

Any strengthening of U.S. sanctions could include two measures that could be initiated by either the President or Congress through legislation. One would be to force Chevron to disinvest from the Yadana natural gas project. The financial impact of this, however, could be minimal because there appears to be many foreign oil companies that would seek to replace Chevron. A second option would be to threaten financial sanctions against foreign banks that hold accounts of the Burmese government and military officials. Reports of third country banks that do business with individuals connected to the Burmese government are sparse. Past reports have cited banks in Thailand, Singapore, and China. Burmese accounts in Chinese banks were confirmed in January 2006 when the Bank of China ordered Chinese banks to terminate all U.S. dollar business with the Myanmar Foreign Trade Bank and the Myanmar Investment and Commercial Bank.⁵⁶ The Bush Administration carried out such a policy toward foreign banks that held North Korean accounts from September 2005 until April 2007, including sanctioning the Banco-Delta in Macau. Many foreign banks reportedly froze North Korean accounts under pressure from the U.S. Treasury Department. The policy, however, had limitations, including an apparent reluctance of the Bush Administration to impose sanctions against banks on the Chinese mainland that held North Korean accounts.

⁵⁵ (...continued)

Burma, see Foreign Policy in Focus' Strategic Dialogue of January 18, 2007, featuring statements by Professor David Steinberg of Georgetown University and Dr. Kyi May Kaung, a Burmese political analyst.

⁵⁶ Sean Turnell, Burma's Economic Prospects Testimony before the Subcommittee on East Asian and Pacific Affairs, Senate Foreign Relations Committee, March 29, 2006. John Sweeney, How junta protects Mr. Heroin, The Observer (London, internet version, April 8, 2001. Francois Casanier, A narco-dictatorship in progress, BurmaNet News, June 13, 1996.

Figure 1. Map of Burma



Source: Map Resources. Adapted by CRS. (K.Yancey 5/4/06)