

BTI 2010 | Myanmar Country Report

Status Index	1-10	1.59	# 127 of 128	
Democracy	1-10	1.72	# 127 of 128	➔
Market Economy	1-10	1.46	# 127 of 128	⬇
Management Index	1-10	1.75	# 126 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	48.8	HDI	0.59	GDP p.c.	\$	-
Pop. growth	% p.a.	0.8	HDI rank of 182	138	Gini Index		-
Life expectancy	years	62	UN Education Index	0.79	Poverty ²	%	-
Urban population	%	31.9	Gender equality ¹	0.62	Aid per capita	\$	3.9

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

Despite growing local pressure against and international criticism of the military government in Myanmar (formerly known as Burma), the military junta remains in firm control of the political situation by denying all basic freedoms and suppressing all avenues of dissent, including the media, public protest and civil society.

2007 began with a series of campaigns by members of the “1988 student movement” against rising food prices and the continuing house arrest of major opposition figures. The regime monitored these activities closely but tolerated sporadic demonstrations during the first half of the year. In August and September, however, increasing prices for petrol, diesel and natural gas triggered massive protests led by Buddhist monks that presented the military regime with the largest and most sustained challenge since it came to power in 1988. The scale of the protest marches, which peaked with 30,000 demonstrators on 24 September 2007, prompted the government to launch a major crackdown in which, according to U.N. figures, at least 31 people were killed. While the United States, Australia and the European Union stepped up their sanctions, the neighboring states and key trading partners – that is, China, India and other ASEAN member states – urged the junta to show restraint. The military regime, however, did not relax its controls or embark on a process of liberalization but, instead, pushed its own roadmap to the “disciplined democracy” it had first announced in 2003. At the end of 2007, the National Convention concluded its work with the promulgation of a new constitution. The constitution, which guarantees the military’s dominant position, was accepted in a referendum in May 2008. The referendum was held despite the large-scale devastation brought by the cyclone Nargis, which hit the county in the beginning of May and killed more than 130,000 people. During the catastrophe, the Myanmar government was heavily criticized for not immediately opening the country to help from the international community. France suggested invoking the United Nations’ “responsibility to protect” doctrine to deliver aid without the military junta’s approval, but China and Russia rejected its bid to make the U.N. Security Council take a stand.

The military has promised elections in 2010, and preparations to form a military-backed party are underway.

Myanmar has made no progress in terms of economic progress. Once considered the rice bowl of Asia and rich in minerals, Myanmar's economy has languished for years due to the economic mismanagement of its generals and the sanction policies of the West. Since investment is concentrated in the gas and oil sector, Myanmar has all the potential to become the victim of the resource curse. With little investment in the education and health-care sectors, as well as huge investment in the military's infrastructure, economic policy-making is driven by the institutional interests of the military. Moreover, economic policy-making is often influenced by the personal interests of military generals rather than by the general interest of the population. The population also widely distrusts the currency and financial systems. Rules allowing sound economic management can only be established after a political transition has taken place and the international community has abolished its sanctions.

History and Characteristics of Transformation

Myanmar has been a military dictatorship since 1962, when General Ne Win took power in a bloodless coup and arrested Prime Minister U Nu. Since gaining independence in 1948, Myanmar has had extensive problems in state building, with ethnic minority groups and communist rebels violently revolting against the young republic. The military has only been able to guarantee the unity of the country by using tremendous force and, at the time of this writing, the military does not seem able to find a political solution to the country's difficult minority problems.

When the military took power, it abolished democratic institutions and replaced them with the 17-member Revolutionary Council, chaired by General Ne Win. The army led the country into isolation, cutting off all contacts to the outside world, driving foreign companies out of the country and nationalizing all private enterprises. The state adopted a mixture of Marxism and Buddhism as its official ideology. In 1974, the leaders proclaimed "the Socialist Republic of the Union of Burma," with Ne Win in the newly created office of president. Thereafter, a socialist planned economy and one-party rule by Ne Win's Burmese Socialist Program Party (BSPP) determined the country's economic and political development.

When the country was experiencing serious economic problems, Ne Win stepped down as president and was succeeded in office by his confidant, San Yu. However, Ne Win remained chair of the country's only political party and continued to play a decisive role behind the scenes in formulating governmental policy. In 1988, continued economic downturns led to mass demonstrations, which the military tolerated for some months before launching a brutal repression of it on August 8, which ultimately led to the deaths of several thousand people. Ne

Win and San Yu were replaced by General Saw Maung. The new military junta promised to hold free elections, which took place in May 1990. The elections resulted in the overwhelming victory of the National League for Democracy (NLD), the country's largest opposition party, led by Aung San Suu Kyi, with more than 59% of the vote.

Despite this clear victory for the opposition, the army refused to recognize the election results or allow the newly elected parliament to convene. The opposition leader, Suu Kyi, was placed under house arrest while the electoral campaign was underway. In 1995, she was released for the first time, but the authorities repeatedly prevented her from leaving the capital to undertake political activities elsewhere in the country. The opposition leader was placed under house arrest again at the end of 2000 and was only released 19 months later.

However, escalating tensions eventually led to another clampdown on the NLD and the re-detention of Aung San Suu Kyi in May 2003. The renewed house arrest triggered another outcry of criticism from the international community. The United States and the European Union have further tightened their sanctions on Myanmar and demanded that all political prisoners be released.

In response to the international criticism, in September 2003, the military announced its road map to democracy, which envisions a "disciplined democracy" for the future. The government resurrected the constitution-drafting process, which had come to a halt in 1996. The National Convention, which convened from 2004 to 2007 in order to draft a new constitution, was given detailed guidelines so as to safeguard the military's dominant position. According to the new constitution promulgated in late 2007, the military will select the head of state and important state ministers, receive 25% of the seats in both houses and have the right to declare a state of emergency and seize power at any time. In May 2008, even during the cyclone crisis, the new constitution was ratified with a consent of 92.4% in a (rigged) referendum, and elections were announced for 2010. Although these elections will bring a transition to civilian rule, the new government will be very much influenced by the military. Since the military is restricting participation and contestation, it cannot be called a genuine transition to democracy but, instead, must be viewed as an attempt to give the military regime a higher legitimacy through (probably rigged) elections as well as to shield it from the international criticism of its change of leadership in 1988, which ushered in a new phase of economic transformation. In order to avoid becoming direct victims of the country's economic distress and the mass demonstrations it might trigger, Myanmar's leaders formally embraced a market economy, but this strategy failed for three reasons. First, foreign investors hesitated to invest in the country because of the uncertain political situation there (e.g., violent minority conflicts and legal uncertainty) and because of concerns about their public image (e.g., fear of boycotts because of human rights violations and the repression of the democratic opposition). Second, Myanmar received lower levels of international assistance for its reforms than other comparable countries. Moreover, the European Union and the United States had imposed comprehensive sanctions against the military junta in response to its bloody repression of mass protests in 1988. After the re-arrest of Suu Kyi in 2003, the sanctions have become more severe. The United States has imposed an embargo against goods from Myanmar, and the European Union has further tightened its travel bans. As a result,

investments are concentrated in the oil and gas sectors while other industries have been seriously hurt. At the same time, however, neighboring Asian countries (including Thailand, China and India) have invested heavily and thereby helped stabilize the current military regime.

Transformation Status

I. Democracy

1 | Stateness

The state administration of the Union of Myanmar does not cover the whole territory but is confined to the divisions in the central part of the country. Most parts of the outer provinces, which are inhabited by the peoples of the ethnic minorities, are under the de facto control of powerful guerrilla groups. These groups have been fighting for independence since 1948, when the country gained its independence from Great Britain. Since 1989, the military government has signed cease-fire agreements with almost all ethnic minority groups of any power in exchange for territory and de facto administrative autonomy. The government and key groups involved in the cease-fires have presented them as an alternative, development-first path to national reconciliation and peace building and are keen to attract international assistance for regional projects.

Monopoly on the use of force

While some areas (mainly those in a band along the Myanmar-Thai border) remain mired in low-intensity conflict, peace talks between the government and the Karen National Union (KNU), the oldest and largest remaining insurgent group, hold out the prospect of bringing an end to fighting across the country for the first time in half a century. Although four rounds of peace talks since 1988 have failed, the pressure on the KNU to find a political solution to the conflict is growing. With the peace process stagnating since 2005, Thailand has suggested that it could mediate a new round of talks between the KNU and the military regime.

The need to unify the ethnically and religiously diverse country remains a powerful argument used by the generals to hold onto power, while armed conflict between the junta and the ethnic rebel groups remains a central cause of human rights abuse in Myanmar (e.g., forced labor, using children as soldiers, land confiscations and the use of land mines).

State identity

Despite the fact that Myanmar's government is officially secular, in cultural terms, it remains a de facto Buddhist regime that requires religious legitimation if it wishes to rule through anything other than brute force. Since 1988, the junta has devoted

No interference of religious dogmas

considerable resources to propagating Buddhism, including the funding of monastic education and the building and restoration of Buddhist monuments. In addition, the junta has sponsored grand state ceremonies in imitation of the country's devout Buddhist kings of the past. While Buddhism is the religion of the majority of the Myanmar people and their military rulers, Christian and other religious minorities are often discriminated against or even attacked by the military.

The governance structure varies with the degree of formal control the SPDC (State Peace and Development Council, the official name of the military government) has over the area. The central divisions of Myanmar, where the SPDC is in absolute control, is governed by a rigid bureaucratic apparatus that functions within territorially delimited division-, district-, village-tract- and village-level Peace and Development Councils (PDCs). Lower-ranking civilian bureaucrats from so-called line ministries (e.g., the ministries for education, health, social welfare and forestry) flesh out the state's functional apparatus as they work with local PDCs to carry out orders from cabinet ministries and the junta that are based in the capital. Nevertheless, the state administration is very weak. Since PDC officials are often underpaid, many of their members participate in the informal and illegal economy, levying informal taxes, collecting unauthorized road tolls and rerouting scarce state resources.

Basic
administration

The military junta does not have full authority in the seven states where ethnic minority groups make up the majority. Those 25 groups that have entered cease-fire agreements with the military since the 1980s have been given varying degrees of autonomy in administration and politics (including control over natural resources and the narcotic trade).

2 | Political Participation

To date, the military has not recognized the results of the 1990 elections. Since then, no election at the national (or local) level has been held.

Free and fair
elections

With no elections having been held for nearly 20 years, the institutions of the military regime have the power to effectively govern and control virtually all aspects of society in the central portion of Myanmar.

Effective power to
govern

The development of free and independent civil society associations is restricted by the total absence of fundamental civil liberties. Existing social groups or associations are co-opted by the military and, as a result, find very little room to maneuver in a way that is independent from military influence. When independence-minded groups emerge (e.g., the All Buddhist Monks Alliance formed during the protest movement in 2007), they face the constant risk of being jailed for criticizing the military regime. After the protests led by Buddhist monks

Association /
assembly rights

(but supported by members of the NLD), the regime cracked down and disrupted all existing activist networks.

There is no freedom of expression in the country, and opposition politicians and activists have to live in constant fear of being jailed for criticizing the military regime. All media is controlled by the military regime, and news only gets into the country via the international media and modern telecommunications systems. In November 2008, the country's courts gave long prison sentences to members of the student opposition, members of the NLD opposition party and artists critical of the government's handling of the Nargis crisis. The draconian prison sentences (65 years in jail) for altogether 270 regime opponents have been meant to serve as a severe warning that opposing the military's version of "disciplined democracy" will not be tolerated.

Freedom of
expression

3 | Rule of Law

Myanmar has yet to develop any form of rule of law. The country has promulgated the constitution adopted in 2007, and a parliament is scheduled to be elected in 2010. Until then, the power of the military junta ruling in the form of the State Peace and Development Council (SPDC) will not be balanced by any other political institution in the country. The SPDC consists of the commanders of the military service branches and of regional military commands. The 19 members of the junta wield a great deal more power than cabinet ministers, and some SPDC members also have cabinet portfolios. Regional commanders also enjoy a great deal of autonomy in their respective areas.

Separation of
powers

An independent judiciary does not exist. The junta appoints judges to the Supreme Court who, in turn, appoint lower judges with the junta's approval. For this reason, many judges have a military background. The courts then adjudicate cases under decrees promulgated by the junta, which effectively have the force of law. The military rules with a combination of martial law and restrictive decrees left over from Myanmar's colonial past. Oftentimes, the regime's opponents are denied proper legal representation, and cases are often heard outside of public view. Many of the more than 2,100 political prisoners held in Myanmar have been sentenced in flawed, closed-door hearings, and some of their defense lawyers have been imprisoned for contempt of court, which the courts have wide discretion to interpret. The draconian prison sentences given to critics and democracy activists are a clear indication of the subjugation of the judiciary to the interests of the military regime.

Independent
judiciary

Officeholders often exploit their positions for private gain without fear of judicial or public consequences. Corruption is endemic in the bureaucracy and the judicial sector. Hard facts about the extent of corruption are not available due to the nature

Prosecution of
office abuse

of the political regime. However, almost all observers agree that the military is highly corrupt; in fact, one of its main purposes is to enrich the members of the armed forces and their families. There is no systematic effort to fight corruption or prosecute corrupt officials.

Civil rights are not fundamentally guaranteed and are systematically violated. In fact, Myanmar's military regime is one of the most brutal political reigns in the region (and beyond). As the events of 2007 show, the military does not hesitate to employ brutal force to destroy any form of articulated opposition, whether spontaneous or organized.

Civil rights

4 | Stability of Democratic Institutions

There are no democratic institutions to speak of in Myanmar, and the military dictatorship can only maintain its power by continually threatening physical violence. The legitimacy and authority of the military regime has been contested since its inception, not only by the domestic opposition and ethnic groups, but also by some Western states, including the United States and Great Britain. While the members of the junta have tried to enhance the regime's legitimacy by supporting Buddhism and making huge donations to Buddhist organizations, the demonstrations led by Buddhist monks – and the violence the regime used against them – has completely stripped the military regime of all legitimacy. To find a new form of legitimacy, the military has pushed its road map to a “disciplined democracy.” The military also uses nationalist slogans to enhance unity and mass mobilizations to seek legitimacy.

Performance of democratic institutions

The military's “road map” of a transition to a “disciplined democracy” is largely an instrument to stabilize the army's power. Although these efforts could challenge total military rule, empower rival elites and establish at least some minimal checks and balances, it seems clear that this development does not reflect any genuine intention on the part of the military to hand over power to an elected government that is not controlled by its generals.

Commitment to democratic institutions

5 | Political and Social Integration

Political Parties have no roots in society. Except for the democratic opposition party, the NLD, there are only a few ethnic parties as well as the National Unity Party (NUP), which the military formed to run in the 1990 election. Since there is no parliament, political parties have no place to influence policies, no interest articulation and no representation. Moreover, the NLD has to cope with enormous obstacles from the military. Its leadership remains under house arrest (and will remain so, as the detentions of General-Secretary Aung San Suu Kyi and Tin Oo

Party system

have been extended for another year). Around 140 members of the NLD were given long prison sentences for participating in the 2007 protests. A shortage of financial resources and government repression (in the form of travel restrictions and the monitoring of communications) make it impossible for the party's headquarters to work effectively with party offices elsewhere in the country. Since the government has effectively made it impossible for the party to mobilize within the country, the NLD has explicitly called on the U.N. Security Council to intervene. Other opposition figures (e.g., remnants of the 1988 student movement, Buddhist monks or members of the NLD) are under permanent surveillance by military intelligence organizations.

Meanwhile, the pro-military National Unity Party is starting to organize ahead of the 2010 election. In January, the party indicated that it would focus on organizational work in preparation for the 2010 elections. Some ethnic organizations have also indicated their willingness to organize political parties and participate in the elections.

Interest groups are either created or co-opted by the military government. The junta created several new organizations, such as the Union of Myanmar Chamber of Commerce and Industry (UMCCI) and the Rice Millers and Merchants Associations. The junta manipulated the way these associations functioned by appointing people who supported it as the associations' leaders and using them to control them. Various business associations have been used to contain the demands of the business community. The United Solidarity and Development Association (USDA), whose patron is Senior General Than Shwe, the country's head of state, boasts 22 million members and is the largest of such state-sponsored organizations. It mobilizes support for the military junta and is often involved in suppressing civil society and pro-democracy groups. It is rumored that it will evolve into a political party for the next elections in order to ensure the SPDC's control over a quasi-democratic state.

Interest groups

After 40 years of uninterrupted military dictatorship, it is very difficult to estimate how positive the population feels about democracy and especially how much Myanmar's citizens know about it. The last free elections, in 1990, brought an overwhelming victory for the opposition.

Consent to democratic norms

While Myanmar has certain traditions of self-organization reaching back to pre-colonial and colonial times, as well as two periods of democratic rule between 1948 and 1962, the past four decades of military rule, and especially the harsh authoritarian regime since 1990, has dramatically reduced the role of self-organization. There is no reliable data to estimate the level of social trust among the population. Although anecdotal evidence suggests that there might be some trust

Associational activities

within the ethnic communities and at the local level, it seems safe to assume that decades of authoritarian rule, underdevelopment and insurgency have also contributed to the erosion of trust among the population.

II. Market Economy

6 | Level of Socioeconomic Development

While political deadlock has continued in recent years, international aid organizations have been speaking of a looming humanitarian crisis in Myanmar. Despite official claims that the economy is growing by more than 10% annually, independent surveys and observation show steadily deteriorating living standards for the large majority of the population, which are driven by high inflation, weakening health and education systems, and a generally depressed economic environment caused by decades of economic mismanagement. The socioeconomic situation is characterized by accelerating impoverishment to the point that the World Bank has labeled Myanmar a fragile state. Roughly 30% of the population lives below the poverty line; of this, more than 10% lives in extreme poverty, which is defined by the inability to meet basic food needs. Poverty is even more widespread in ethnic minority areas. In the state of Chin, more than 70% live below the poverty line; and in the eastern state of Shan, rates of poverty are nearly 50%. Increasing impoverishment is also resulting in a greater number of children being unable to complete primary education; more than 40% of enrolled children are unable to do so. The HDI for Myanmar is 0.585, which gives the country a ranking of 135th out of 179 countries.

Socioeconomic
barriers

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	-	-	-	-
Growth of GDP	%	13.6	13.6	12.7	-
Inflation (CPI)	%	4.5	9.4	20.0	35.0
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	-	-	-	-
Export growth	%	11.8	-	-	-

		2004	2005	2006	2007
Import growth	%	-16.2	-	-	-
Current account balance	\$ mn.	111.5	587.7	802.0	-
Public debt	\$ mn.	5646.6	5195.7	5233.6	5515.9
External debt	\$ mn.	7239.3	6645.2	6828.2	7373.0
Total debt service	% of GNI	-	-	-	-
Cash surplus or deficit	% of GDP	-2.0	-	-	-
Tax Revenue	% of GDP	3.3	-	-	-
Government consumption	% of GDP	-	-	-	-
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	0.3	0.2	0.3	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	-	-	-	-

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

7 | Organization of the Market and Competition

In Myanmar, the foundations of a market economy have never thoroughly been established. Despite the renunciation of the socialist economy and the introduction of market reforms in the late 1980s, large state enterprises still dominate key economic sectors, such as energy and heavy industry. The state is constantly intervening in the market. Myanmar's leading corporations are primarily owned and operated by serving and retired military officers. Because they represent a lucrative source of income, the state enterprises enjoy competitive advantages and the special protection of the military elite.

Market-based competition

There are no state policies regarding competition and no generally acknowledged rules for efficient economic transactions.

Anti-monopoly policy

Foreign trade is essentially limited to the exportation of natural gas and agricultural products. While natural gas exports are managed by the Myanmar Oil and Gas enterprise, a holding of the military regime, the military regime often intervenes and regulates the exportation of rice. For instance, in May 2008, it imposed restrictions on both rice exports and domestic trade in rice in order to stabilize prices. By late

Liberalization of foreign trade

October, the junta felt confident enough to lift the ban on rice exports when the country's main rice harvest commenced.

The banking sector and capital market are rather primitive. With the existence of only a small number of private banks, no real competition, no stock market and no independent central bank, foreign investors have little choice but to play by the rules of the SPDC. State banks are controlled by military leaders and have special privileges; foreign banks are only allowed to do business with foreign banks.

Banking system

8 | Currency and Price Stability

In the absence of sufficient tax revenue, Myanmar's state expenditure is financed by the simple and highly destructive expedient mandating that the central bank print or issue as much money as is needed. Consequently, the military junta has not been able to implement effective control over the high rate of inflation, which fluctuated between 20% and 40% in last two years. The double-digit growth in the cost of living was mainly due to a surge in food prices and high global energy prices. In recent years, the junta has also contributed to the sharp upward pressure on prices. For example, the junta sharply increased wages for civil servants in 2006, raised electricity prices and, in August 2007, it raised subsidized fuel prices by between 100% and 500%, causing transport costs to skyrocket overnight. The prices have eased a bit following the months of the cyclone Nargis, when huge amounts of aid began coming into the country.

Anti-inflation /
forex policy

There are neither political nor institutional elements of a state policy for stability.

Macrostability

9 | Private Property

In Myanmar, fundamental economic institutions, such as effective property rights and contract enforcement, are absent. Consequently, competition between various economic actors is severely restricted, and a fundamental market economy is not in place. While the industrial sector is dominated by state-owned enterprises, other sectors (e.g., logging, construction and housing) are dominated by businessmen with connections to the military regime. Since military leaders control the entire economy, they are able to arbitrarily alter property laws for their own benefit. There are no independent courts to protect property rights against the all-powerful state.

Property rights

At best, private companies are tolerated in the form of inclusive enclaves. A few company owners with close ties to the military regime (e.g., Zar Zar or Tay Za) have extensive holdings in timber, gems, resort properties and hotels. They make up the financial backbone of the military regime.

Private enterprise

10 | Welfare Regime

In Myanmar, there are virtually no political or social provisions to guarantee inclusion or compensation for social inequalities. Traditional family and clan structures continue to fulfill this function. The health sector is in a disastrous state and lacks sufficient funding.

Social safety nets

The state makes almost no effort to combat poverty, and those efforts that it does make are arbitrary. In contrast to the vast sums absorbed by the military and state-owned enterprises, Myanmar spends a paltry amount on health care and education, collectively amounting to about 1.4% of GDP (0.5% on health care; 0.9% on education). This is less than half as much as the next-lowest spender, Indonesia, among member countries of ASEAN. Consequently, large proportions of the population have inadequate access to health care. Likewise, the health care system is one of the world's worst. According to a U.N. survey, Myanmar ranks 190th, followed only by Sierra Leone. Of the population, 40% has no access to safe water, and 60% lacks basic sanitation. It is feared that the growing inability of existing health structures to confront the increasing rates of HIV/AIDS, tuberculosis and malaria will result in the inability to contain their spread. Under these circumstances, experts fear that there is a looming humanitarian crisis in Myanmar. The situation is even worse in some areas inhabited by ethnic minorities. Government and U.N. surveys indicate that overall conditions in the border areas are significantly worse than they are in central parts of the country. People living in conflict areas are also directly affected by other dangers, such as landmines and military violence, while migration and forced relocations are the cause of malnutrition and other conditions that lead to the spread of disease.

Equal opportunity

11 | Economic Performance

Since official statistics in Myanmar are notoriously unreliable or falsified, it is very difficult to draw a clear picture about economic performance. Realistic numbers have been brought forward by the Economist Intelligence Unit, which has combined proxy measures with published economic growth rates. According to these figures, economic growth in Myanmar remains weak as the economy struggles to recover from the devastation brought by the cyclone and as export revenue and remittances contract owing to the general problems affecting the global economy. In the last two years, growth has been driven by the global demand for energy, which has pushed up the price of natural gas. Myanmar currently exports gas to Thailand in sizeable quantities, and new projects are planned with Chinese, Indian and South Korean partners. Aid-funded rebuilding efforts have given a boost to construction growth, but this has been offset by a contraction of agricultural output, with crop, livestock and fisheries output likely to be negatively affected by weaker global demand. The

Output strength

cyclone severely damaged transport and other infrastructure in the south of the country and, as a result, the manufacturing sector there will struggle to grow in coming years. In addition to these problems, manufacturers throughout Myanmar continue to face shortages of capital, energy and imported inputs.

Myanmar is not a large recipient of foreign investment. The country is regarded as a highly risky destination for foreign capital and a difficult location to do business in. FDI is overwhelmingly directed at the gas and oil sectors; very little is invested in industry and even less in agriculture.

12 | Sustainability

Environmental protection is completely subordinate to the overall goal of economic development. Given its low stage of economic development, Myanmar has not established a ministry for the environment. The need for foreign currency has resulted in the state-controlled Myanmar Timber Enterprise's cutting at the very high levels set by the Forestry Department. Together with chronic mismanagement, corruption and institutional decline, this has led to a situation that does not correspond with the picture painted by the regime of sustainability in the forest sector. So-called informal logging has put even greater pressure on the forests of central Myanmar. A comparison of official import-export figures suggests that the trade in timber from Myanmar is at least double that recorded by the regime. In recent years, progress has been achieved on this issue. After pressure from international NGOs, both China and Myanmar have introduced moves to block the destructive logging and vast timber trade along the Chinese-Myanmar border, which has been responsible for the alarming rate of Myanmar's deforestation. But since the military junta does not control portions of the border areas and there is a high level of corruption, the illegal trade of timber still goes on.

Environmental
policy

Underfunding remains a chronic problem throughout the educational system. Teachers are poorly paid, and the quality of teaching is low. In certain rural areas, state schools do not exist at all. Moreover, most schools are poorly equipped and usually lack basic teaching materials, such as benches, tables and books. Although education is supposed to be compulsory and free, there are many unofficial allowances that parents have to pay, such as enrollment fees or financial contributions to the maintenance of school buildings. In some areas, more than 50% of all children drop out of school before they finish even the primary level, which means they completely fall through the state-run educational system. The national universities usually face problems similar to those of the schools, but access to tertiary education is highly restricted and often subject to one's political loyalty to the regime. The entire educational system has suffered from insufficient funding. Myanmar also lacks private institutions that could make up for this deficit. Although there are private institutions in the educational sector, they are often very

Education policy /
R&D

expensive and cannot be afforded by the general population. R&D also lacks adequate funding as well as adequate skills and technology.

Transformation Management

I. Level of Difficulty

The structural constraints on governance are high. Although the military regime has spent heavily on infrastructure development in recent years, infrastructure is weak throughout the country. Due to the weak degree of administrative penetration of the country, large parts of Myanmar remain inaccessible and underdeveloped. Myanmar's civil bureaucracy is under-trained, poorly organized and inefficient.

Structural
constraints

The lack of coordination and cooperation between various levels of government and ministries became visible in the management of the Nargis cyclone in May 2008. It took several days before the local authorities joined the relief operation. Moreover, the cyclone destroyed large parts of the Irrawaddy delta and left 138,378 dead and 800,000 displaced. It destroyed critical infrastructural elements, including electricity, communication and transportation networks, health facilities and schools. The longer-term impact is compounded by the fact that the worst-affected areas include the country's food bowl, in the Irrawaddy delta, as well as its industrial and commercial center, in Yangon. The cyclone struck just before the start of planting of the important monsoon (rice) crop. Total damages and future losses of the Nargis catastrophe have been estimated at \$4 billion, which is equivalent to 21% of the country's 2007 GDP.

Due to the longevity of military rule in Myanmar, the people of Myanmar have almost no experience with civil society, democracy, a market economy or the rule of law, and they are gradually losing what little experience they do have.

Civil society
traditions

The level of conflict is very high and prevents the achievement of any compromise between the different political groups. Of all the countries in Southeast Asia, Myanmar probably has the highest degree of polarization between society and the political elite. Even though several cease-fire agreements between peripheral insurgency groups and the government have contributed somewhat to a de-escalation in majority-minority conflicts, there remains a lot of conflict potential. The level of trust between different ethnic and religious groups and political actors is very low. Deep-seated prejudices and suspicions have prevented the military generals and democratic and ethnic-minority opposition groups from reaching a compromise about the structure of a future state. Whereas the ethnic groups favor

Conflict intensity

the model of a federal state, the military generals have opted to establish a unitary state with a high degree of centralization. While the military tries to enhance its legitimacy through scripted elections, it is not yet clear whether ethnic groups will participate in a political process that promises a future dominated by the military.

II. Management Performance

14 | Steering Capability

The military regime subordinates all reform strategies to the individual interests of the generals in the military junta and to the overall goal of regime survival. The government's decision-making is erratic and not guided by the common welfare of its people but, rather, by the individual interests of the leading generals. The social costs (e.g., inflation and the excessive squandering of natural and financial resources) are very high. Policy coordination is not taking place. A vivid example of the inefficient and often mysterious decisions made by the military junta is the sudden relocation of the capital from Yangon to the country town of Pinyin in November 2005. With little preparation, the entire civil service was required to relocate to the new capital, although the infrastructure was not yet in place. The reasons for this move remain obscure. Some assume astrological prophecies lie behind it, while others suppose that the move was prompted by Than Shwe's desire to isolate the government and protect it from possible threats, such as a popular uprising or an invasion from abroad. Another example is the poor management of the Nargis catastrophe. The junta responded very slowly to the catastrophe and for some weeks refused to allow international relief teams into the country. International aid agencies were forbidden from entering the delta, where most of the damage was done. Under pressure from the international community, the junta cooperated more closely as part of the so-called Tripartite Core Group, which brings together ASEAN, the government of Myanmar and the United Nations to facilitate reconstruction.

Prioritization

Even when the military government enacts a piece of legislation, it still remains far from clear whether it is really implemented. An example can be found in the case of forced labor. Although, in theory, the law provides for the punishment of people who impose forced labor on others, in practice, the use of forced labor has remained a widespread and serious problem in recent years. The military routinely forces civilians to work on state infrastructure projects. Over the last 10 years, the International Labor Organization (ILO) has expressed grave concerns about the

Implementation

deteriorating situation in Myanmar. The SPDC continuously withdraws from previous agreements. Although the ILO and the government of Myanmar signed another agreement to tackle the problem of forced labor in 2007, the situation has not improved. Since most cases of forced labor occur in the countryside, the ILO office is located in Yangon and the access of ILO's officials is restricted, monitoring has become a serious problem.

The military junta's decision-making has done nothing to repair the failing confidence of the international community, which still refuses to abolish its regime of sanctions. Although the government has been given much advice on how to reform the economy, without the help of international financial institution, including the provision of adequate resources, its ability to address macroeconomic issues (e.g., exchange-rate rectification) remains extremely limited.

Policy learning

15 | Resource Efficiency

The military does not use the country's resources for the common good but, rather, to consolidate its own position. A large portion of funds goes to the regime's clients, and around 30% of the government's budget is allocated to modernizing the army's equipment. Consequently, these funds are not available for urgently needed investments in the education or health-care sectors. Public services remain inadequate, which blocks further developmental progress.

Efficient use of assets

Deregulation is essential for economic progress in key industries, especially in the lucrative energy sector. But such deregulation is unlikely to occur because the profits flow directly into the coffers of the military junta. The revenues from gas deals with China, India and Thailand give the military junta the financial resources it needs, although Western sanctions have attempted to cut off such funding.

Policy coordination is weak or nonexistent. Feuds between different military cliques often lead to different policy outcomes. Moreover, an increasing degree of autonomy among regional commanders subverts the policies made by the Pyinmana-based central government. As a result, coordination becomes increasingly difficult, which causes a further fragmentation of government. However, the military junta seems to be capable of subordinating all political objectives to the overall imperative of securing the regime's stability.

Policy coordination

The government has not undertaken any efforts to curtail corruption, which is endemic in Myanmar. According to Transparency International, Myanmar is one of the most corrupt states in the world. The ruling elites cultivate a system based on bribery in order to stay in power. There is no capable, independent judiciary that could remedy these abuses.

Anti-corruption policy

16 | Consensus-Building

There is no consensus on long-term goals among Myanmar's main political actors. The military has been defending its power by authoritarian means for 45 years. It violently suppressed the street protests in 1988 and 2007, and it has prevented the civilian government elected in 1990 from taking over governmental power. Since then, it has withstood pressure to hand over power from both domestic and international forces. By brutally suppressing all dissent, it has created deep-seated mistrust within the opposition, which is made up of democratic and ethnic-minority groups. In order to seek internal and external legitimacy, the military has resurrected its road map to a "disciplined democracy." The latter envisages the transfer of power to an elected government without giving up the military's supremacy and dominant position in politics. Opposition and ethnic groups can either accept the rules dictated by the military junta or be excluded from the political process. Deep-seated prejudices and suspicions, which can be traced back to colonial rule and the early days of state building, have prevented the military generals and the democratic and ethnic opposition from reaching a compromise about the structure of a future state. Whereas the ethnic groups favor the model of a federal state, the new constitution crafted by the military regime establishes a state with a high degree of centralization.

Consensus on goals

There are no relevant actors within the military regime who would advance genuine democratic reforms. Since the fall of General Khin Nyunt (who was believed to be a moderate and pragmatist) and the promotion of more hard-line and inward looking generals within the SPDC, the chances of there being reforms introduced from within the military regime have become slimmer.

Anti-democratic
veto actors

Since the late 1980s, the cessation of hostilities between the central government and the armies of around 20 ethnic groups in the border areas has increased communication and confidence between long-standing enemies. State-building efforts have made some progress. Nevertheless, the cease-fire agreements are primarily military accords concerned with troop movements and a temporary division of authority. While former insurgent groups have been accorded various degrees of freedom within their specific regions, no real progress has been made toward resolving the underlying political issues. Large areas, particularly in a band along the Thai border, have remained mired in low-level armed conflict and subject to brutal counterinsurgency campaigns. Peace talks between the government and Karen National Union, the largest of the remaining insurgent armies, are still ongoing.

Cleavage /
conflict
management

Opium cultivation and elements of the drug trade in the country illustrate the complexities of consensus-building between the authoritarian regime and minority groups. Drug production and trafficking is linked to the minority groups of the Shan

State (specifically, the Wa and Kokaing groups) that profit from this business. After the dissolution of the Communist Party in 1989, these groups negotiated cease-fire agreements with the central government, which allowed them virtual autonomy in local affairs, including the narcotics trade. Since 1989, the military has refrained from intervening in local affairs. The narcotics trade has provided profitable rent-seeking possibilities for the military generals. In view of pressure from the international community, the military government finally initiated a major drug-eradication program in 2000, which promised to eradicate opium cultivation by 2005 – a target that could only be achieved with the help of the ethnic minority groups. The United Wa State Army finally supported this program, and both parties have undertaken concerted efforts to eradicate opium cultivation over the last few years. For the poor peasants of the state of Shan, however, the cultivation and the sale of opium are important sources of income, so alternatives have to be found. But with extreme restrictions on foreign investment and the government's limited capacity to accelerate development, alternative methods are hard to come by. Leaders of the Wa rebel group have already stated that they will return to the cultivation of opium if eradication efforts fail. The decline in opium production has only resulted in a market shift from opiates to amphetamines (“ya ba,” or amphetamine-type stimulants, also called ATSS), whose production has grown considerably.

In Myanmar's authoritarian regime, there is no space for civil society participation, except for in the areas of ethnic autonomy and the weak welfare state. Scopes of action for civil society seem to have been enlarged in parts of the states of Mon, Chin, Karen, Shan and, most notably, Kachin. The emergence of civil society in minority areas can be located in the sectors of development, culture, education and welfare – that is, areas in which the central government is not willing or able to channel financial resources. Civil society groups with political targets that threaten regime stability are not allowed to participate in the political process.

Civil society participation

As long as the military dominates the political process, there will be no reconciliation. Despite calls from the international community and the U.N. Security Council to speed up the reconciliation process, no attempts have been made in recent years to engage in serious talks with the opposition or ease the pressure on the NLD.

Reconciliation

17 | International Cooperation

The military government often considers external advice an undesired political interference. Consequently, in recent years, the military regime has strengthened bilateral relationships with its main trading partners, India and China. Unlike cooperative relationships with Western countries, these relationships do not come with the heavy burden of criticism and advice about political reforms. While India

Effective use of support

and China are both interested in cheap energy from Myanmar, they also help to diffuse the West's criticism of the regime. The SPDC has continued to cultivate ties with China through regular high-level exchanges.

The military government often acts unpredictably and without regard for the international community. Between 2003 and 2007, it reduced cooperation with the United Nations. Between 2003 and 2006, it denied entry visas to the U.N. special envoy, and it has aggravated working conditions for international NGOs since 2005. Since 2006, Myanmar has been on the agenda of the U.N. Security Council. In January 2007, the United States sought to enact a U.N. Security Council resolution that would urge the junta to release political prisoners and to hold a dialogue with democracy groups and ethnic minority groups. However, China and Russia vetoed the resolution because they do not believe that Myanmar is a threat to international and regional security. After the crackdown of the demonstrations by Buddhist monks, the U.N. Security Council criticized the regime's use of violence and urged the junta to enter into a dialogue with opposition and ethnic groups. In response to the Nargis catastrophe in May 2008 and the Myanmar government's temporary blocking of international aid, France suggested invoking the United Nations' "responsibility to protect" doctrine to deliver aid without the military junta's approval, but China and Russia rejected this bid to have the Security Council take a stand. Pressure from Western states and the diplomatic mediation of China and ASEAN helped to forge the Tripartite Core Group, which is coordinating international aid efforts with Myanmar. Recently, the government of Myanmar has cooperated more closely with this group, which consists of members of the Union of Myanmar, ASEAN and the United Nations and has helped to address the needs in the Irrawaddy delta.

Credibility

Myanmar's relations with other Southeast Asian nations have been significantly improving since the early 1990s, and it has been a member of ASEAN since 1997. With ASEAN's becoming more and more assertive in demanding real change in Myanmar, relations with ASEAN have cooled down over the last two years, and Myanmar has strengthened bilateral commercial partnerships. Relations with Thailand improved over the last few years, after the Thai governments of Prime Minister Thaksin and Samak Sundaravey began pursuing a more business-oriented foreign policy. The new Thai government headed by Abhisit Vejjavija has hinted that it will take a tougher stance than its predecessors did. While the Indonesian president has offered assistance to the junta to restart a process of reconciliation between the government and the opposition, Myanmar's most powerful neighboring state, China, has openly supported the junta. Relations with Beijing remained close between 2007 and 2009, not least because China is one of Myanmar's main trading partners and a prime source of armaments and weapons for Myanmar's military.

Regional cooperation

Strategic Outlook

In its transition to democracy and a market-based economy, Myanmar has made no headway. It remains clear that economic changes can only be made after a regime change has taken place and a civilian government has assigned new priorities that are not based on the survival of the military regime. The past few years have also made clear that the military has lost much of its legitimacy and is only able to hold onto power with the threat of violence and repression. Moreover, in order to gain international legitimacy, it has announced its “road map to a disciplined democracy,” which sets the course for parliamentary elections in 2010 and a government under a still-dominant military. Consequently, the State Peace and Development Council (SPDC) will maintain a firm grip on power in 2009 and 2010. However, it will face severe challenges during the period as it pushes ahead with its plan. The SPDC’s primary focus will be on making sure that the elections, which will presumably not be free and fair, go strictly according to the plan. The junta’s aim is to cement a leading role for the military in government – both directly and indirectly – through civilianized military leaders and pro-military parties created to bolster support for the unpopular regime. The pro-military National Unity Party (NUP) has started to make plans for the 2010 elections. In early January 2009, NUP leaders indicated that the party would focus on organizational work ahead of the 2010 elections. Opposition parties will be prevented from gaining a significant share of power. The junta is likely to continue its policy of violence and intimidation against its opponents. As a result, the NLD has not yet decided whether it will participate in the 2010 election, though some ethnic-minority blocs are currently preparing to do so. For example, some Kachin groups are taking the lead and have established provisional political parties to represent their interests. Other ceasefire groups are likely to follow this model.

However, in order to speak of a genuine transition, there must be fundamental changes in basic conditions before a credible process of transformation can even begin. Above all, the military regime has to free its political prisoners, end human rights abuses and allow gradual reforms to take place. For this and other reasons (e.g., long-term mismanagement, the lack of FDI even if there is a transition to democracy and the lack of a formal banking sector), a significant recovery of Myanmar’s failing economy is highly unlikely at the moment. The country can only hope that the windfall of energy profits will continue and that the United States will reconsider its policy of sanctions. In some Western capitals, there has been an acknowledgment that the current sanctions regime does not work and should perhaps be lifted. The past few years have also shown that external pressure on Myanmar only leads to a hardening of the military’s stance. Without these external conditions, Myanmar’s fundamental economic deficiencies (e.g., high inflation and budget and trade deficits) will exacerbate the economic situation.