

CHAPTER III

COOPERATION BETWEEN MYANMAR AND CHINA ABOUT THE CONSTRUCTION OF SHWE PIPELINE IN 2004

None of the world's nations can free themselves from dependence on other nations and countries. According to Mochtar Kusumaatmaja, relations and cooperation between countries arise because of the needs caused by the distribution of natural wealth and uneven industrial development in the world. This cooperation can be done in the various field. For example in industry, military defense, economy, and others (Setiawan, 2017).

Myanmar as a developing country in need of foreign assistance has cooperated with various countries in the world. One of them is China, a country with the highest economic level in the world. Myanmar has long cooperated with China, even in industry, economy, and national defense. All this is done to get mutual relations between two countries.

In the middle of the conflict that has so far occurred in Myanmar, a few years ago Myanmar stepped up its cooperation with China in the energy field. The result of such cooperation is the construction of oil and natural gas pipeline established in Myanmar. For that, in this chapter will explain the cooperation between Myanmar and China in the Construction of Shwe Pipeline in 2004.

A. The History of Myanmar and China Relation

Myanmar and China are friendly neighbors. Myanmar was the first non-communist country to recognize and support Chinese independence in 1949. China and Myanmar formally established relations since June 8, 1950. Relations between the two countries continued, marked by the frequent visits of the two heads of state. Since ancient times, the relationship between the two countries is known as "Paukaw" meaning

sister of one family. Both of the countries have a very strong relationship, among them:

1. Politic Bilateral Relations

Myanmar and China are friendly neighbors. Since ancient times, the people of both countries are like sisters of one family. The two countries formally established diplomatic relations on July 8, 1950. In June 2000 after the turn of 50 years if China and Myanmar diplomatic relations. Then, General Maung Aye Chairman of Myanmar National Development Peace Commission went to China. Both of countries signed a “China-Myanmar Joint Statement on Future Bilateral Document Frameworks”. Then, in July 2000 Chinese Vice President Hu Jintao made an official friendship visit to Myanmar, strongly encouraging the overall and deep development of friendly relations and cooperation between the two countries. During his visit to Myanmar, the two sides signed the “Myanmar-China Science and Technology Cooperation Agreement and Technological Cooperation Agreement”.

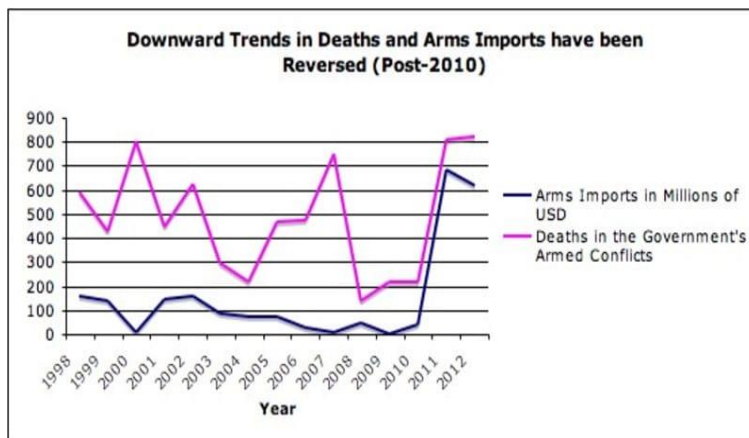
From 12 to 15 December 2001, China President Jiang Zemin made a four-day state visit to Myanmar. This is the first visit of China’s top leader to Myanmar, it means a milestone in the history of China-Myanmar relations. And then, in January 2003, The President of Myanmar General Than Shwe back again to visit China. On November 30, 2004. China Prime Minister Wen Jiabao attended the ASEAN Summit in Vientiane and met Prime Minister Soe Win of Myanmar. Win Jiabao said developing neighboring relationships and China and Myanmar friendship is an important part of China’s maintains stability, the political situation continues to carry out political situation continues to carry out political reforms in accordance with the state of Myanmar, and further advances the national process of the nation. China excites Chinese companies to enter into mutually beneficial cooperation in various forms of Myanmar, in close cooperation with Myanmar to ensure the ongoing cooperation projects are completed in good quality according to plan. Soe win

expressed satisfaction over the good development of China-Myanmar relations. He expressed his gratitude for China's assistance to Myanmar and hopes that cooperation between the two parties will be strengthened and pushed forward. He states that the current political situation of Myanmar is stable and will progress towards good direction (China Radio International, 2018).

2. Defense Bilateral Relations

In 1989, Myanmar and China began their relationship in terms Defense field. And then, the relation more increasing when Myanmar led by Military Junta in 2010. This relationship is in the form of imported weapons from China to Myanmar. This is closely related to the situation inside Myanmar, where the conflict is increasing in everywhere and there is no settlement from the Myanmar government itself. We can see from the chart below.

Chart 3.1 Data of Arms Imports & Deaths in Myanmar Conflict



Source: Newmandala Documents.

<https://kumparan.com/@kumparannews/menyelidik-suplai-senjata-militer-myanmar-penindas-rohingya>. Accessed on May 27, 2018.

Imports of weapons to Myanmar in 2011 surged to the highest level in the country's history, reaching nearly 700 million US dollars, doubling the highest import rate since 1989. The next year in 2012, that figure remains almost as high. In the face of complex and volatile national and regional security situations, China is willing to maintain strategic communications between the two countries' military.

In 2017, China wants greater contact between the two armed forces and deeper training and technical exchanges and in order to promote border defense cooperation to ensure peace and stability along their common border. This is done because the Chinese side has been angered by fighting between Myanmar's ethnic minority rebels seeking autonomy near the China border in recent years, which sometimes forced thousands of villagers to flee to China. This is the form of cooperation in the field of defense Myanmar and China which until now still well established.

3. Economic, Trade, and Technology Bilateral Relations

In recent years, China and Myanmar's economic and trade cooperation has made rapid progress. The field of cooperation has been extended to the projection, investment and multilateral cooperation from trade and simple economic aid in the past. The number of trades also increased on a large scale.

The relations in this field began in 1971, China and Myanmar signed the Trade Agreement, the two parties gave each other MFN status. In 1994, the China government and Myanmar signed the "Memorandum of Understanding (MOU) on Border Trade". In 1997, the China and Myanmar Government also signed "Agreement Concerning Establishment of Joint Working Committee on Economic, Trade and Technology Cooperation". And then, in 2001, the China and Myanmar government signed the "Contracting and Investment Protection Agreement" (China Radio International, 2018).

While in 2004, China Prime Minister Wen Jiabao met with Myanmar's Junta leaders to discuss energy cooperation and assistance for Southeast Asian nations. Both countries signed a

number of cooperation documents covering economics, commerce, finance, energy, science, and technology. A few years earlier, bilateral trade between the two neighboring countries reached US\$ 2.91 billion up to 10.7%, while advances occurred in joint projects involving energy, transportation, and power supplies. China is in great need of energy is a buyer of natural gas reserves. In this case, China offers cooperation with Myanmar in terms of economy in the construction of oil and natural gas pipeline. Finally, both countries signed the agreement (Boao Forum For Asia, 2016).

B. The Companies Involved in the Cooperation

Bilateral cooperation between China and Myanmar has been established through the construction of trans-China-Myanmar oil and gas pipeline project. This cooperation involved two big companies from each country that run and handling about natural gas and oil inside their country, China National Petroleum Corporation (CNPC) successfully cooperated with Myanmar oil company, Myanmar Oil and Gas Enterprise (MOGE). To find out in detail, here is a description of the companies that involved in the cooperation:

1. China National Petroleum Corporation (CNPC)

China National Petroleum Corporation (CNPC) is China's largest oil company. CNPC was established on September 17, 1988, to replace the Ministry of Petroleum Industry (MOPI) established in 1949, mainly in charge of oil and gas upstream operations. It is a state oil company endowed with certain governmental administrative functions. CNPC is responsible for exploration and development of natural gas and oil reserves in China with the goal to build CNPC into a major integrated international energy corporation with being committed to promoting technological progress and international corporation and developing and utilizing energy in a more efficient and environmentally friendly way, aim to achieve industry-leading operational performance with enhanced competitiveness and profitability by 2020 through strategic development initiatives, technological innovation,

and an accelerated shift to a new development mode highlighting quality and efficiency.. The most important CNPC asset is bundled in the Petro China Limited Co branch, whose shares are internationally listed on the Hong Kong stock exchange in April 2004 and the New York Stock Exchange in 2000. This company has a strategy: (1) Increasing resources with endeavoring to maximize and diversify oil and gas resources, ensuring an orderly replacement of reserves, and maintaining the domestic leadership of their upstream business, (2) Expanding market with taking full advantage of economies of scale and the integration up upstream and downstream operations to seek a dominant position in the market and maximize profits, (3) seeking a greater international rule with focusing on oil and gas business, being active and prudent in enhancing international cooperation, strengthening capital operations, and expanding international oil and gas trading in a mutually beneficial way (CNPC, 2018)

Due to China's political and economic environment, CNPC in 1988, not only as a company but also as an official government organization. Established under MOPI, CNPC took over the social responsibilities that MOPI had previously held during 1949-1988. All CNPC senior managers are appointed by the government so CNPC is not really independent of government. From the economic perspective, CNPC in the period 1988-1998 was established to meet national energy demand under a centralized command economy system. Each year, the central government develops a budget consumption plan that guides all CNPC activities. CNPC acts as a government tool little freedom.

In 2001, CNPC accepted as the member of WTO (World Trade Organization). China's membership in the WTO marked the beginning of CNPC's change operation. The economy of China and the energy sector is towards a wider range of multilateral cooperation and negotiations than in previous years. CNPC faces more challenges and competition with foreign oil companies. Such as British Petroleum, Royal Dutch Shell, and ExxonMobil.

And until now, CNPC has many major events, one of them In 2004 CNPC signed the cooperation with MOGE (Myanmar Oil and Gas Enterprise) China's interests in Myanmar as it progresses, not only Myanmar needs China's help but also China needs Myanmar for its sake. Strategic interest between China and Myanmar is not only focused on arms trade, but China needs Myanmar as a gas and oil pipeline from Myanmar's offshore oil refinery. The cooperation of oil and natural gas purchase contract from Myanmar to China through MOGE and CNPC will build in Myanmar, Rakhine Arakan region. CNPC will serve as the main implementer of this cooperation project. From this energy cooperation, Myanmar has an important position for China as a bridge that connects the entry of piped and gas energy supplies to China. Rakhine region in the west of Myanmar became the entrance of the gas pipeline from the Indian Ocean. Rakhine is an important territory for Myanmar because of its position that serves as Myanmar's defense border. As a frontier area, Rakhine should be conditioned as a safe area. In addition, plays an important role in ensuring the smooth distribution of this energy supply process.

2. Myanmar Oil and Gas Enterprise (MOGE)

Myanmar Oil and Gas Enterprise (MOGE) is a large company owned by Myanmar which was established especially in the fields of oil and gas exploration, production and transportation of oil and gas onshore and offshore areas of the Union of Myanmar. Myanmar Oil and Gas Enterprise together with the Ministry of Energy (EPD) is under the State Ministry of Energy of Myanmar. The government of Myanmar building a company to tender oil and gas blocks (onshore, shallow water offshore, deepwater offshore) in Myanmar and to manage concession contracts, exploration and production and sale of oil and gas. MOGE has four basic responsibilities. *First*, how to explore and produce oil and gas by using its own resources. *Second*, how to supply domestic natural gas by constructing its own pipelines. *Third*, how to supply the Compressed Natural Gas (CNG) as a substitute fuel for

vehicles. *Forth*, to participate in and oversee the production sharing agreements in cooperation with Myanmar/ foreign oil companies through Myanmar's government and military (MITA, 2013).

Myanmar Oil and Gas Enterprise is a national oil and gas company of Myanmar that was established in 1963 after the nationalization of the Burmese Petroleum Industry. The Burma Oil Company is merged with MOGE in terms of nationalizing assets. At its inception on 1st January 1963, the remaining shares of the Burma Oil Company (1954) Ltd. (the company cooperates with 51% was owned by Myanmar Government and the 49% is owned by the Burma Oil Company) with proceeds carried by the Myanmar Government with the value of 62.5 million Kyats. The name of the company was then changed to People's Oil Industry. On 28th, February 1970, the issuance of No.1/70 notices which contained the Myanmar Oil Corporation to inherit all the previous oil industries of Myanmar and perform all the duties of producing, refining and marketing of petroleum onshore and offshore.

Based on the data from the official of Myanmar Oil, and Gas Enterprise stated that "In first April 1975, The Myanmar Oil Corporation was divided into three corporations according to the main function of the work viz. (1) Myanmar Oil Corporation (2) Petrochemical Industry Corporation (3) Petroleum Products Supply Corporation. On 12th April 1985, a Ministry of Energy was formed and all the above petroleum related corporations were put under the Ministry of Energy. On first April 1989, the corporations were changed into enterprises. Now the following department and enterprise are functioning under the Ministry of Energy (1) Energy Planning Department (2) Myanmar Oil and Gas Enterprise (MOGE) (3) Myanmar Petrochemical Enterprise (4) Myanmar Petroleum Products Enterprise (MPPE)." (MITA, 2013). This proves that Myanmar has several companies engaged in exploration that remain under the auspices of Myanmar's own Energy Ministry and it has developed until today.

The company is sole of oil and gas exploration and production, as well as domestic gas transmission through

1,200 miles (1,900 km) onshore pipeline grid. MOGE is a partner in the Yadana natural gas pipeline project, operated by French energy group. Other partners in the project include Chevron Corporation, Thai state-owned oil, and gas company (Thiha, 2018). Myanmar Oil and Enterprise (MOGE) organizational led by Managing Director (MD) and followed by the directorate which is divided into several sections: Planning, Exploration, and Development, Offshore, Drilling, Production, Engineering, Administration, Material Planning, and Finance. In its development, the company often organizes a series of conferences. For example, investment and business summits, conference and exhibitions in Myanmar covering all the above industries.

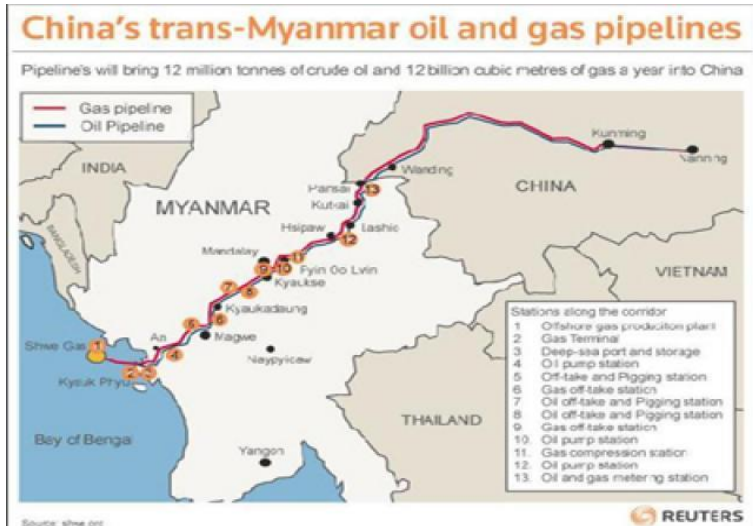
After several years of standing, in 2004 MOGE cooperated with CNPC owned by China in terms of energy in Arakan, Rakhine Area. The form of the cooperation is the construction of oil and natural gas pipelines that have brought much impact to Myanmar country itself. the cooperation was established in order to rise up the economy of Myanmar and strengthen the bilateral relations between Myanmar and China. Until now, this cooperation is still running until 30 years to come in accordance with the contract that has been set before.

C. The Process of the Construction

After the two companies agreed to sign MoU on the construction of a pipeline network that supplies oil and gas resources from the Arakan region of Myanmar in 2004. The process of construction began, the structure of the gas pipeline is built through the Kyaukphyu Port region of the Rakhine region to Yunnan Province of China. The 793-km pipeline contains an investment value of USD 2.5 billion. The cooperation between the two companies is a cross-country oil and gas purchasing flow contract aimed at meeting the demand for oil and natural gas resources from China. This cooperation contract is likely to run for 30 years, of which CNPC becomes the dominant manager based on an investment share

ownership of 50.9%, while the remainder is owned by MOGE (Olyvia, 2014).

Picture 3.1 China's Trans Myanmar Oil and Gas Pipelines



Source: Journal of China Foreign Policy in Securing its Energy Supply Related to Arakan Resistance Against the Framework of Development Cooperation of Trans-China-Myanmar Oil and Gas Pipeline Project by Meylysanía Olyvia.

After Myanmar has reached an agreement with the China government to build a gas and petroleum pipeline to be built in parallel across the Shwe field offshore oilfield in the Kyaukphyu region and to be completed in Kunming, China. The pipeline will cut Myanmar territory to China through some areas, such as Mandalay, Rashi, and Muse. The underground pipeline will enter China through cities, such as Kunming, Guizhou, and Guangxi. The oil and natural gas pipeline has a capacity of about 12 million liters of cubic crude each year and can cost up to US\$ 2.5 million. The construction of the pipeline is intended to cut off the usual oil and natural gas distribution lines, which normally have to pass through the

Strait of Malacca. This construction will certainly have an impact on the change of natural gas and oil distribution route map. The pipeline will change the route of China crude oil imports from the Middle East and Africa and avoid the frequent congestion in the Malacca Strait. The construction of Pipeline also was linked with the safeguarding of China's oil lanes from the much disturbed Middle East region from competing countries such as the United State military operating in the Malacca seas.

After the agreement in 2004. CNPC began construction of the port for the oil in Kyuak Phyu township, Arakan. Completion of the crude oil port and storage facilities was expected in 2010. Then, in June 2010, CNPC announced that construction of the pipelines in Burma started but is experimental. CNPC subsidiary CNPC Southeast Asia Co., Ltd will be in control of the design, construction, operation, expansion, and maintenance of the pipelines. Finally, the Gas pipeline has been operated on July 2013 with capacity 193.6 million feet cubic each day and an oil pipeline has been operated on December 2013 with capacity 400 thousand barrels in each day. In every day, 80 percent of China's 3.5 million barrels of oil imports are transported through the Strait of Malacca. While Myanmar receives only US\$ 13.8 million each year from leased land for a gas pipeline stretching nearly 800 km from Rakhine state to China. (Bank Track, 2016).

The cooperation still running until today, the construction also needs a land area of about 800 km in Arakan region. Meanwhile, labor is almost entirely derived from China as the largest investor, and some come from local communities in the Arakan area. The construction is monitored directly by the China company, which is China National Petroleum Corporation and Junta Military from Myanmar Government in charge of securing the area. Until now, the construction still running and to facilitate the construction, China cooperates with the military junta from Myanmar to secure the community and the people who lease the construction.