

# Burma suspends Chinese dam construction

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In what appears to mark a major foreign policy reorientation, the Burmese government announced on September 30 that it would suspend work on the Chinese-financed Myitsone Dam hydro-electric project on the Irrawaddy River. The decision was a slap in the face to Beijing, which until now has been Burma's principal economic and political backer.

The announcement came as Burmese Foreign Minister Wunna Maung Lwin was in Washington for talks with US State Department officials. Lwin, whose travel is normally restricted by US sanctions, was the first Burmese foreign minister to be invited to the US State Department since the military junta took power.

Announcing the suspension, the Burmese regime claimed that the dam construction would be against "the will of the people". Although there were limited anti-dam protests in Rangoon, any suggestion that the government was swayed by public opinion is absurd. The military junta has not hesitated in the past to suppress any political opposition and would have done so again if the protests had been against its interests.

A further sign of a rapprochement with the US and European powers took place yesterday when the Burmese government announced it would free more than 6,000 prisoners today. It has long been a demand of Washington that imprisoned members of the pro-Western opposition be released. Burmese officials previously hinted that a significant number of an estimated 2,000 political prisoners could be released.

None of this was lost on Beijing. The Chinese foreign ministry called for talks with Burma to resolve the dam issue. In a comment this week, the official Chinese Communist Party newspaper, the *Peoples' Daily*, blamed foreign NGOs and media, saying very few "present positive information regarding Chinese investors".

The \$US3.6 billion Myitsone Dam, the largest single Chinese investment in Burma, is part of a seven-dam project designed to provide much-needed energy for Chinese industry. The dam is being built by the state-owned China Power Investment Corporation, whose president Lu Qizhou described the Burmese government's decision as "very bewildering" and

hinted at legal action to recover the large sums of money already spent.

Much more is at stake for China than the dam project, however. For several decades, Beijing has assiduously cultivated relations with the Burmese junta as a source of raw materials, including offshore gas; a potential pipeline route from the Indian Ocean to southern China; and a military partner that provided a naval listening post and possible port facilities. China has used its veto power in the UN Security Council to block resolutions hostile to Burma as well as providing investment—about \$10 billion in the 2010-11 fiscal year alone.

China is well aware that the Burmese decision represents a turn toward the US, which has been seeking to undermine Beijing's influence. Scarcely able to contain its delight, the State Department cynically praised Burma's announcement as taking a "significant and positive step" toward listening to public concerns and promoting national reconciliation.

On taking office, Obama undertook a review of the Bush administration's Burma policy, which had consisted of ultimatums backed by punitive sanctions. After completing the review in September 2009, the Obama administration adopted a carrot-and-stick approach—maintaining sanctions, but offering the possibility of improved relations if the junta met US demands. Senior American officials began meeting their Burmese counterparts.

US-Burmese relations further developed after a new Burmese government was inaugurated following tightly controlled elections last November. On March 30 the junta, known as the State Peace and Development Council, formally handed over executive power to the new president Thein Sein, an ex-general, and legislative power to the parliament. Sections of the military are clearly hoping to use this civilian facade to shift the country's economic and foreign policy orientation.

Thein Sein outlined his program in opening a parliamentary session on August 22. While declaring his intention to promote the rule of law and the rights of citizens, the main thrust of his speech was a promise to attract foreign investment. The government has invited the International Monetary Fund for

talks next month on reforming the country's foreign exchange system and asked the International Labour Organisation to advise on labour laws.

The government's most significant moves have been to end the political standoff with opposition leader Aung San Suu Kyi—a major demand by the US and European powers. Suu Kyi was only released from house arrest last year and allowed to address some rallies, closely watched by police. Her National League for Democracy (NLD) was outlawed for refusing to participate in last November's election.

Despite these continuing restrictions, Suu Kyi agreed to meet in August with Thein Sein in the country's capital Naypyidaw. She was also shown on national television in friendly conversation with government ministers—a sign of thawing relations.

In mid-September, Suu Kyi gave a widely-reported interview with Agence France-Presse that lent legitimacy to the new government. "There's still quite a way to go but I think there have been positive developments," she said. Suu Kyi specifically warned against any "Arab-style" uprising, saying: "I would rather that we managed to achieve change through peaceful means, through negotiation."

Suu Kyi's response was governed by two factors: concern that social conflict in Burma could quickly go beyond the control of the NLD, and her orientation to the US and European powers. While Suu Kyi is promoted as a proponent of democratic rights, she represents layers of the Burmese bourgeoisie that have lost out under military rule and seek to open up the country as a cheap labour platform for foreign capital, particularly from the West.

The Obama administration has clearly seized upon the opening. Obama's special envoy to Burma, Derek Mitchell spent five days in the country last month talking to top political leaders. Speaking to the *New York Times* last week, he said: "We're going to meet their action with action. If they take steps, we will take steps to demonstrate that we are supportive of the path to reform."

US Assistant Secretary of State Kurt Campbell made similar remarks during a lecture in Bangkok on Monday, declaring: "We have stated clearly that we are prepared for a new chapter in our relations ... We are looking forward in the course of the next several weeks to continuing a dialogue that has really stepped up in recent months."

The *New York Times* reported: "The [Obama] administration is considering waiving some restrictions on trade and financial assistance and lifting prohibitions on assistance by global

financial institutions, like the World Bank and the International Monetary Fund." An IMF team is scheduled to visit Burma this month for consultations. Any lifting of formal US sanctions—first imposed in 1997—would require the approval of US Congress.

These tentative US moves point to the underlying motive behind the Burmese foreign policy shift. Faced by growing economic imbalances and the threat of renewed social unrest, the Burmese regime is desperate to have US and European sanctions lifted, to gain access to Western investment and markets, and to lessen its heavy dependence on China.

Large inflows of Chinese investment, primarily into natural resource extraction and infrastructure projects, including the Myitsone Dam, have caused the currency to appreciate sharply and impacted negatively on other economic sectors.

The effect on agriculture, which employs 70 percent of the country's workforce, has been to price exports out of the international market. As a result, products have been dumped domestically, driving prices down and bankrupting farmers. The small manufacturing sector, which had been placed to take advantage of rising costs in China, has seen job cuts in garment making and other sectors.

Thein Sein and his government face opposition from layers of the military and state bureaucracy who have profited from the inflow of Chinese investment. Speaking to the *New York Times*, the former US chief of mission in Burma, Priscilla Clapp, warned: "Any transition this dramatic is a recipe for instability. Anything could happen. There could be a coup, a counterrevolution."

The government is balancing both at home and internationally. While moving to an accommodation with the US, the regime is also seeking to placate China. The foreign minister met his Chinese counterpart in Beijing on Monday to offer reassurances, but nothing was resolved.

The sharp shift by Burma toward Washington will intensify geo-political tensions throughout the region as the Obama administration seeks to undermine Chinese influence in other South East Asian countries.



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