

## Operation 1027: China's Economic Entanglement With Anticipated and Unforeseen Risks



MNDAA soldiers cleaning the street to the border gate after occupying Chinshwehaw on October 29 (Photo: The Kokang/Facebook)

ISP-Myanmar is presenting a series of three OnPoint analyses that will shed light on 'Operation 1027', the military offensive launched by the three Brotherhood Alliance (3BHA) and their allies on October 27, 2023. This ISP OnPoint No. 18 analysis, the second in the series, emphasizes the economic significance embedded within the offensive and China's response to the conflict. The previous ISP OnPoint No. 17 published on November 10 discussed the background context of the war and its 'signaling effects'. In the near future, ISP-Myanmar will present a scenario analysis report, examining how the ongoing conflict might impact Myanmar's future landscape.

## ■ Event

On October 27, 2023, the three Brotherhood Alliance (3BHA), namely the Myanmar National Democratic Alliance Army (MNDAA), the Ta'ang National Liberation Army (TNLA), the Arakan Army (AA), along with other allied forces launched the military 'Operation 1027'<sup>1</sup>. Since fighting began, border trade with China has effectively halted, particularly trade through the Muse and Chinshwehaw border gates, which together ordinarily account for 91 percent of total border trade between China and Myanmar. The 3BHA forces have recently occupied Kyu Koke (Pang Hseng) as well as Chinshwehaw, and Namhkan, where two of the three planned Cross-border Economic Cooperation Zones to be built by China in northern Myanmar are located. These projects are part of the China-Myanmar Economic Corridor (CMEC) scheme. The armed challengers have thus seized complete control of the areas important to the future development of CMEC and partial control of at least seven Chinese project sites. These include the planned locations of projects such as the Mandalay-Muse railroad, China-Myanmar oil and gas pipeline, the cross-border power grid, and the Gokteik viaduct replacement and the highway expansion project which is scheduled to better connect Nawnghkio (Naung Cho) and Lashio towns on the Mandalay-Muse Highway.

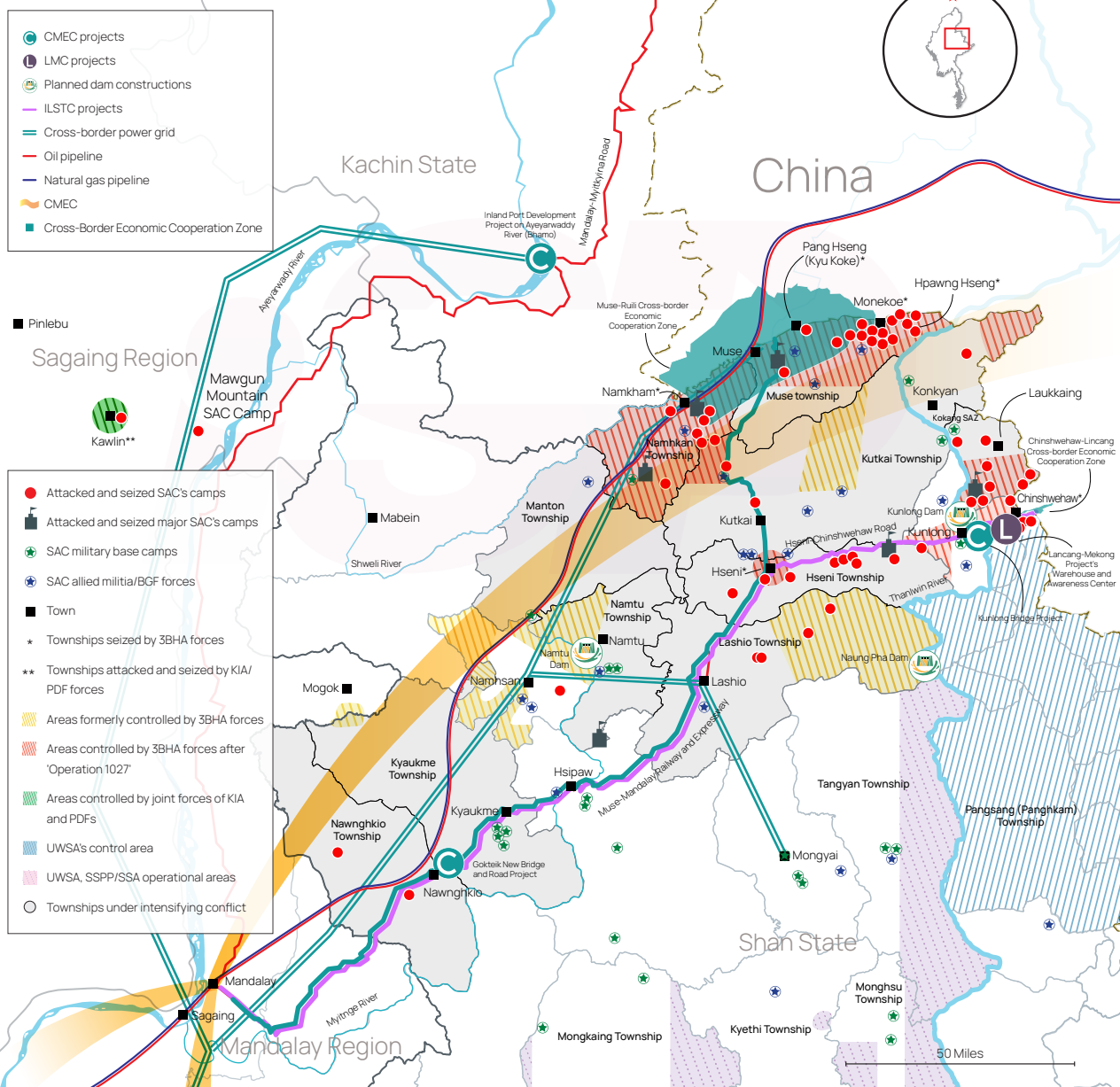
Soon after the offensive began, several high-level meetings were exchanged between the China and Myanmar leadership. On October 29, China's Central Military Commission Vice-Chairman Gen. Zhang Youxia met with the State Administration Council (SAC) Defence Minister Lt. Gen. Tin Aung San in Beijing. On October 30, China's State Councillor and Minister of Public Security, Mr. Wang Xiaohong visited Naypyitaw. Then between November 3-5, China's Assistant Foreign Minister, Mr. Nong Rong separately visited Naypyitaw and spoke with SAC leaders. On November 2, 2023, China's Foreign Ministry spokesperson, Mr. Wang Wenbin had also urged 'relevant parties to cease fire as soon as possible, settle differences in a peaceful way through dialogue and consultation' in a press briefing. Importantly though, China did send tanks and soldiers to the border and raised its security levels. Chinese authorities have also recently been conducting ►

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<sup>1</sup> In 'Operation 1027', along with 3BHA forces, the People's Liberation Army (PLA) (Myanmar), Bamar People's Liberation Army (BPLA), People's Defence Force (Mandalay), and Moe Goke Tactical Command PDF forces are all collaborating with the 3BHA in the military operation.

### ■ 'Operation 1027' and the Context of Chinese Investment Projects (October 27 - November 11, 2023)

Three Brotherhood Alliance (3BHA) forces have extended their control to the areas of Chinese projects in Northern Shan State during the 'Operation 1027'. According to the data collected by ISP-Myanmar, until November 11, 3BHA and their allies fully controlled five Chinese project sites planned and currently implemented, and partially controlled other seven project sites.



**Note:** Although there are several EAOs operating in Northern Shan State, the map focuses particularly on the 3BHA forces' areas of control. In a November 10, 2023, media statement though, SAC spokesperson, Maj. Gen. Zaw Min Htun asserted that SAC forces had regained control around Hseni, Lashio, and Kutkai. This cannot be confirmed by independent sources.

**Reference:** Data is collected by ISP-Myanmar's system for documenting information in armed conflicts and is cross-checked with reports from various independent organizations. Actual military camps' positions and control areas may differ from the situation on the ground.

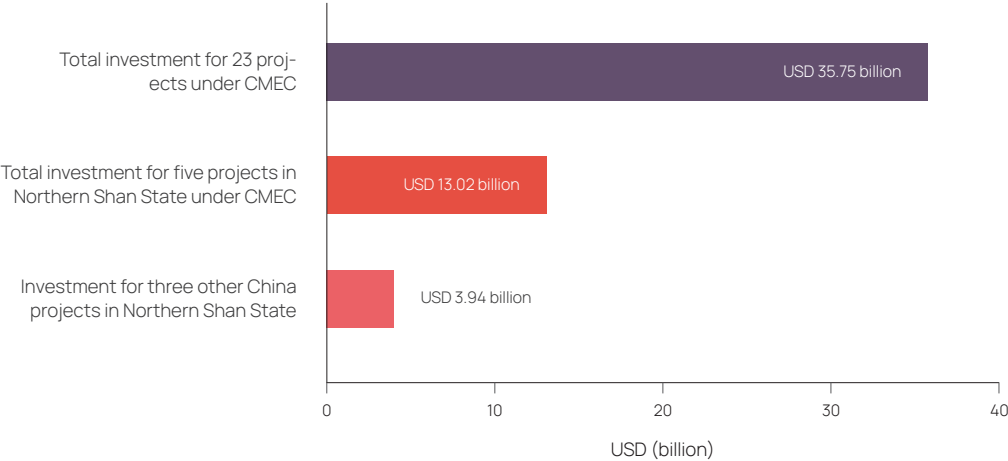
► extra-territorial arrests of online fraudsters and those alleged to have committed online slavery. China has already evacuated thousands of victims trafficked into this shady cross-border business world. In addition, China is granting protection in the border town of Mengding to Myanmar refugees fleeing the fighting in Chinshwehaw.

■ Preliminary Analysis

Almost half of China’s total investment in Myanmar is in Northern Shan State and ‘Operation 1027’ has already had a direct impact on Chinese interests in the area. The potential impact of ‘Operation 1027’ on these investments is especially acute in Muse and Laukaing townships where 3BHA forces now control the areas ►

■ Half of China's Total Investment in Myanmar Is in Northern Shan State

The total Chinese investment under the China-Myanmar Economic Corridor (CMEC) scheme is currently valued at over USD 35 billion. Of this, five projects to be implemented in northern Shan State alone are worth more than USD 13 billion. In addition, three other Chinese projects in Northern Shan State, which are not associated with CMEC, are worth almost a further USD 4 billion. The value of Chinese investment in northern Shan State can be estimated at almost half of China’s total investment in the full 23 projects under CMEC.



Note: ISP-Myanmar calculates figures based on officially released data. Actual values on the ground may vary as ISP-Myanmar cannot account for unofficial figures.

► intended for developing the Chinshwehaw-Lincang and Muse-Ruili Cross-border Economic Cooperation Zones (CBECZ). The 3BHA advances also have the potential to directly impact other major projects of the China-Myanmar Economic Corridor (CMEC), New International Land-Sea Trade Corridor (ILSTC), and Lancang-Mekong Cooperation (LMC). Additionally, the combined average value of daily cross-border trade through Muse and Chinshwehaw border gates is valued at USD 8.91 million. If fighting in the area continues, downstream trade in Myanmar could encounter merchandise shortages, commodity scarcities, and rising prices, while trade partners in China could also face economic losses. For these reasons, if the current turmoil in Northern Shan State persists, Chinese economic interests are likely to be harmed.

China appears dissatisfied with the current political and security power balance in Northern Shan State. Although 'Operation 1027' could lead to short-term regional instability in Northern Shan State, China may still tolerate it. The operation could help resolve the 'Kyar Phyant' (诈骗) online fraud and gambling gangs crisis in the short term. Moreover, the operation's potential long-term impact on China's goal to restructure the power balance in northern Myanmar might make it an acceptable move for China. If China's economic strategy continues to prioritize gaining and preserving access to the Indian Ocean and exploiting the Salween River basin, and if China sees a new power balance to its liking emerge in the region, perceives a shift in the power balance that aligns with its interests in the region, it may utilize its influence to pressure all warring parties involved in the conflict to promptly cease hostilities and come to a negotiated settlement. Nevertheless, the various conflict actors in Myanmar might maintain their own military and political objectives, their own agency, and make their own calculations on whether the current conflict could escalate to an all-out war (See ISP OnPoint No. 17).

Currently, 3BHA forces have taken total control of the Chinshwehaw-Lancang Cross-Border Economic Cooperation Zone (CBECZ). The forces also partially ►

#### Operation 1027:

Will All Roads Lead to Laukkai or Naypyitaw?

ISP OnPoint No.17 ►

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■ Comparison of Muse and Chinshwehaw with Total Trade Value of Myanmar  
(February 2021 - September 2023)

From February 2021 to September 2023, Myanmar's average monthly cross-border trade reached USD 2.63 billion. During the same period, the combined average monthly trade through Muse and Chinshwehaw border gates stood at approximately USD 260 million, constituting a significant 10.14% of the nation's total trade.



■ The Muse Border Gate  
(February 2021 - September 2023)

From February 2021 to September 2023, the daily average value of cross-border trade passing through the Muse border gate stood at approximately USD 7.33 million. This figure comprises roughly USD 6 million for exports and USD 1.5 million for imports.



■ The Chinshwehaw Border Gate  
(February 2021 - September 2023)

From February 2021 to September 2023, the daily average value of cross-border trade passing through the Chinshwehaw border gate was approximately USD 1.58 million. This figure comprises roughly USD 0.6 million for exports and USD 1 million for imports.



Source: ISP-Myanmar calculates the value based on the monthly data from SAC's Commerce Ministry.

► controlled Namhkan and Kyu Koke (Pang Hseng) in Northern Shan State where Muse-Ruili CBECZ is planned to construct. The 3BHA and their allies also seized the about-to-operate Kunlong bridge which are important to China-Myanmar trade and planned Kunlong dam. In addition, 3BHA forces control Hseni Town situated on the main trade route<sup>2</sup>, and partially control other areas important to CMEC projects such as the Mandalay-Muse railroad, China-Myanmar oil and gas pipeline, the cross-border power grid, and the Gokteik viaduct replacement and the highway expansion project which is scheduled to better connect Nawnghkio and Lashio towns on the Mandalay-Muse Highway. In terms of numbers, since the start of 'Operation 1027' up until November 10, 3BHA and their allies have gained full control of five Chinese project sites planned and currently implemented, and also gained partial control of at least seven other sites where China projects are planned.

China's response to 'Operation 1027' is rather different from its responses to the two most recent incidents of conflict on the border which occurred in 2015 and 2021. It is particularly noteworthy that China's response this time is one of restraint, whereas previous responses were quite combative. This time China has formally urged relevant parties to ceasefire immediately, cooperate with Chinese authorities to ensure border security, and to take protection and security of China-Myanmar cooperation projects and enterprise personnel seriously. In the past, the Chinese government has directly sent out letters to the Myanmar military, to EAOs involved in the conflict, and called for an immediate ceasefire. At this time though, ISP-Myanmar finds China is only calling for its peace proposals through the media, and is not directly exerting pressure on the conflict parties. However, news reports indicate that China's special envoy did meet with 3BHA representatives and KIO officers separately after 'Operation 1027' had been launched. ISP-Myanmar still needs to verify these reports, but it is reasonable to consider that China is prepared to accept some short-term instability caused by the ongoing conflict.

On the other hand, China can remain calm amidst the period of fighting as it wants to avoid comment or action while it assesses the potential outcomes of the offensive as well as monitors the situation of other forces that may be aligned with the northern EAOs. China might have access to information and internal developments regarding 'Operation 1027' since the warring EAOs enjoy close ►

<sup>2</sup> In a November 10, 2023, media statement though, SAC spokesperson, Maj. Gen. Zaw Min Htun asserted that SAC forces had regained control around Hseni, Lashio, and Kutkai. This cannot be confirmed by independent sources.

## ■ China's Response to 'Operation 1027' (October 27 - November 10, 2023)

October 27	● Foreign Ministry spokesperson, Ms. Mao Ning called to 'avoid escalation of the situation, and take effective measures to ensure the security and stability of China-Myanmar border areas.'
October 29	● China's Central Military Commission Vice-Chairman, Gen. Zhang Youxia met with SAC Defence Minister Gen. Tin Aung San in Beijing and discussed issues relating to security at the border.
October 30	● China State Councillor and Minister of Public Security, Mr. Wang Xiaohong visited Naypyitaw and met with SAC Home Affairs Minister, Lt. Gen. Yar Pyae, Police Chief, Lt. Gen. Ni Lin Aung, Deputy Minister, Maj. Gen. Toe Yi, Deputy Minister of Foreign Affairs, Lwin Oo, and Deputy Minister of Immigration, Htay Hlaing.
October 31	● China State Councillor and Minister of Public Security, Mr. Wang Xiaohong met with SAC Chairman, Snr. Gen. Min Aung Hlaing in Naypyitaw. China's Foreign Ministry spokesperson, Mr. Wang Wenbin urged relevant parties 'to avoid escalation of the situation, and take effective steps to ensure security and stability at the China-Myanmar border.'
November 2	● China Foreign Ministry spokesperson, Mr. Wang Wenbin urged 'relevant parties to cease fire as soon as possible, settle differences in a peaceful way through dialogue and consultation' for the second time.
November 3-5	● China's Assistant Foreign Minister, Mr. Nong Rong met with SAC Foreign Minister Than Swe, and Deputy Minister, Lwin Oo in Naypyitaw and stressed that 'China sincerely hopes for an early resumption of stability and development in Myanmar, and supports all parties in Myanmar in properly handling differences within the frameworks of its constitution and laws and achieving reconciliation through dialogue.'
November 10	● China Foreign Ministry spokesperson, Mr. Wang Wenbin urged a third time for 'parties concerned to immediately stop the fighting, and ensure security at the China-Myanmar border.' He said 'China is closely following the conflict in northern Myanmar' and urged 'parties concerned in Myanmar to immediately stop fighting, take seriously... to protect the safety of China-Myanmar cooperation projects and personnel of enterprises there.' He also stated that the China-Myanmar oil and gas pipeline is an important cooperation project between China and Myanmar and the pipeline infrastructure has not been affected.



► diplomatic relationships with local Chinese authorities. So far, 'Operation 1027' has not physically damaged any Chinese projects or interests, and has acted only within the necessities of the military operation. China is likely to be attentive to and assess the morale, capacity, and popular support of the armed challengers to the junta. A favorable outcome for China would involve the conflict not adversely affecting its economy, preserving the security of Chinese nationals in Myanmar, and having a hand in developing an incoming regional power structure which remains stable. Importantly, China would also aim to avoid triggering anti-Chinese sentiment among the Myanmar population. Presently, a significant number of Bamar youth involved in the conflict, along with some EAO leaders, have actively emphasized the self-help narrative of revolution, stating 'this war is not particularly related to China; this is our own revolutionary fight.' This sentiment would naturally avoid igniting anti-Chinese sentiment among the Myanmar population. The primary challenge for China will lie in either convincing Myanmar's conflict actors to cease fighting or in applying the necessary pressure if they persist, when Chinese interests are met.

## ■ Scenario Forecast

It seems that China is willing to accept "Operation 1027," which implies that a short-term conflict in the northern Shan State and Salween River basin lasting up to three months might be tolerated, considering the broader political, security, and economic factors mentioned above. However, if the conflict were to escalate and spread to Naypyitaw, and if the NUG and its PDF, groups that China is suspicious of due to their links with Western countries, were to play a significant role, it could potentially disrupt the power balance in Myanmar and even lead to the replacement of the current junta. In such a scenario, China might be hesitant to accept the consequences. Furthermore, if the conflict persists, the probability of other powers, such as Russia or the United States, getting involved, increases. In this situation, China would have a vested interest in ending the conflict as soon as possible. The unforeseen risks associated with being closely tied to the border conflict area would undoubtedly be assessed by China. The unexpected twists and turns of various dynamics make it difficult to achieve a straightforward outcome in any conflict. ■

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