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# SPECIAL REPORT

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## ABOUT THE REPORT

This Special Report examines China's role and interests in Myanmar's peace process. Funded by the United States Institute of Peace (USIP) and integral to USIP's Asia Center programming, the report is based on more than eighty interviews with officials in China and representatives from ethnic armed groups in Myanmar.

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*Yun Sun*

## China and Myanmar's Peace Process

### Summary

- China's interest in the Myanmar peace process is focused on the armed ethnic groups along the border in Kachin and Shan states—in particular, the Kachin Independence Army, the United Wa State Army, and the Kokang Army. These organizations have historical and cultural ties with ethnic groups across the border in China as well as political and economic connections.
- China's official position follows the principle of noninterference and its official policy is “persuading for peace and facilitating dialogues.” In practice, its attitude has been more ambiguous.
- Beijing does not necessarily believe that comprehensive peace is attainable for the foreseeable future. Its priority is therefore to prepare for different uncertainties and maximize its flexibility in the process.
- China's role is complicated by the behavior of certain Chinese special interest groups and individuals who have offered direct financial support for ethnic armed organizations in Myanmar.
- Under Myanmar's new National League for Democracy government, ties with China have improved significantly. China has played a positive role in persuading armed groups to join the Union Peace Conference in 2016, but its future policy and role will depend on the development of bilateral relations and the evolving definition of China's national interests.

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### Introduction

With the successful completion of its 2015 general elections and a smooth transition of power to the National League for Democracy (NLD) government, Myanmar has embarked on a long but positive path to political and economic reform. Reconciliation among the many ethnic armed groups—ethnic armed organizations, as they are known in Myanmar—in the north, including those still in active combat with the Myanmar Armed Forces, is unresolved

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and a source of conflict, however. Addressing this issue involves important questions of majority-minority relations, central-local power distribution, and the role of the Myanmar military. The peace process, launched by the former U Thein Sein government and continued by the NLD government, represents the best efforts of the country to end the long ethnic division of the state and achieve genuine reconciliation for the first time in decades.

As Myanmar's largest neighbor, China has been and will remain a critical player in the Myanmar peace process. Ethnic armed groups in northern Myanmar share historical and cultural linkages with ethnic groups across the border in China as well as political and economic connections. China's official position on the peace process adheres to the principle of noninterference in the internal affairs of a sovereign state. However, it is clear from the ongoing debate in Chinese policy circles that this position is not necessarily based on impartiality or disinterested altruism. Strong voices favor China's active support for ethnic armed groups in Myanmar, arguing that it will help temper the Myanmar government's treatment of China and Chinese business interests, something that has grown increasingly urgent as Myanmar appears to make pro-West foreign policy adjustments.

China's role in the peace process is further complicated by the behavior of special interest groups and individuals in China who have offered direct financial support for ethnic armed groups in Myanmar—which include the Kachin Independence Army (KIA), United Wa State Army (UWSA), and the Kokang Army (MNDA). These relationships have contributed materially to their ability to sustain their autonomous presence and, in some cases, armed conflict with the Myanmar military. Although not sanctioned by Beijing, such private business dealings have reinforced the perception of a duplicitous Chinese role in the peace process.

Seeing Myanmar's ethnic issues as unlikely to be resolved in the near future, Beijing's immediate concern is to prevent instability on its borders. However, given the new NLD-led government in Naypyidaw, China has been putting significant efforts into building a good bilateral relationship. At the end of the day, how much it contributes to the Myanmar peace process will depend on bilateral relations and whether Myanmar's policies and actions are aligned with or at least not contrary to China's economic and strategic interests.

## Historical Sources of Tension

Chinese involvement in northern Myanmar, especially in the regions controlled by ethnic armed organizations, has always been a thorny bilateral issue. Historically, the boundary treaty between the People's Republic of China and the Union of Burma of 1960 ended with China's de facto acceptance of the 1941 line imposed by Great Britain and the resolution of bilateral territorial disputes.<sup>1</sup> However, the sense of grievance is significant among the local Chinese and ethnic population, interviewees in Yunnan indicated, that the communist government in Beijing abandoned China's traditional territory in exchange for political recognition and friendship. Especially in northern Kachin and Shan states, according to interviewees there, many locals see the 1960 demarcation as recognition of the unfair and unjust 1941 line that exploited China's weak negotiating position during World War II. The sense of being abandoned by China is strong, but so is that of ethnic affinity (in some cases of belonging). This is exacerbated by the fact that many local residents do not even hold Myanmar citizenship because their regions are not administered by the Myanmar central government in Naypyidaw. Indeed, popular Burmese perceptions often do not see these ethnic minorities as belonging to Myanmar either.

The demarcation permanently divided many ethnic groups into citizens of either one country or the other. Many in northern Myanmar have the same ethnicity as those across the border in China—the Burmese Kachin and the Chinese Jingpo, for example, and the Wa

people on both sides. They speak the same languages, have the same cultural traditions and customs, and maintain close communications and ties. The official border is not much of a hindrance between them on an unofficial level.

Historical ties are further complicated by the legacy of the Communist Party of Burma (CPB) presence in northern Myanmar during the Cultural Revolution, when China pursued a foreign policy aimed at exporting revolution.<sup>2</sup> China stopped supporting the CPB in the late 1980s, contributing to the CPB's disintegration into separate ethnic armed organizations such as the UWSA and the MNDAA, an assertion backed by local interviewees.<sup>3</sup> These groups have continued to maintain close unofficial ties with their contacts and supporters in China.

## Chinese Diplomacy and the Myanmar Peace Process

China's official policy on the Myanmar peace process, which predates Myanmar's political reform, is "persuading for peace and facilitating dialogues" (劝和促谈).<sup>4</sup> Even before the 2010 elections, when Myanmar's military government proposed transforming the ceasefire ethnic groups into Border Guard Forces in 2008 and 2009, China had pursued the same policy.<sup>5</sup> In 2013, China appointed Wang Yingfan as the first special envoy for Asian affairs, stipulating the sole mandate of mediating the armed conflict between the Myanmar central government and ethnic armed groups.<sup>6</sup> Shortly after this appointment, China organized two rounds of dialogue between KIA and the Myanmar government in the Chinese border town of Ruili.<sup>7</sup> Since then, the Chinese special envoy has consistently participated in and observed nationwide ceasefire dialogues with the UN special envoy and special adviser on Myanmar, Vijay Nambiar. Ambassador Wang was replaced by Sun Guoxiang in 2015.<sup>8</sup> In July 2016, Nambiar and Wang both attended the ethnic summit in Mai Ja Yang of Kachin state.<sup>9</sup>

The level of China's intervention correlates directly with the intensity of the conflict and its spillover effect on China. For example, the latest iteration of the Kachin conflict between the KIA and the Burmese military—an independence movement dating from British colonial rule in the 1940s—has been ongoing since June 2011. China appointed Special Envoy Wang only in early 2013, however, after the escalation of conflict in late 2012 led the Burmese military to bomb Chinese territory and refugees to flee to China.<sup>10</sup> Similarly, MNDAA launched its military operations against the Myanmar Armed Forces as early as November 2014, according to Kachin representatives interviewed in Yunnan. However, the first statement of concern by the spokesperson of the Chinese Foreign Ministry was issued only in February 2015, after the Kokang assaults led to massive refugee flows into China. The killing of five Chinese civilians in a Burmese military bombing in March 2015 escalated the Chinese reaction: on March 14, the Chinese vice foreign minister, Liu Zhenmin, urgently summoned the Burmese ambassador to China to "lodge a solemn representation" and "condemn the bombing."<sup>11</sup> When the bombing resumed in May, China finally responded with its own live fire drill in early June.

Sandwiched between domestic public pressure for the Chinese government to actively support the Kokang and its desire to maintain good relations with the Thein Sein government, China's original hope was to remain aloof and guard its border. However, according to local officials and scholars in Yunnan, when it became increasingly clear that the Myanmar Armed Forces had little regard for the Chinese border and Chinese security, Beijing's position toward MNDAA became more ambiguous and sympathetic. After MNDAA announced a unilateral ceasefire, China ceased all public action in response to the Kokang conflict.

Since it assumed power in March 2016, the NLD government has been widely regarded—compared with its predecessor—as improving the country's relations with China. Aung San Suu Kyi and the NLD faced a tough challenge regarding China when they were inaugurated

***China's intervention correlates directly with the intensity of the conflict and its spillover effect.***

in March 2016. Sino-Myanmar relations had deteriorated since 2011, when then president Thein Sein suspended the Myitsone mega-dam—which activists and environmentalists saw as a victory. The project was never popular in Myanmar but the Chinese nevertheless saw themselves as the victim of a quasi-civilian government’s attempt to gain legitimacy, popularity, and support from both the Myanmar people and the West. China’s grievance was exacerbated by the Thein Sein government’s lukewarm attitude about Chinese economic ambitions in the country, as manifested by the suspension of the Letpadaung copper mine, the abandonment of the Sino-Myanmar railway, and the difficulties it encountered in the bidding for the Kyaukpyu special economic zone. The sense of grievance peaked in 2015 when the major armed groups in northern Myanmar—including UWSA, KIA, and the Shan State Army-North—refused to sign the Nationwide Ceasefire Agreement (NCA) in October along with the eight groups that did sign. Myanmar officials publicly accused China of undermining the peace process by blocking the participation of these groups in the NCA.<sup>12</sup> The Chinese government vehemently denies the accusation and lodged a formal protest with the Myanmar authorities in Naypyidaw.

The new NLD government faced the choice of continuing to cater to anti-China sentiment inside Myanmar and running the risk of losing China’s support for both the peace process and Myanmar’s domestic economic agenda, or trying to improve relations with China and enlisting Beijing’s help for Myanmar’s national priorities, including ethnic reconciliation. The record of the NLD government thus far seems to suggest that Aung San Suu Kyi has selected the second option and therefore recalibrated the country’s policy toward China. First is its relatively detached and neutral position on the South China Sea disputes in July 2016.<sup>13</sup> Second is its demonstrated willingness to negotiate a final resolution of the suspended Myitsone dam project with China.<sup>14</sup> Senior working-level visits by key government officials between the two countries have increased. In April 2016, Chinese Foreign Minister Wang Yi was the first foreign guest Suu Kyi invited, and received, after the NLD government assumed power. In July, Minister of State Security Geng Huichang paid a highly unusual visit to Myanmar, during which he met with Suu Kyi. Given the Ministry of State Security’s unique status and special mandate in China’s national security, the meeting was widely interpreted by Chinese and Burmese observers as having focused on the issue of northern Myanmar, including Sino-Myanmar cooperation on the peace process. One week before Suu Kyi’s visit to Beijing in August, the chief of the International Department of the Central Committee of the Chinese Communist Party, Song Tao, visited Myanmar and met with a diverse group of Myanmar political and military leaders.

During Suu Kyi’s visit to China, the issue of ethnic reconciliation was high on the agenda. In the Joint Press Release Between the People’s Republic of China and the Republic of the Union of Myanmar, published on August 20, 2016, the issue of border ethnic groups was addressed three separate times, illustrating an unprecedented level of emphasis by both sides. China committed to supporting Myanmar’s efforts to realize domestic peace and to ensure national reconciliation through political dialogues, and Myanmar recognized that China’s role and efforts in supporting Myanmar’s course of national reconciliation and peace are positive and constructive. They also agreed to enhance cooperation to ensure peace and stability, and strengthen law-based management in the border region.<sup>15</sup> Two days after Suu Kyi’s China visit, Chinese special envoy Sun Guoxiang visited UWSA and the National Democratic Alliance Army-Eastern Shan State (NDAA-ESS) to ensure the two groups’ participation in the Union Peace Conference.<sup>16</sup>

China’s positive change in attitude about the peace process is based on its observation that the NLD is inclined to improving relations with China and on the hope that it might induce NLD cooperation and goodwill. To build goodwill with Suu Kyi and the NLD govern-

ment early on, China provided unprecedented support of and cooperation on the nationwide peace process and the Union Peace Conference in August 2016. Chinese financial contributions and political support for the Myanmar peace process have increased substantially since March. Earlier this year, according to local officials interviewed in Yangon, China donated \$3 million to the Joint Monitoring Committee, a scenario that would not have been considered possible during the former Thein Sein government. China's special envoy for Asian affairs, Sun Guoxiang, attended the Mai Ja Yang summit for ethnic nationality groups, hosted by the Kachin Independence Organization in late July, and publicly committed China's continued support to the peace process administered by the NLD government. He and other Chinese officials have been so enthusiastic and persistent that some ethnic leaders have since complained that the Chinese were lobbying for them to surrender to serve China's bigger cause.

## Factors Shaping Chinese Policy

In the Chinese policy lexicon, experts in China said, peace in Myanmar is desirable and conducive to China's national interests in terms of the peace and development in the border region. However, whether peace is realistically attainable is an entirely different issue. Beijing's bottom line in the peace process is ceasefire in the border region. Given the disruptions due to the conflicts, including damages to China's border security, Beijing prioritizes suspension or elimination, or—at a minimum—containment and management of the active armed conflicts along its border. This is China's most basic security demand of Naypyidaw and Myanmar's ethnic armed groups.

In the Chinese view, at least three significant obstacles obstruct the prospect of real peace in the foreseeable future. First is that, as a Chinese scholar in Yunnan explained in an interview, "Burmese chauvinism is the fundamental cause of Myanmar's ethnic conflict." Peace is not an empty slogan, but must be based on a mutually acceptable framework between the central government in Naypyidaw and ethnic armed groups on the distribution of political power and economic benefits at state and local levels. However, the prospect that negotiations can be successfully concluded in the short term is scant. Second, the peace process is subject to the delicate civil-military relations between the NLD government and the Myanmar military, the latter of which perceives the separatist ethnic groups as a threat to the nation and the battle against them as the inherent mission of the military. In other words, if the military sees the NLD government as compromising the nation's sovereignty and territorial integrity, it is likely to object to or even undermine such an agreement. This, though, touches on other sensitive issues of the military's role and civil-military relations in Myanmar's domestic politics. A common perception in Myanmar, according to Burmese officials in Yangon, is that the military is using the ethnic issue to defend its political power and privileges, and therefore is unlikely to agree with any necessary compromises that the NLD might accept. Last but not least, given the complicated relations between the Burmese majority and ethnic minorities on the one hand and the civilian government and the Myanmar military on the other, peacemaking and nation-building are extended processes subject to constant setbacks. Therefore, in the Chinese view, any agreement reached is bound to be violated, intentionally or unintentionally, by either or both sides, interviewees in both Beijing and Yunnan indicated, because the necessary trust is simply not there.

In this sense, China is not hopeful about Myanmar in the short term. The assessment of Chinese officials is that the peace process will be full of obstacles and regressions in the foreseeable future. In this context, a ceasefire is more probable than a comprehensive peace agreement with all ethnic armed groups. Therefore, the reasoning continues, China needs to prepare for a long process fraught with conflicts and the continued presence of autonomous

ethnic armed groups on the Sino-Myanmar border. The policy implications of this judgment are twofold: first, Beijing can use its assistance in the peace process to sweeten relations with Naypyidaw when it chooses; second, Beijing will not “abandon” the ethnic minorities because they cannot be eliminated anyway and could even turn against China if China were to push too hard. Most importantly, Beijing does not operate on the assumption that it must pick a side between the central government in Naypyidaw and ethnic armed groups. Instead, it maintains good relations with both, and each serves a distinct purpose.

At the geostrategic level, the ethnic conflicts in northern Myanmar are potential obstacles to China’s grand strategic ambition, such as the One Belt One Road initiative or its Indian Ocean strategy.<sup>17</sup> China’s overall design is to build connectivity projects and transportation networks throughout Myanmar into South Asia and Southeast Asia. Projects such as the Kyaukphyu special economic zone and deep-sea port could become a key post for China’s Maritime Silk Road via the Indian Ocean.<sup>18</sup> The ethnic conflicts therefore have two negative effects that undermine China’s strategic ambitions. Directly, the ethnic conflicts act as a roadblock to China’s strategic ambition along the border even before its projects can reach the west coast of Myanmar. Indirectly, as long as the conflict continues, the thorny issue of China’s relationship with armed ethnic groups damages Myanmar’s trust in China, hindering the prospect of a close relationship.<sup>19</sup>

China’s security concerns in northern Myanmar are also shaped by a fear of Western and particularly U.S. intervention in China’s immediate neighborhood, across a porous border that can be easily infiltrated. For China, an open and active U.S. role in the peace process would only further enhance the U.S. influence in Burmese politics and invite an American presence on the Chinese border. Beijing has reacted strongly to the prospect of a U.S. role in conflict resolution in northern Myanmar. In 2013, China’s top priority was to block the attempted “internationalization of the Kachin issue,” demonstrated by a KIA proposal to invite the United States, the UK, the United Nations, and China to be observers and witnesses of the negotiation between the KIA and the central government.<sup>20</sup> In 2015, according to Burmese officials interviewed in Yangon that November, China’s ardent opposition prevented the United States from becoming a witness to the signing of the NCA.

China’s strategy in the Myanmar peace process is shaped by concerns about U.S. involvement in two seemingly contradictory ways. On one hand, a stagnant or stalled peace process will compel either the ethnic minorities or the central government to seek outside support, especially from the United States, as demonstrated by KIA’s case. In this sense, the desire to keep the United States out motivates China to stay in and promote progress of the dialogue. On the other hand, China also hopes to maintain its leverage—by keeping the issue alive and shielding ethnic armed groups from destruction by the Myanmar military—should it decide to pursue closer security ties with the United States.

Debate in China is ongoing as to whether the ethnic armed groups in Myanmar should be treated as a strategic buffer and an asset that can be leveraged against the central government in Naypyidaw.<sup>21</sup> The foreign policy apparatus has long argued that China’s noninterference principle prohibits any proxy war, but this position was challenged in the course of the Thein Sein government, Chinese scholars in Beijing pointed out in interviews. For Chinese technocrats concerned with military security, ethnic armed groups in Myanmar are a natural asset, to be treated as a buffer against military campaigns against China that might be launched from the southwest. The strategic school approaches the issue on the basis of a strategic power equilibrium, arguing two points. First is that China needs to increase its presence in the country in response to what has been observed as Myanmar’s pro-West propensity since 2011.<sup>22</sup> Second is that such influence should be strengthened—including through proxies such as ethnic armed groups—to deter any Burmese policy that

could damage China's interests.

China's interests as a nation in the Myanmar peace process do not always align with those of local and private Chinese actors. Although China as a nation wishes to follow (for the most part) the principle of noninterference in Myanmar's internal affairs, local and private actors are often motivated by personal interests to support their ethnic brothers or business partners in northern Myanmar. In deliberating China's relations with ethnic armed groups in Myanmar, the common argument is that the effectiveness of Chinese control to rein in their behavior is undermined by two factors. Either the central government in Naypyidaw does not have full capacity to control them, given the porous state of the border, or it is not willing to restrain such support because the groups align with certain Chinese interests.

Testing either of these hypotheses is difficult given the opaqueness of Chinese policymaking and the murky developments along the border. However, it is possible to form a basic understanding of how the interests of certain Chinese actors align with or deviate from those of Beijing. The first issue is the disconnect between central and provincial governments, popularly cited as having severely undermined Beijing's policy toward Myanmar's ethnic reconciliation. The second is the support private Chinese actors provide to Myanmar ethnic groups.

## **A Central-Provincial Disconnect?**

The policies of the Chinese provincial government of Yunnan, which adjoins the Burmese border, or the actions of the prefectures, counties, and cities in Yunnan are frequently cited as a key independent variable undermining the effectiveness of Beijing's policy toward Myanmar. Local Yunnan companies have developed intricate business ties in northern Myanmar, including mining, logging, crop substitution, and other joint ventures. Because many of these areas are controlled by ethnic armed groups, such business ties usually do not have Naypyidaw's approval.

This issue has been a sore spot between the two countries. In the 1990s, the Myanmar military government complained to the Chinese Ministry of Foreign Affairs about the illegal business activities in northern Myanmar that Yunnan companies had engaged ethnic groups in, especially logging and mining.<sup>23</sup> The most recent example of Myanmar's frustration is the case of the 150 illegal Chinese loggers from Yunnan arrested and sentenced in Kachin state in 2015.<sup>24</sup> The related frustration of the Chinese Ministry of Foreign Affairs has been consistent. The ministry and the Yunnan provincial government have the same rank in the Beijing bureaucracy, however, and thus neither has authority over the other.

Despite these historical dynamics, Beijing's control of border affairs has in fact greatly strengthened since the Kokang conflict in 2009, when the military government removed the leadership of MNDAA and regained control of the Kokang region. The conflict caught Beijing by surprise, Chinese officials explained in Washington, DC, and led to a policy review, which determined that Yunnan's monopoly of information and relations with ethnic armed groups in northern Myanmar had fostered rampant corruption in border management and posed a threat to China's national security. As a result, Beijing began to strengthen its direct channel of communications with ethnic armed groups in Myanmar; to develop its independent channels, sources, and private contacts; to shuffle the security officials and armed police periodically; and to assign the People's Liberation Army to key border guard posts.

President Xi's anticorruption campaign has put further pressure on Yunnan bureaucrats. In the three years between 2013 and 2016, eight senior officials in Yunnan were investigated or arrested, including former Communist Party provincial secretaries Qin Guangrong and Bai Enpei; former Communist Party deputy secretary Qiu He; former Yunnan vice governor

Shen Peiping; former Communist Party secretaries of Kunming city Gao Jinsong and Zhang Tianxin; Kunming executive deputy mayor Li Xi; and Kunming deputy mayor Xie Xinsong.<sup>25</sup> Among all the provinces in China, Yunnan has the highest number of officials (904) dismissed for corruption between 2014 and March 2016.<sup>26</sup> The massive purge in Yunnan may not have a direct impact on the province's relations with the ethnic armed groups in northern Myanmar. However, it does warn local officials about the consequences of acting against the central government. One local official interviewed in Yunnan remarked, "Under President Xi, acting against the central government is not just political suicide, but literally suicide."

Given Xi's absolute authority in Chinese domestic politics and the tight leash he has put on local governments, Yunnan has become much more careful and obedient in its liaison role between Beijing and Myanmar. Some private citizens in Yunnan are still sympathetic to the ethnic armed groups and provide assistance to them, but local government actors are far less inclined to knowingly and deliberately ignore Beijing's specific orders because doing so is too risky politically. Analysts should be more vigilant when ambiguity arises about Yunnan's assistance to the armed groups. They should at least question whether Yunnan is in fact acting against Beijing or is merely an easy scapegoat. This misconception is convenient for Beijing because it offers easy deniability.

## Chinese Business Interests

Economically, China's interests in northern Myanmar are most immediately associated with investment in Kachin and Shan states. China has significant hydropower investments in each, including the controversial \$3.6 billion Myitsone dam and the planned \$6 billion Mong Ton hydropower facility. China's strategic oil and gas pipeline project, built by the China National Petroleum Company, passes through Shan state, and is located close to the conflict zones in southeastern Kachin and northwestern Shan states.<sup>27</sup> The Dapein dam was forced to shut down in 2011 for more than two years because of the Kachin conflict.<sup>28</sup> Chinese investment in natural resource industries affects distribution of economic benefits in ethnic states between the ethnic groups and the central government. That most projects were negotiated with Naypyidaw amplifies ethnic grievances and fuels the ongoing conflict. Many ethnic armed groups have been the de facto administrators of their territories for decades, and the legitimacy of the central government on their land has been contested for more than sixty years.

Beyond official investments, private, unofficial, and sometimes illicit economic and social ties between armed groups in northern Myanmar and private companies in China are extensive. Mining and logging are the most common joint ventures. In some cases, the Chinese companies are owned and operated by coethnics, such as the Yunnan Jingcheng Group.<sup>29</sup>

After the Myitsone fiasco, Chinese state-owned enterprises became increasingly concerned with being blamed for the deterioration of Sino-Myanmar relations and have since complied more with central government's policies in Myanmar. State-owned enterprise caution, however, has not discouraged or stopped private companies and citizens from providing substantive support to ethnic armed groups in northern Myanmar. It is difficult to assess the extent to which ethnic minorities and locals in China have provided ethnic armed groups in northern Myanmar with material support, though rumors run rampant. During the Kachin and Kokang conflicts, interviewees in Yunnan reported, private Chinese citizens assisted ethnic armed groups in passing through Chinese territories and hosted them in China when they were in tactical retreat. Although such actions are widely interpreted as "China's support" of the rebels, those providing access to Chinese territory were likely not operating with Beijing's blessing or knowledge in most cases—such actions are too easy to be caught by



satellite or local witnesses and offer no deniability. However, private business supports are much less culpable and much more important. The case of the Yucheng Group and its large financial support to these groups in 2015 is a prime example.

Yucheng Group, currently under criminal investigation, is a private Chinese financial company founded by Ding Ning, a thirty-four-year-old Chinese citizen from Anhui province. Established as a technology company, Yucheng launched its private equity firm in 2012 and merged all subsidiaries in 2013 to become the Yucheng Group. Its most famous financial product, EZuBao, an online financial trading platform, was launched in 2014 and rapidly became one of the largest online asset-to-peer operations in China.<sup>30</sup> EZuBao is essentially a Ponzi scheme, offering exceedingly high interest rates for money raised from private investors. Between its launch in July 2014 and the criminal investigation beginning in December 2015, EZuBao raised more than RMB 50 billion (about \$7.5 billion) from more than nine hundred thousand private investors.<sup>31</sup>

Yucheng Group became involved in the northern Myanmar conflict in early 2015 after MNDAA began its appeal for Chinese all over the world to support the armed struggle of a Han diaspora group in Myanmar persecuted by the Burmese government. Ding Ning, who had accumulated vast financial assets since the launch of EZuBao in 2014, became personally interested in the Kokang's cause and is said by local representatives in Shan state to have made a one-time donation of RMB 10 million to MNDAA without asking for anything in return. According to Chinese observers and local ethnic representatives in northern Myanmar, through MNDAA, Ding Ning rapidly established relations with all six armed ethnic groups and provided funding to all of them.

Yucheng Group's most significant relationship in northern Myanmar was with UWSA. According to UWSA leaders, the investment and contribution the group received from Yucheng in 2015 was unprecedented in its history. Financially, according to Yucheng Group's statement in 2015, its overseas subsidiary company reached an agreement with UWSA to establish a Yucheng Southeast Asia Free Trade Zone in the Wa area with a total investment goal of RMB 40 billion as well as a specialized commercial bank there—the Southeast Asia Union Bank.<sup>32</sup> UWSA leaders confirmed these two operations in private interviews but commented that they have been suspended since the criminal investigation of the Yucheng Group began in December 2015. Although most of the illegal revenue—some RMB 50 billion—has disappeared from Yucheng's accounts in China, highly respected Chinese media sources, such as *Caixin*, have cited "informed sources in China" that most of Yucheng Group's funding has gone to Myanmar, though the exact amount is unknown.<sup>33</sup> According to multiple interviewees, Yucheng also arranged arms sales and mercenaries for UWSA.

Yucheng Group claims that its financial investment in UWSA was in support of the Chinese government's Belt and Road Initiative, the sole purpose of which was turning the Wa area into another hub of Chinese influence in Southeast Asia.<sup>34</sup> However, the more widely shared consensus, as pointed out by the authoritative *Caixin* magazine, is that Yucheng Group was in fact using ethnic armed groups in northern Myanmar to money launder the illegal funding it had accumulated in China.<sup>35</sup> UWSA's most developed laundering channels run through Thailand and Singapore. That most of Yucheng Group's illegal funding has yet to be discovered or retrieved supports the theory that the money had been funneled through ethnic armed groups, including UWSA, to overseas destinations. It also explains Yucheng's interests in providing not only funding but also arms and mercenaries—because its assets required protection. According to conservative estimates, financial support from Yucheng was in the tens of millions of dollars.

Yucheng's operations in northern Myanmar offer the strongest explanation for the perception of a heightened support from China to ethnic armed groups in 2015. Whether

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Yucheng was operating under the approval or, at a minimum, with the knowledge of the Chinese government is unclear. After all, before the criminal investigation began, Yucheng was lauded as a champion for financial innovation in China and its commercials were widely broadcast by CCTV, China's official central television network. According to Yucheng, the agreements it reached with UWSA over the free trade zone and the Southeast Asia Union Bank were approved by "related government agencies" in China. Similarly, the Yucheng Group established its own People's Armed Division in 2015 and the opening ceremony was attended by the local People's Liberation Army offices in Bengbu, Anhui province, as well as local government officials.<sup>36</sup> Of course, these government agencies and officials do not represent the entire Chinese government and have instigated bureaucratic infight over Yucheng's activities, which eventually led to its demise.

## **Key Ethnic Armed Groups**

China's interest in the peace process is clearly focused on the groups located along the Sino-Myanmar border in Kachin and Shan states. Much less attention has been paid to the ethnic groups in lower Myanmar, such as the Karen, the Chin, or the Mon. Among the groups in northern Myanmar, KIA and UWSA seem to be China's priorities, given the sizes of their armed forces and their geographical proximity to and ethnic affinity with China. Simply put, they have the greatest capacity to create turbulence along the border. Among other groups, the Mongla Army (or National Democratic Alliance Army—Eastern Shan State, NDAA-ESS), is traditionally seen as a proxy of the much stronger UWSA and aligns its political and military strategies with the Wa. The three groups previously excluded from the NCA—MNDA, the Arakan Army, and the Tá'ang Liberation Army—are also closely watched by China because of Kokang's ethnic ties with China, all three groups' relationships with KIA and UWSA, and their abilities to disrupt the peace process and general peace and stability. Other than these six groups, the Shan State Army-North and Shan State Army-South—also known as the Restoration Council of Shan State—also matter to China even though they are farther south from the border in the Shan state. They matter because their political positions, especially whether to accept the NCA and cooperate with the government military, nevertheless affect the unity and politics of ethnic armed groups.<sup>37</sup>

### **KIA**

As the leader of the United Nationalities Federal Council (UNFC), KIA has been a key player in northern Myanmar. KIA territory primarily borders Ruili and Baoshan prefectures in Yunnan, China, and its headquarters in Laiza sits right across the Sino-Myanmar border from China's Yingjiang county. The Kachin in Myanmar have close ethnic ties with the Chinese Kachin (Jingpo) people. The political and financial support KIA enjoys from their Chinese Kachin brothers is perhaps the strongest among all ethnic armed groups. Such strong support carries important political sway in China, because the local governments are keen to pacify ethnic minority groups for the sake of social stability. Kachin state boasts rich natural resources, especially jade, timber, hydropower, and mineral resources, leading to numerous joint ventures with Chinese entities on resources development. This inevitably boosts the incentive of Chinese local and private interest groups to support and protect KIA. For these reasons, China has maintained close communications with KIA to mediate the ongoing fighting and coordinate on negotiations.

However, among the six groups, Chinese reservations are also highest about KIA. Although Beijing acknowledges KIA's leadership status at UNFC and its indispensable role in

the peace process, its attitude toward KIA is colored by several factors. KIA has not always been supportive of Chinese investment in Kachin state. Citing “Kachin people’s concerns,” KIA has opposed the Chinese Myitsone dam project.<sup>38</sup> The Kachin community and KIA maintain close ties with Western countries and organizations, on the basis of their Christian identity, the Kachin diaspora in the West, and their history of cooperating with the United States and UK during World War II against the Japanese occupation.<sup>39</sup>

China also has concerns about Kachin’s ties with the United States, concerns that have grown over the past several years as Kachin delegations have visited Washington to seek American support for their cause. The most famous such visit was by Major General Sumlut Gun Maw, KIA’s vice chief of staff, in April 2014, when he met with senior U.S. government officials.<sup>40</sup> In 2013, KIA proposed including the United States as an observer, along with the United Nations, the UK, and China, in its negotiations with the Myanmar government—a privilege that China saw as reserved for itself and the United Nations.<sup>41</sup> According to the Chinese perception, the proposal was a direct attempt to “internationalize the Kachin issue” and introduce an American presence to China’s borderland. Understanding China’s concern about U.S. involvement, KIA later tried to portray the United States as working with the Myanmar military against KIA in order to alienate China’s relationship with the Myanmar military and increase Chinese support of KIA.<sup>42</sup> China sees such inconsistency and manipulations as evidence of KIA’s unreliability.

The internal split within KIA on the peace process also disturbs China. KIA has both a moderate group willing to negotiate with the government and make necessary compromises, and radical hard-liners for whom “independence” or self-determination is the ultimate goal. This position may simply be part of KIA’s negotiation strategy, interviews suggest, but it does not fare well with China given the Tibetan and Uyghur separatist threats that Beijing faces. The split contributed to KIA’s inconsistent position in the negotiations for the NCA in 2014 and 2015, Burmese officials in Yangon report, which frequently undermined the authority and negotiation power of General Gun Maw, KIA’s chief negotiator to the government. To China, this makes it seem less likely that KIA has a consistent commitment to the peace process and agreements.

In the view of many Chinese observers in Beijing and Yunnan, under the leadership of KIA, the UNFC has demonstrated a habit of stalling the peace process. It is seen as having genuine grievances given the ongoing major attacks by the Myanmar military and an overall lack of trust. However, Chinese officials question the extent to which these groups—including KIA—are genuinely interested in pursuing the peace process, which inevitably requires political and economic compromise. For China, the ambivalence in KIA’s position confirms the judgment discussed earlier of the unattainability of comprehensive peace in the near future. Therefore, although China has no strong incentives to push KIA and the UNFC to compromise, suspicion about the fickleness and ultimate intentions is deeply engrained.

## **UWSA**

UWSA does not seek independence but does pursue three tangible political and territorial goals: a high level of autonomy, the northern and southern territories currently under its control, and an upgrade of its status from Self-Administered Division to that of an ethnic state.<sup>43</sup> UWSA did not sign onto the NCA because it interpreted the term *ceasefire* as not applying to it because it had not engaged in active conflict with the government since 1989, interviewees in Wa reported. Moreover, UWSA prefers the three-level bilateral peace agreement it had been negotiating with the Thein Sein government in 2011, before the NCA was proposed. Because it has completed the first two levels of peace agreements (state and union), UWSA believes that rejoining a ceasefire dialogue would be a regression. Hard-liners

within the UWSA have little faith that the central government in Naypyidaw would not again abandon any future agreement under negotiation.

In fact, among all the ethnic armed groups in Myanmar, UWSA perhaps has the closest ties with and elicits the most sympathy from China, to the extent that some local officials in China regard UWSA as China's "illegitimate child." The creation of the autonomous Wa state by current UWSA commander Bao Youxiang can be traced to the late 1960s, when his guerrilla forces joined the Burmese Communist Party during the Cultural Revolution and fought to establish the UWSA.<sup>44</sup> UWSA leaders still enjoy the freedom to travel to the capital city of Yunnan province for medical treatment without advanced approval from Beijing, a privilege that none of the other groups share.

China supports UWSA's position about remaining part of Myanmar. UWSA has no intention of becoming Chinese territory and surrendering its autonomy to what it sees as stringent Chinese laws and regulations. China does not wish to see a conflict between UWSA and the government, and has pressed both sides—despite the occasional skirmish—to refrain from such a disastrous scenario. China will not push UWSA to quit the peace process; however, neither will it push UWSA to embrace any settlement it is unwilling to accept. In the view of both China and UWSA, such an imposed settlement would be fragile, unsustainable, and only likely to cause greater instability in the future.

China supports the tacit leadership role of UWSA among the ethnic armed groups in northern Myanmar. UWSA enjoys a traditional, de facto alliance with the Eastern Shan state wing of the Kokang Army given its geographic proximity and historical affinity. The two closely coordinate their positions on many issues, including the peace process. Both have supported the three armed groups previously excluded from the NCA: MNDAA, the Ta'ang Liberation Army, and the Arakan Army. UWSA has hosted three ethnic summits in Panghsang since May 2015, rallying support for its leadership authority among the ethnic armed groups. The result is the perceived emergence of a competing camp to the KIA-led UNFC. KIA is perhaps the only group that sees UWSA as a peer. Although neither group acknowledges it publicly, KIA and UWSA view each other both as partners and competitors. UWSA sometimes criticizes certain factions inside KIA as too compromising, and some in KIA regard UWSA as too content with the status quo. Many Kachin see UWSA's struggle as lacking ideology relative to their own long fight for freedom, and are discomfited by UWSA's desire to become a formal ethnic state in Myanmar.

Whether the Chinese government has provided military support to UWSA is a key question for many observers. UWSA includes many Chinese mercenaries. However, such participation is not an organized scheme by any Chinese authority, but instead motivated by the higher salary that UWSA offers over the average income in Yunnan, Chinese mercenaries in Wa explained. Many of UWSA's light weapons, such as shotguns, resemble Chinese firearms. However, UWSA has at least two weapons factories producing light weapons based on Chinese models. Although it is theoretically plausible that China provided them to UWSA, no evidence supports the claim.

Unlike Kachin state, UWSA territories are not rich in natural resources. The growth of the nascent tin mining industry has been hampered by a drop in the price of tin, local representatives in Wa explained. UWSA has traditionally relied on an illicit economy, including drug trafficking and casinos, for revenue. These activities cater to the Chinese market and consumers, which has created tremendous transboundary criminal issues for Beijing. However, the Chinese authorities seem to tolerate Wa's actions and instead pursue tighter law enforcement within China to combat the crimes.

China's political support of UWSA is strong, but its precise nature and scale are hard to quantify. A conflict between the Myanmar Armed Forces and UWSA is not inconceivable,

***Although neither group acknowledges it publicly, KIA and UWSA view each other both as partners and competitors.***

but the likelihood is small in the foreseeable future, because of both China's opposition and UWSA's strength. China sees no reason to persuade UWSA to abandon its cause for autonomous status and regards UWSA as the most loyal supporter among ethnic armed groups in Myanmar of China's national interests.

### ***Kokang Army***

Among these groups, the Kokang has created the most controversies in China. The Kokang people are the descendants of Han refugees from the Ming dynasty who fled to the Kokang area when the Qing dynasty took over Kunming in 1659.<sup>45</sup> Unlike the Kachin and the Wa, the Kokang's ethnic tie with China is with the majority ethnic group—the Han people. The Myanmar National Democratic Alliance Army is under the leadership of Peng Jiasheng, who was born in Kokang in 1931 and was an active member of the Communist Party of Burma during the Cultural Revolution. After the CPB disintegrated in 1989, Peng signed a ceasefire agreement with the Myanmar government and became the chairman of the First Special Region of northern Shan state. The 2009 Kokang incident resulted in Peng's loss of control in the region and his exile for the following five years in Thailand, China, and Mongla controlled by NDAA-ESS. In late 2014 and early 2015, Peng launched offensives in the Kokang region against the Myanmar Armed Forces with assistance from KIA and UWSA. After major disturbances along the Chinese border, MNDAA announced a unilateral ceasefire on June 11, 2015.<sup>46</sup>

During the early stages of the Kokang offensive, according to Chinese officials interviewed in February 2015, Peng's actions greatly angered Beijing. It saw Peng's attempts as motivated by his narrow personal interests in gaining political capital rather than any consideration of China's national interests. Peng's strategic choice to instigate war and send sixty thousand refugees to China just before the Chinese New Year was a calculated move to force Beijing to push the Myanmar government to deflate the tensions.<sup>47</sup> Under this plan, the Myanmar military's retreat would allow Peng to reestablish his control of the Kokang area, position himself as a legitimate representative and leader of the Kokang minorities, and insert himself in the peace process. Peng's media and online appeal for support from the "Chinese Kokang people" invoked great sympathy among the Chinese public.

However, in the context of Myanmar military's bombing of Chinese territory during the Kokang conflict and a clear willingness of the Thein Sein government to dampen relations with China, China's attitude toward Peng became much more ambiguous after March 2015. Reliable reports, privately acknowledged by Chinese officials in interviews, indicate that China allowed Peng's troops to use Chinese territory to outflank the Burmese military. In an even bolder gesture, Chinese authorities allowed MNDAA to open a bank account in Beijing to collect donations from the Chinese public.<sup>48</sup> According to Chinese scholars and officials interviewed in Yunnan and Beijing, Peng and his associates were allowed to visit China multiple times in 2015 to meet with Chinese officials and government-affiliated organizations. China's official attitude toward MNDAA's accession to the peace dialogue has also grown from noncommittal to tacitly supportive.

## **Conclusion**

For multiple historical, ethnic, geographic, political, and economic reasons, China has been and will remain an integral player in Myanmar's peace process, particularly regarding the ethnic armed groups in the northern part of that country. Despite its proclaimed noninterference policy, China uses its involvement in that peace process as both a carrot to induce

***Despite its proclaimed non-interference policy, China uses its involvement in that peace process as both a carrot to induce more cooperation from Myanmar and a stick when Myanmar appears to be deviating from the policy course that China desires.***

more cooperation from Myanmar and a stick when Myanmar appears to be deviating from the policy course that China desires.

Over the past five years, although China officially has maintained its principle of non-interference, in practice its attitude has been more ambiguous. Chinese officials argue, as one said in a Beijing interview, that “China cannot and should not remain aloof on an issue that has such direct and serious implications for its national security.” However, whether this will translate into an official policy change will depend on President Xi Jinping. Chinese Myanmar experts in Kunming explain the ambiguity of China’s stance so far due to the absence of determination from the top leadership. That said, after the Burmese attacks on Chinese territory during the 2015 Kokang conflict, China’s top leaders began to lean increasingly toward a more active role for China by exercising its leverage on Myanmar through ethnic armed groups.

China supports peace in Myanmar, but it does not necessarily believe that comprehensive peace is attainable in the foreseeable future. Therefore, for China, the priority is to prepare for different uncertainties and maximize its flexibility in the process. China’s role is further blurred by the widely assumed but ambiguous central-local disparity and the activities of private Chinese actors, such as the Yucheng Group’s support of ethnic armed groups in Myanmar. In these cases, Beijing enjoys easy deniability and shifts any accusations about China’s culpability onto these actors.

Although China has supported the peace process, its continued relations with the ethnic armed groups are seen by many as providing the life support to the groups’ survival and armed struggle. Most importantly, the revenues generated through mining, logging, and other illicit economic activities directly fuel the war economy and prolong the conflict. Although China exonerates itself by denying ties with or knowledge of private Chinese entities involved, Burmese officials in Yangon explained, many in Myanmar nevertheless see China as the largest obstacle to the success of the peace process.

This raises the question of what more constructive role China could play in the peace process beyond persuading for peace and facilitating dialogues. Some armed groups, and even some Chinese observers, have suggested the role of an external guarantor for any potential peace agreement. However, within the framework of noninterference, Beijing does not seem inclined to take on such a complicated job and intricate responsibilities. According to a Chinese government analyst interviewed in Yunnan, “Even the wisest official can’t determine the messy internal affairs of a family. To entangle ourselves in the messy quibbles between the Myanmar government and the ethnic groups on who did what when and where is just not going to work, or be worth it. We cannot assume such a role.”

China’s relations with Myanmar have improved significantly under the NLD government. That they have has contributed to China’s enhanced effort to shepherd Myanmar’s ethnic armed groups to the dialogue and negotiation process. Looking ahead, although China may not believe that the UPC will necessarily achieve peace and ethnic reconciliation, participation by all key groups in the conference itself is a breakthrough. China has played a positive role in persuading the ethnic armed groups to join the conference, but it is only the first step of a long journey. China’s policy and role will depend on the development of bilateral relations and the evolving definition of China’s national interests.

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