

Schuster, Christine; Will, Gerhard

**Research Report**

## Burma beyond the elections: Economic perspectives and recommendations for an EU policy shift

SWP Comments, No. 22/2010

**Provided in Cooperation with:**

Stiftung Wissenschaft und Politik (SWP), German Institute for International and Security Affairs, Berlin

*Suggested Citation:* Schuster, Christine; Will, Gerhard (2010) : Burma beyond the elections: Economic perspectives and recommendations for an EU policy shift, SWP Comments, No. 22/2010, Stiftung Wissenschaft und Politik (SWP), Berlin

This Version is available at:

<https://hdl.handle.net/10419/256127>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

## Burma beyond the Elections

Economic Perspectives and Recommendations for an EU Policy Shift

*Christine Schuster / Gerhard Will*

**With its announcement of democratic elections to be held on 7 November 2010, Burma's military regime has set the topic that is absolutely dominating national and international discussion of the country's political future. Problems facing Burma's economic development have taken on a position of much lower importance in this discussion, although there are obvious deficits in this area. The country's enormous economic potential continues to be largely wasted rather than systematically exploited. In past months, the military has announced a series of economic policy changes, but achieving a true turnaround with genuinely positive impacts would necessitate a large number of more profound changes that could only be achieved along a longer time-frame. In this respect, the EU and other international actors can provide important contributions if they stop making their support of Burma contingent on political preconditions. Instead, they should act according to the principle that economic consolidation can be understood as a fundamental prerequisite for political transformation.**

For the past year, the parliamentary elections set for 7 November 2010 in Burma have dominated media coverage about the country. Many indicators, however, suggest that the first elections in 20 years are unlikely to bring about the changes demanded by the international community and the opposition figurehead Aung San Suu Kyi. The military junta has only committed itself to introducing a so-called "disciplined democracy": a quarter of the seats in the newly established parliament on the national, regional and local levels have been reserved for the military. In addition, more than 70 members of the military – including the junta's Number

Three Man, General Thura Shwe Mann – have hung up their uniforms so that they can run in the upcoming elections as members of parties closely aligned with the junta. It therefore seems a done deal that the current military junta's influence will remain secure even after the November elections, if nothing else, then because of the ongoing splintering within the opposition. While Nobel Peace Prize Laureate Aung San Suu Kyi continues to call for a boycott of the elections, many former members of her party are standing for election in Than Nyein's newly created "National Democratic Force" (NDF).

Given the above, there are fierce disputes

raging among Burma's political groups as well as among international experts in regard to the question of whether this vote serves the sole goal of providing the military leadership with new legitimacy without restricting its power base, or if it's setting a new process in motion, which will open up a larger scope for political action, even though this is in no way intended by the current administration.

The focus placed on the elections, however, shifts attention from other fundamental problems that must be addressed by the winner of the elections – regardless of which party they belong to. Currently, over 90 percent of Burma's population have access to less than 1 USD a day. Developing the country's economic resources as quickly as possible is therefore an essential prerequisite for improving the Burmese population's living standards, developing civil society and ultimately achieving a successful political transformation.

### **Characteristics of the Current Economic System**

With the changeover of power within the military leadership in 1988, the country abandoned the Burmese path to socialism as propagated by General Ne Win, which had led to an extensive nationalisation of the private business sector. Instead, the new regime called for a market economy, which nevertheless has only been established in a very fragmented form.

Burma's economy continues to be characterised by a deficient subsistence economy. This is apparent in the low gross domestic product (GDP) of 2,762 USD per person. Although income from agricultural output makes up about half of the GDP, malnutrition is widespread. On the one hand, this is due to intense pressure in the form of harvest taxes levied by local powerholders, and, on the other hand, to the low level of diversification within the agricultural sector, a lack of machines, fuel and high quality seeds, and underdeveloped processing facilities. Many farming families

are therefore dependent on remittances from relatives living abroad, or forced to procure funds under horrendous conditions from informal money lenders, causing many families to fall into inescapable indebtedness.

Burma is moreover a prime example of the so-called "resource curse". Despite vast exports of raw materials, its economic growth is lower than that of many countries poor in natural resources. The military alone decides on the granting of access and the use of valuable resources such as natural gas, oil, hydropower, wood, gemstones, etc. as well as the allocation of profits stemming from sales to foreign investors. Since the official exchange rate for the local currency, the Kyat, to the US dollar is around 6:1, but the rate on the free market lies around 1000:1, substantial profits can only be attained by converting these foreign currency revenues into the local currency.

The lion's share of these revenues goes towards the development and upkeep of what is Southeast Asia's largest army according to number of serving members – nearly 400,000. The army has all the things that the rest of the nation's people lack: health care, living quarters, educational opportunities, cheap consumer goods, and the like. Even though the equipment used by the armed forces doesn't always conform to the most up-to-date standards, just in the past year, over USD 500 million was spent on buying modern Russian military aircraft.

Other portions of the revenues arising from the sale of raw materials disappear into bank accounts in Singapore, into the construction of ineffective holdings under the control of the military leadership, or into wasteful prestige projects. Examples of such projects include the construction of the new capital city Naypyidaw or the Yadanabon Cyber City. The majority of the Burmese population profits the least from these revenues. It does, however, bear the heaviest costs for this extraction economy in the form of forced labour, forced reloca-

tions, and last but not least, the long-term impacts of the environmental damage and pollution caused by these mammoth projects.

The criminal shadow economy is similar in scale to the extraction economy and is dependent on the use of physical and military force. Its activities range from the production and smuggling of drugs to human trafficking and the illegal importing and exporting of timber, hand weapons, exotic animals and gemstones. This type of criminal activity represents an indispensable revenue source for the leadership of most of the country's ethnic minority groups, with which they can finance, among other things, their militias. In addition, there are a number of reports, some of which go into great detail, that point to the junta as well as militias closely aligned to the government participating in these criminal activities.

### **Announced Reforms**

Recently the military regime has started a series of charm offensives, which should not be seen exclusively as empty campaign promises, as some of these initiatives could certainly carry long term impacts for the country's economic development.

The privatisation of state property has been advertised with a great deal of propaganda for about a year now. A large number of highly diverse state institutions and objects will be disposed of including state-owned enterprises, empty government buildings in the former capital Yangon, mineral and gemstone mines, ports, the majority of the transportation and energy sector and even selected duties within the health and education sectors. In the banking sector, licenses have also been granted to newly established private banks.

While the state media report in great detail on these transactions, the particularly interesting questions remain unasked and unanswered, namely which buyers will buy which objects and at what price. Unofficial sources have explained that a com-

mission has provided a small circle of potential investors with the list of objects for sale. This small circle is composed principally of large corporations that maintain close ties to the junta or are even owned by senior military officials, as is the case with the "Myanmar Economic Holdings Company Ltd.". Multimillionaire Tay Za, a businessman who is also closely aligned with the government, has also emerged as a buyer. Since these domestic investors only have access to a limited amount of capital, many interested parties from the People's Republic of China, Taiwan, India and Thailand will also make their move and acquire ownership in Burma.

The key motivation for the extensive sale of state property is likely the upcoming elections, which will bring about an institutional restructuring and a reordering of the patronage networks. Many members of the elite leadership are uncertain whether they will still be able to maintain their positions in the future system and continue to be able to enjoy the associated privileges and returns. The acquisition of ownership of economically useful goods guarantees that they will continue to make large profits independent of the altered political conditions, which therefore protects their social status. In addition, the military regime as a whole will invest a portion of the proceeds from these sales abroad so as to ensure returns independent of development in Burma.

The junta made greater efforts to draw on international expertise for this new economic model and for the allocation of its economic resources. In July 2009, the Burmese Minister for Agriculture and Irrigation, Htay Oo, invited the Executive Secretary of the UN's Economic and Social Commission for Asia and the Pacific (ESCAP), Noeleen Heyzer, to Burma to discuss regional cooperation possibilities for the agricultural sector. A few months later, the military government convened an international conference in the new capital Naypyidaw, which was attended by American Nobel Prize Winner Joseph Stiglitz,

among others. The focal point was Burma's rural development and the question of how Burma can use its natural resources more effectively. Stiglitz used this opportunity to call for political reforms that he saw as essential prerequisites for a functioning market economy.

A determining factor spurring this new openness towards foreign ideas and strategies was likely provided by the positive experiences between the Burmese military leadership and international organisations that helped the country in early May 2008 to cope with the tremendous damages caused by Cyclone Nargis. Furthermore, it should be noted that the junta has shown that it is prepared to familiarise itself with a broad spectrum of concepts and to diversify its international support. It is not relying solely on its cooperation with UNDP, which certainly has the most detailed knowledge of the country due to its long-running local project work, but is also actively looking for new partners in order to limit the influence of individual organisations.

This new openness was also apparent in a temporary loosening of issuance practices for tourist visas. In September, however, the military government suspended these more liberal issuance procedures for entrance visa, which had just been introduced in May of the same year. For the time being, this dashed hopes of establishing Burma, with its diverse scenery and culture, as a Southeast Asian tourist location and therefore to spur development within the country's underdeveloped service sector. The return to a restrictive visa policy represents an obstacle that causes this goal to retreat into the distance.

### **Necessary Reforms**

In order to spur diversified economic growth, Burma must make a series of far-reaching course corrections that can only be fully realised over a long time period. This growth would no longer be based solely on the sale of raw materials, but

rather on the sustainable development of the existing wealth of natural resources as well as the production of goods with higher value added.

The fundamental requirement for all future reforms is a clean-up of public finances. Currently, the Burmese state is financing itself primarily based on the sale of raw materials against foreign currencies and the added profit that arises from the previously described juxtaposition of official and *de facto* exchange rates. This juxtaposition leads to a vast skewing of all foreign trade transactions, which proves highly profitable for the military and leaves it with little incentive to eliminate this irregular practice.

Even if the military were prepared to take action to replace the existing public finance procedures with a clearly structured tax system, this would still only represent a first step. After all, sound monetary policy also requires the existence of a central bank and commercial banks that provide the business sector with credit and which are as independent of the government as possible. The Central Bank of Myanmar, however, is an instrument used by the military leadership to realise its political and economic interests. Commercial banks are by no means available throughout the country; access to financial resources is limited to urban areas and controlled by businesses that maintain close ties to the military junta – the four recently created private banks are no exception.

More than two thirds of Burma's population continues to live from farming. Seen purely in statistical terms, there is more farmland available per person in Burma than in most of the neighbouring countries. In the aftermath of Cyclone Nargis, it also became apparent just what a high degree of organisational talent exists in Burma's rural communities, as well as a willingness to cooperate and assist one another. These capacities heavily contributed to the relatively rapid containment of the effects of the tremendous devastation left in the wake of the cyclone. Thus far,

Burma's various governments have exploited this material and social capital, but made little effort to invest in it. Instead, a series of administrative barriers and encroachments has caused the growth drivers of other actors to be impeded.

If this obstructionism is to be overcome, clear and binding ownership structures must first be established. Up to now, all arable land has been state property. Individual farming households can procure property titles, which are generally valid for 30 years, but these titles cannot be inherited, sold or used as collateral for loans. They can even be revoked at any time if state or military authorities lay claim to the land. These conditions eliminate any incentive to invest in the land in order to achieve increases in yields over the long-term.

Many development economists believe, however, that a broadly based programme focusing on offering counselling and material input would lead to a relatively quick return of investment for Burma's agricultural sector and a noticeable increase in the population's living standards. In many regions across Burma, this would initially mean the provisioning of basic means of production such as fertilisers, seeds, pesticides and simple agricultural equipment such as water pumps. Low-price microcredit would have to be provided to facilitate the purchase of such items.

If the aim is not only to improve provisions for local populations, but rather to also penetrate regional and international markets, then much more comprehensive infrastructural measures need to be initiated. Regional irrigation and flood protection systems need to be built, regional transportation networks need to be expanded and facilities for processing and marketing goods must be created. These activities cannot be mapped out at green tables; but require close partnership-based cooperation with local, national and international experts. The work should be based on a firm understanding of development policy rather than the military govern-

ment's prestige-oriented considerations, which see a road's value, for example, in being a reflection of its length, width, and the number of bridges it crosses.

The closer Burma comes to meeting all of the conditions listed here, the more likely it will be able to meet the growing international demand for renewable resources and foodstuffs. Due to a spate of spectacular food scandals in East Asia, this becomes particularly applicable to this region's increasing demand for certified organic products, as Burma's farmland – unlike that of other countries – has thus far remained free of industrial pollution and the overuse of fertilisers and pesticides.

Over the long term, however, Burma will only succeed in closing the gap between its economy and those of its neighbouring states if it succeeds in also building up its industrial sector. Burma's wealth of natural resources provides a good material basis for this development, but its continued sale of unprocessed raw materials represents poor utilisation of this advantage. Accordingly, Burma could, for example, construct an independent petrochemical plant and the associated industries, thereby opening up long-term prospects that extend beyond its market opportunities in the textile and apparel industry. For many of Burma's neighbouring states, textile production has represented the classic entrance point into the industrialisation process, but at the same time has always been afflicted with the risks of ruinous pricing and competitive pressures.

By consulting with international experts, the government has indicated that it wants to embark on new economic paths in order to free itself from its dependencies. But what would have to accompany such a change of course?

First of all, the formal prerequisites must be met in order to offer domestic and international investors an attractive and reliable set of framework conditions. Passage of the respective laws is only a first step, which must be followed by further steps on an administrative level, within the banking

system, in terms of infrastructure, and last but not least, education and training. Once again, it's impossible to generate a perfect master plan that just requires implementation. In reality, it requires a degree of readiness on the side of Burmese and international decision makers to be open to one another and, for the time being, to look more towards concrete solutions than general ones. Step by step, it will then be possible to achieve increasingly viable forms of cooperation that can in turn serve a model function.

Joint ventures, subsidiaries of international organisations, the privatisation of state-owned enterprises, and development cooperation activities can all contribute to building up an industrial sector, which uses the available raw materials to develop products that are innovative and in international demand. In the end, the extent to which this goal is achieved, if at all, will depend on whether increasingly influential forces can be established in Burma's economy, whose success is measured against their own economic ability rather than their access to the resources of state power. There will certainly never be full independence from state authorities, but it is crucial that the freedom of action and self-confidence of economic players continue to increase and not drop off.

### **The EU's Room for Action**

In Burma, the EU is competing with other external actors such as ASEAN, the People's Republic of China, Japan, India and Russia, which are all able to exercise much greater influence in the country. Decades of sanctions and policies of obstruction have contributed to a large extent to the EU's voice steadily losing weight with Burma's military government. Notwithstanding this, the EU has continued its past policies, even in light of the announced elections. Accordingly, it makes compliance with political conditions, including free and fair elections and unrestricted participation rights for all political groups, a "sine qua non" for in-

creased development assistance and economic commitments.

Although this strategy has proven largely unsuccessful and rather counterproductive, a complete about-face – that is, the unconditional lifting of sanctions and the renunciation of demands for political reforms and the holding of fully democratic elections – would certainly also send the wrong signal. It would be more effective to stop limiting the dialogue with Burma's leadership to political demands, and to start incorporating economic and development cooperation issues into the dialogue as well.

The initiation and execution of concrete projects should therefore be linked less to general political constraints and instead be more dependent on satisfying answers to the following questions: Does the project aid more diversified and sustainable economic growth? Does it benefit those population groups, in particular, that have thus far hardly benefited from the country's wealth of resources, but are interested in and capable of exploiting and further developing the existing potential? Do the administrative and infrastructural conditions exist, which are needed to execute the project in a promising fashion?

If the EU decides to expand its involvement in Burma, it would be advisable to rely on a wide-ranging dialogue. This implies using international, regional and national fora to circumvent any stalemates that may arise from a fixation on following a single track of negotiation.

A suitable discussion forum for multilateral cooperation between the EU and Burma can be found in the Asia-Europe Meeting (ASEM), which includes all the EU and ASEAN member states as well as other important regional actors such as China, India and Japan. The comprehensive scope of topics covered by ASEM, including economic, political, cultural and social issues, would make it possible to directly address strategic questions of economic development and their political implications together with the most influential powers in

Southeast and East Asia as well as the Burmese government.

The discussion over which specific actions should be taken is suited for the regional EU-ASEAN dialogue, in particular, the regular meetings of EU and ASEAN ministers for economic affairs. This forum could be used to motivate ASEAN states to make long-term investments and could also help to sound out possibilities for trilateral cooperation between the EU, ASEAN (or its individual members) and Burma. This type of cooperation could also prove useful in bridging the economic gap that exists between Burma and the other ASEAN states, thereby contributing to building up the “economic community” aspired to by ASEAN. Lastly, trilateral cooperation also represents an important prerequisite to expanding trade relations between the EU and Burma.

In 2007, Brussels named Piero Fassino to facilitate direct dialogue with Burma, but to date he has been refused entry into the country. New dialogue initiatives, which also include economic offers rather than focusing solely on political issues, could help to reduce Burma’s current reservations towards Fassino.

Up to now, the EU has only offered “humanitarian aid” to Burma. The aid provided under this heading has totalled just 32 million Euros for the four years from 2007 through 2010; in addition, there was the one-time disaster relief of 39 million Euros following Cyclone Nargis in the summer of 2008. This all corresponds to just 5 percent of the aid granted to other countries in the region, such as Laos and Viet Nam, whose political systems also fail to correspond with the EU’s ideals. Accordingly, an increase in financial assistance is just as necessary as a diversification of the EU’s involvement.

In various strategy papers on Burma, the EU has already given relatively broad definitions of the term “humanitarian aid”. It encompasses not only aid for elementary public services, but also support activities in the fields of health and education; the

latter has thus far been limited to primary education. In light of the acute lack of experts, which is characteristic of Burma, the country desperately needs personnel with technical and commercial training. This would also provide a good entry point into other sectors of development cooperation. All such activities, however, still face the obstacle presented by continued sanctions from Brussels.

A corresponding EU policy shift necessitates a willingness to stop seeing Burma solely as a monolithic bloc of ruling power-holders who stand against the repressed masses. To date, there has been too little attention paid to the economic basis of this system of government as well as the lines of cooperation and conflict it generates. In this respect, efforts need to be multiplied in order to identify the economic actors who have a vital interest in initiating innovative developments that would enable them to attain a higher degree of independence from existing power structures. When these actors have been identified, they should be strengthened as European development policy partners and not be subjected to additional political conditioning.

© Stiftung Wissenschaft und Politik, 2010  
All rights reserved

These Comments reflect solely the authors’ views.

**SWP**  
Stiftung Wissenschaft und Politik  
German Institute for International and Security Affairs

Ludwigkirchplatz 3–4  
10719 Berlin  
Telephone +49 30 880 07-0  
Fax +49 30 880 07-100  
www.swp-berlin.org  
swp@swp-berlin.org

ISSN 1861-1761

Translation by Robert Blasiak

(English version of  
SWP-Aktuell 67/2010)