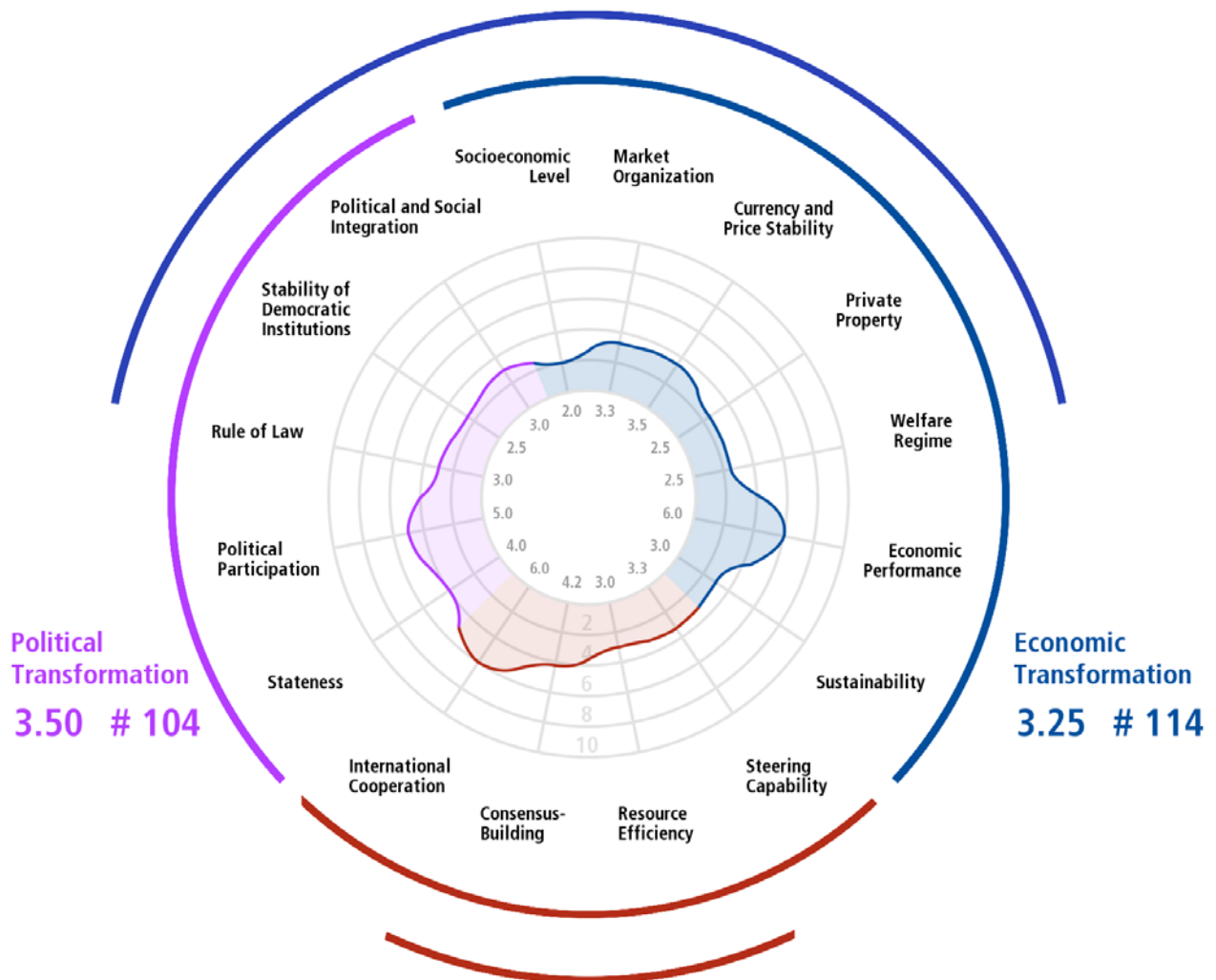


Myanmar

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on 1-10 scale out of 129



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on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	52.9	HDI	0.556	GDP p.c., PPP \$	5773
Pop. growth ¹	% p.a.	0.9	HDI rank of 188	145	Gini Index	38.1
Life expectancy	years	66.4	UN Education Index	0.434	Poverty ³	% 30.2
Urban population	%	34.7	Gender inequality ²	0.374	Aid per capita \$	22.3

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

Myanmar successfully held free elections in November 2015, in which the oppositional National League for Democracy (NLD) under Aung San Suu Kyi won more than 80% of the seats in the country's parliaments. The incumbent Union Solidarity and Development Party (USDP), which mainly consists of former members of the military, suffered a heavy defeat, most of the incumbent USDP politicians were not re-elected. The elections have been widely hailed as free and fair, although problems with the accuracy of voter lists remained and no major political party fielded Muslim candidates. The elections were influenced by the mobilization of ultra-nationalist Buddhist movements, which created a highly intolerant atmosphere and openly campaigned against the NLD. In September 2015, President Thein Sein bowed to pressures from the ultra-nationalist Buddhist Patriotic Association of Myanmar (MaBaTha) and signed the so-called Race and Religion Protection Bills, which advanced an anti-Muslim, ultra-nationalist, Buddhist agenda. Despite these nationalist undertones, the election remained relatively peaceful. The new freedom of movement allowed opposition politicians to move freely; the incumbent USDP did not engage in far-reaching manipulation of the vote count. And, the press was relatively free in the coverage of the elections, although restrictions on the press remain.

The elections advanced an incomplete democratization, incomplete due to the heavy influence of the military in both legislative and executive affairs. The military established the current semi-democratic order and has guided the transition process since 2010. Apart from the 25% representation in the country's parliaments, the military controls the Ministry of Defense, the Minister of Border Affairs and the Minister of Home Affairs – the latter is of particular importance since it controls the appointment of the country's bureaucracy.

The Army Chief of Staff General Min Aung Hlaing congratulated NLD leader Aung San Suu Kyi to her victory and promised to work with her. However, when the parliament – with the votes of the NLD – created the position of State Counselor for Aung San Suu Kyi in April 2016, the military protested against it in parliament, calling it unconstitutional. The NLD was pushed to create a new

position because of the 2008 constitution, which was crafted by the military itself, prohibited Aung San Suu Kyi from becoming president. In the end, Aung San Suu Kyi delivered on her promise to be “above president.” Yet, the military’s reaction underlines the fragile relationship between the government and the military, which remains out of civilian control. Aung San Suu Kyi is forming a cohabitation with the military and promised to make peace a priority. She wants to advance an incomplete peace process. Although the Thein Sein government could sign a so-called National Ceasefire Agreement (NCA) in October 2015, a national peace treaty remains elusive. Only eight ethnic armed groups, most of them small and militarily rather weak, signed the NCA and the largest armed groups refused to sign it. Ethnic groups still control significant parts of the country’s territory and have considerable armies. The USWA claims to have 20,000 fighters under their command and 10,000 militia; the KIA claims to have 15,000 soldiers in arms.

The new NLD government stepped up its efforts to bring lasting peace. During the Union Peace Conference (so-called Panglong 21st Century Conference) in August 2016, all parties promised to work for a peaceful democratic union. However, it became clear that a number of ethnic armed groups will continue to refuse joining the NCA, in part, due to military’s continued offensive.

In economic terms, Myanmar has transformed into one of the fastest-growing economies worldwide. But, it is starting from a very low base. Decades of economic mismanagement and economic isolation had devastating consequences, which have resulted in widespread poverty and economic disparities. Five years of economic reforms under Thein Sein could not overcome this legacy. Aung San Suu Kyi has promised to install a free market economy and bring economic prosperity for the majority of the people, especially for the rural people. She has promised to tackle long-existing problems, such as land-grabbing, corruption and infrastructure. After decades of limited investment, upgrading Myanmar’s infrastructure will remain critical for the country’s future growth.

History and Characteristics of Transformation

Before the start of the liberalization in 2011, Myanmar was ruled by the military for more than five decades. The legacies of authoritarian rule are profound, and the influence of the military remains pervasive. The democratic period 1948 to 1962 was short and characterized by political instability and increasing ethnic conflicts on the country’s periphery. This lured the army into politics. The Communist Party had already gone underground in 1948, the Karen National Union (KNU) fought for independence from January 1949, and a few smaller armies followed in the early 1960s when the U Nu government attempted to make Buddhism the state religion. In 1962, the military under General Ne Win staged a coup under the pretext that its rule was needed to keep the country together. The result was an intensification of conflicts between ethnic armies and the military, which are ongoing in several parts of the country (e.g., Kachin State, Shan State).

After General Ne Win had seized power and toppled the elected government of U Nu, he became the leader of the Revolutionary Council, which ruled the country by fiat until 1974. The

Revolutionary Council under General Ne Win started to implement economic policies that had disastrous consequences for the economy. By the 1980s, the once rich country had become one of the world's least developed. Ne Win embarked on what he termed the "Burmese Way to Socialism," isolating Myanmar internationally and nationalizing all private enterprises. The socialist-military regime remained largely unchallenged until 1988 when growing economic turmoil led to a nationwide uprising and mass demonstrations. The military stepped in, imposing martial law and annulling the 1974 constitution. Approximately 3,000 people were killed in the crackdown on September 18, 1988, and a new junta took over.

Surprisingly, it promised to hold free elections, which took place in May 1990 and resulted in a landslide victory for the National League for Democracy (NLD), under the leadership of Aung San Suu Kyi, which won more than 80% of the seats. Despite the clear results, the military refused to hand over power.

The junta ruled the country for over 20 years with a heavy hand and started to liberalize the political system only after it had managed to install a political system that guaranteed a strong economic and political role for the military in the long-term. The military began to orchestrate the transition to civilian rule from a position of strength. Under the leadership of Senior General Than Shwe, the National Convention, which had begun in 1993 but come to a halt in 1996, reconvened in 2004. In 2008, it completed the drafting of a new constitution, which allowed the military to continue to play a leading role in political affairs. During the past 20 years, repression was high, with more than 2,000 political prisoners and ongoing human rights violations, especially in the areas of the ethnic minorities. Aung San Suu Kyi spent 16 years under house arrest before she was released following tightly controlled elections in November 2010, which the USDP, the military's proxy party, easily won. The result mirrors the unfair playing field since the USDP enjoyed financial support from the regime. Many leading generals had joined the new party. The NLD boycotted the elections due to unfair election laws. After parliament convened in February 2011, Prime Minister Thein Sein, a leading member of the former military junta, became president. In March 2011, the junta dissolved.

President Thein Sein eased repression and military controls. He initiated political, socioeconomic and administrative reforms, released more than 1,000 political prisoners and started a process of reconciliation with the NLD and Aung San Suu Kyi. This government also ended pre-publication censorship and passed new laws that extended associational freedom and enabled the formation of trade unions among others. This liberalization has allowed the country to recalibrate its foreign relations, as the United States and the EU have since withdrawn almost all of their sanctions.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The state's monopoly on the use of force is established only in the Burman heartland and in some parts of the ethnic minority areas. In recent years, the Burmese Army could gain more extensive control over some areas in northern Shan State and Kachin State. However, many ethnic areas, some of them located along the border with China or Thailand, are still controlled by armed ethnic groups. Some of the biggest armed groups are the United Wa State Army (UWSA), and the Kachin Independence Army (KIA), and these still control considerable terrains. The UWSA has around 20,000 soldiers and an estimated 10,000 militia fighters, while the KIA claim to have around 15,000 fighters; the former in the Wa region of Shan State and the latter in Kachin and Shan State.

Under the Thein Sein government (2011 – 2016) a so-called “Nationwide Ceasefire Agreement” (NCA) was signed in October 2015. However, only eight armed ethnic groups – most of them small and militarily rather weak – signed the agreement. A military code of conduct prohibits certain actions in cease-fire areas (attacks, reinforcement, recruitment, new bases, landmines, etc.) and sets out troop deployment. According to the government and military's roadmap, peace negotiations concerning the structure of the state and the political and economic rights of ethnic minorities will take place during political dialog, which is yet to start.

This signing of the NCA has not solved the ongoing ethnic conflict in the country. Seven of the 15 armed groups, which were previously involved in negotiations with the government, declined to sign because the military excluded three other armed groups, with whom some of the non-signatories maintain military and political alliances. Moreover, many ethnic groups still distrust the semi-civilian government and the still powerful military. The military, which acts as a veto player in the peace process, insists that only ethnic groups that have signed the NCA can participate in the upcoming political dialog. Which means that, except for the Karen National Union (KNU) who signed the NCA, all major ethnic armed groups – including the

Question
Score

Monopoly on the
use of force

4

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1

UWSA and the Kachin Independence Organization/Kachin Independence Organization (KIO/KIA) – are thus far excluded from that dialog.

Most groups that signed the NCA are based near the Thai border in Karen State, the southern Shan State, or in the Southeast. In some regions, such as parts of Karen state, their signing consolidated fragile local ceasefires. In areas controlled by non-signatories, the situation continues to be unstable, with regular, sometimes heavy fighting (including between ethnic armed groups). In Kachin State there has been fighting between government forces and the KIO/KIA since 2013, particularly from July to November 2015, and from April to August 2016. In Shan State, major fighting has repeatedly resumed between the Myanmar National Democratic Alliance (MNDAA) troops and government forces in the Kokang Self-Administered Zone since February 2015 and sporadic clashes between government forces and the Ta'ang National Liberation Army (TNLA) have occurred.

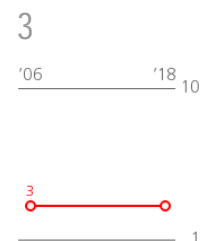
In Rakhine State and Southern Chin State, they have seen some heavy clashes between government forces and the Arakan Army (April 2015, January 2016, April/June 2016).

In spite of positive changes since the installation of the NLD-led government in March 2016 – which made peace and the establishment of new structures for political dialog and conflict resolution, main priorities – four major combatant groups remain persistent in their armed struggle. They have formed the Northern Alliance to counter military offensives and ongoing rights abuses by the Burmese Army. The Northern Alliance includes the Arakan Army, the KIO/KIA, the TNLA and the MNDAA.

The official concept of the nation state revolves around Buddhism, the Burman language and the Burman (or Bamar) ethnic group, which constitutes the biggest ethnic group (roughly two-thirds of the population). In contrast, the inhabitants of the seven ethnic minority states do not support this concept or even reject it openly and have been fighting for the acknowledgment of their language, local customs and sometimes their religion for decades. The text of the NCA formally embraces the diversity of the peoples and cultures in a “secular state” and enshrined the “principles of democracy and federalism.” However, the future political dialog between the government and the various ethnic groups will have to show whether and how this commitment can be translated into practice.

The 1982 Citizenship Law recognizes three kinds of citizens: full citizens, associate citizens and naturalized citizens. Full citizenship is given to those groups whose ancestors lived in the country before British colonization (1823) or who are members of one of Myanmar’s officially recognized 130 ethnic groups. Associate citizens are those citizens who have applied for citizenship before independence. Naturalization is only possible if at least one parent is a citizen. The Citizenship Law denies citizenship for groups who have not settled in the country at the time of independence. The Rohingya (an ethnic minority that adheres to the Muslim faith) are denied

State identity



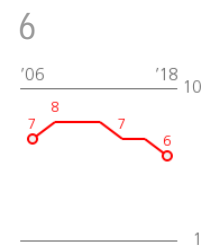
citizenship, because the government considers them as relatively recent migrants from Bangladesh, although many Rohingya can trace their ancestry back to the period before independence, or even before British colonization. Violence against the Rohingya escalated in July 2012, and in autumn 2016, with further outbreaks of violence have happened in between.

Myanmar is officially a secular state. In the last five years, however, there has been growing mobilization by ultra-nationalist Buddhist groups, such as the Patriotic Association of Myanmar (MaBaTha) under the leadership of Buddhist monk Wirathu. The more open atmosphere after the transition allowed MaBaTha to gain traction with an anti-Muslim platform. It held stadium-sized rallies and was tolerated, if not openly supported, by parts of the ruling party USDP. The organization has contributed to creating a climate of fear for Myanmar's Muslims, who have experienced massive violence and have often seen their property damaged. In September 2015, President Thein Sein bowed to pressures from MaBaTha and signed the so-called Protection of Race and Religion bills, which advanced an anti-Muslim, ultra-Buddhist agenda, into law. During the 2015 elections, MaBaTha openly campaigned against the NLD and Aung San Suu Kyi. The whole election campaign carried heavy Buddhist-nationalist undertones. Moreover, Muslims were stripped of their political rights, as no major political party fielded any Muslim candidate.

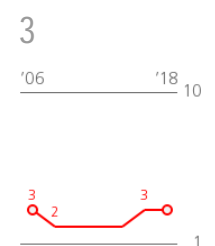
Under the NLD government, the MaBaTha group has become less influential. The Buddhist religious council declared – likely in coordination with the NLD – that it did not recognize MaBaTha in the official Buddhist Order, thereby delegitimizing the group.

The state's administrative system covers central Myanmar. It is weaker outside the heartland and usually nonexistent in the ethnic states, large parts of which are de facto self-governed by ethnic armed groups. Official tax authorities cannot reach many villages even in central Myanmar, and some of these villages lack basic infrastructure, communication, transportation, and do not have access to basic services, such as water, education and health care. The same is true for many villages in the ethnic minority regions. An estimated 80% of the population is without access to sanitation facilities, and 81% is without access to safe drinking water. In many ethnic states, the situation is even worse. With financial and technical assistance of the International Community, the Burmese government has started to reform the bureaucracy and strengthen the weak public infrastructure since 2011. Additionally, local governments and regional parliaments have started to become more actively engaged in local administration. If properly implemented, the reform measures that are underway might help to build up the administrative backbone of the state.

No interference of religious dogmas



Basic administration



2 | Political Participation

The general elections held on November 8, 2015, were widely hailed as free and fair. They resulted in a landslide victory of the oppositional NLD and a near political annihilation of the ruling party.

In the run-up to the elections, there were widespread fears that the Union Election Commission (UEC) would not be neutral. In addition, election observers criticized an over concentration of decision-making powers in the office of the chairman. However, despite these concerns the UEC, for the most, part managed the election process impartially and effectively.

Nevertheless, some issues diminished the quality of the elections. The accuracy of voter lists, for example, was a major source of contention throughout the pre-election period and both political parties and civil society organizations questioned it. Nevertheless, on polling day no voters were turned away or prevented from voting.

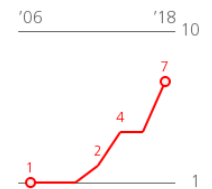
The Election Commission did disqualify some Muslim candidates on the grounds of citizenship. Likewise, all major parties discriminated against Muslims when selecting their candidates. The whole pre-election period was characterized by ultra-nationalist Buddhist rhetoric promoted by extremist groups. Various political parties and observers expressed their concerns about the intermingling of religion and politics, which is officially prohibited in the constitution. Despite these ultra-nationalist Buddhist undertones, however, the campaign period was on the whole free and fair. Violence was an exception on polling day. In areas of ongoing conflict, polling was cancelled, impacting some 600 village tracts. This and the specter of violence in the campaign period marred the otherwise positive atmosphere. To ease tensions, 67 political parties came together to agree on rules for party conduct during campaigning, and local conflict resolution centers were established to debate cases, where parties seemed to have violated these rules. However, often these rules were not known among party officials. Nevertheless, these developments contributed to a peaceful election.

Both the government and the opposition had access to the media. While the state media concentrated in their coverage on the incumbent USDP, the private media primarily reported on the opposition figure of Aung San Suu Kyi (NLD).

The outcome of the election has been described as a seismic power shift. The NLD swept 390 of the 491 seats in both houses of parliament, a resounding 79%. The USDP retained 42 seats, and the Arakan National Party came in a distant third with 22 seats.

Free and fair elections

7



Democratically elected political representatives have limited power to govern. The 2008 constitution grants the military participation in the national leadership of the state, via various channels. First, the military holds 25% of all seats in the country's national and regional parliaments. Since the constitution can only be amended with a quorum of more than 75% of the legislature, this gives the military a veto power over constitutional change. The military used this power in June 2015, when it vetoed a motion to lower the threshold for constitutional change, which would have reduced its veto power.

Second, the military has the direct command of all security-related ministries, which are the Ministry of Border Affairs, the Ministry of Defense and the Ministry of the Interior. The latter is of particular importance since it oversees the state bureaucracy and manages the appointment of civil servants.

Third, the military can use the National Defense and Security Council (NDSC), in which it holds a majority, to strategically steer border policy and the peace process. The council is also empowered to formulate policies regarding certain military and security issues, including the right to petition the President to declare a nationwide state of emergency.

While the 2008 constitution bars the NLD leader (and election winner) Aung San Suu Kyi from assuming the presidency, the parliament – with the votes of the NLD – passed a law that created the powerful position of the State Councilor, which was subsequently assumed by Aung San Suu Kyi. Moreover, Aung San Suu Kyi made it clear that she would be “above the president.” The military objected to this in parliament but did not do anything to prevent it.

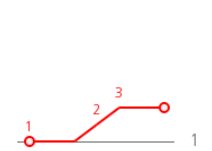
Since Aung San Suu Kyi took over power, she did not reconvene the NDSC. Moreover, she has appointed a new security adviser. All of this might bring the government on a collision course with the military. Suu Kyi must now find a way to govern with the military. The military has announced that it will not abandon its political role as long as there are armed conflicts in the country, which puts Aung San Suu Kyi in a difficult negotiating position, as she attempts to bring about a successful conclusion to the peace process with the ethnic minorities.

The 2008 constitution allows freedom of association and assembly, but only as long as the exercise of these freedoms does not contravene existing security laws. The “Peaceful Assembly Law” (PAL) allows for peaceful demonstrations, but only under strict conditions. Organizers must get the permission of the responsible authorities five days in advance and specify the time, place and reasons for their protest. The law carries a penalty of one year of imprisonment for staging protests without permission. Due to the pressure of democratic forces in parliament, the PAL was amended in March 2014. Public assemblies now require the consent of the authorities, which do

Effective power to govern

3

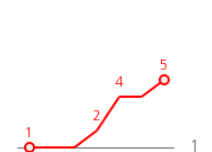
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Association / assembly rights

5

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not have the right to deny these permissions. The penalty has been reduced from one year to six months.

While freedom of assembly and association have clearly expanded in recent years, significant restrictions remain. Both the oppositional NLD and civil society groups have made use of this widened public space to organize protests and assemblies in favor of constitutional change. Protests have become widespread, and students, farmers and workers have made use of their right to protest and air their grievances. The largest and most enduring protests have been the student protests against the new education law in March 2015 and environmental protests against a copper mine in Letpadaung.

However, local authorities often used the PAL to stifle public protest. They have targeted activists, farmers, workers and those organizing around issues including land ownership and resource extraction projects. Since the NLD came to power in early 2016, several social activists and demonstrators have been arrested and are facing trial. The NLD government had to face fierce criticism from civil society activists for these repressive actions.

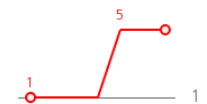
Since 2011, there has been a remarkable relaxation of internet and media controls in Myanmar, along with a steady increase in press freedom. During the 2015 elections, the media had nearly unrestricted access to all districts in the country (except those ethnic areas where fighting was still ongoing).

Yet, Myanmar's media landscape is not completely free. Despite the end of pre-publication censorship and gains in media freedom, the media continues to be closely monitored and older laws dating back to the era of military and even colonial rule are used to stifle the media. For instance, the Telecommunications Law, and the Official Secrets Act of 1932 carry prison sentences for those who disseminate information that can be considered to pose a threat to national security, domestic tranquility or racial harmony. Given that the formulations of many legal restrictions are vague, they can be applied in a wide array of circumstances, including reports on corruption, ethnic politics or reports that portray the military in a negative light. The government has used its powers to suspend press freedom in recent years, whenever it felt these rules to be violated. Criticism of the military, in particular, is considered taboo. Not all of this changed with the election of the NLD government in March 2016. PEN Malaysia reports of 38 journalists, who have been jailed since Aung San Suu Kyi's party took over power. Defamation cases against reporters continue to be made by NLD ministers. Although a revision of the Telecommunication Law is currently being debated in parliament, it seems to be low on the political agenda of the NLD government.

Freedom of
expression

5

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3 | Rule of Law

The 2008 constitution grants the executive particularly broad powers, including the exclusive right to nominate most senior union officials (e.g., Supreme Court justices, the attorney general and one-third of the members of the Constitutional Tribunal). The military is not subject to civilian oversight either from the parliament or from the civilian portion of the executive. Personalities still trump institutions.

Although the system of checks and balances is nascent at best, since 2011, the parliament has become more effectual, and a key agent to reform. Increasingly holding members of the government accountable.

The 2015 election established the NLD as the leading party in the new parliament, which completely changed the constellation of power. As the de facto leader of the NLD, Aung San Suu Kyi coordinates policies in parliament. Moreover, after the military refused to change the constitution to allow Suu Kyi to become president, the parliament passed a law creating the position of the state counselor for her. In this function, Suu Kyi can “advise” both the legislative and the executive, de facto leading to a blurring of the separation between these two powers. Already in the election campaign, Suu Kyi had promised to be “above the president.” She is also the Minister of Foreign Affairs, which guarantees her a seat in the powerful NDSC. This concentration of power in Aung San Suu Kyi is potentially undermining the already limited checks and balances present in the constitution.

The 2008 constitution formally guarantees judicial independence and impartiality of the judiciary. However, decades of military rule have systematically weakened Myanmar’s judiciary and compromised the independence of its legal system and the challenges for the judicial system are immense. A lack of facilities and resources as well as a legal education system – which the military undermined deliberately for three generations – have left their mark on the judicial system. The courts are not yet independent, and the executive maintains strong influence within the judicial system. In addition, the judicial system is fraught with corruption.

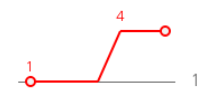
The NLD has committed itself to reforming the judiciary. Its manifesto emphasizes the development of a system of government that will fairly and justly defend all people while establishing and administering a fair and unbiased judicial system. It commits the party to amending and enacting legislation as required for the benefit of the public. It explains that the judiciary must stand independently and on an equal footing with the legislative and executive branches of government.

In a report from 2016, the International Commission of Jurists found that corruption is still endemic in the country and also pervades the legal sector, eroding the public perception of judicial integrity. Over the past three years, a judicial committee in Myanmar’s parliament has received more than 10,000 complaints about the

Separation of powers

4

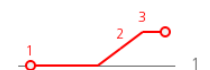
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Independent judiciary

3

'06 '18 10



Prosecution of office abuse

2

dysfunctions of the legal sector, most of them related to alleged corruption. Yet, public actions against high-profile cases remain an exception.

The Anti-Corruption Law of 2013, covers most forms of bribery in the public sector, including active and passive bribery, extortion, attempted corruption and abuse of office. The Law requires all officials in the executive, judicial and legislative branches of the government to declare their assets, allowing penalties for those who do not comply. The Anti-Corruption Law mandates Myanmar's Anti-Corruption Commission to address graft and bribery. The Myanmar Penal Code covers some public-sector bribery offenses, but it is unclear how much the code will be invoked following the introduction of the Anti-Corruption Law. Maximum sentences for corruption offenses are 15 years for persons who hold political power, 10 for civil servants and seven years for all others. Despite these laws, corruption remains widespread as the legal regulations lack enforcement.

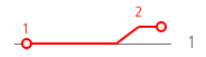
Myanmar's human rights situation remains problematic, although the country has seen significant progress in recent years. A number of political activists have been arrested due to violations of repressive laws, such as the Telecommunication Law. Farmers are also arrested regularly due to protests against land confiscation. The Assistance Association for Political Prisoners in Myanmar provided aid to 194 oppressed political activists at the end of 2016, 86 are on trial for political offenses, and 40 are awaiting trial in prison.

The attempts of the International Labor Organization (ILO) to end forced labor have become significantly more successful in recent years. The government attempted to end forced labor in 2015, although this is a challenge, and pockets of forced labor remain. The army has signed an agreement with the United Nations to end the use of child soldiers in 2012 and to release 745 underage recruits by the end of 2016. However, both ethnic armed groups and the Burmese Military are still using child soldiers.

The poor status of human rights enforcement is illustrated in a high-profile scandal the National Human Rights Commission was involved with in 2016. Instead of properly investigating a case of child abuse and taking proper legal action, the National Human Rights Commission negotiated a financial settlement between two underage girls and factory owners, who had tortured the children. By completely bypassing the appropriate legal channels in the settlement of these torture cases, the Human Rights Commission not only undermined its mandate but also impaired the rule of law. The lower house of parliament and the presidential office initiated a review of the case, and the human rights commissioners stepped down before disciplinary action could be taken. This illustrates the weak framework for civil rights protection in the country.

At the regional level, there are a number of civil rights abuses against religious and ethnic minorities of the country. There are allegations of severe human rights

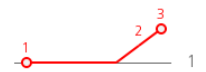
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Civil rights

3

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violations by the Myanmar army in ethnic minority areas and areas of armed conflict in particular, such as forced displacement, extrajudicial killings, systematic rape, etc. Another issue of concern was the disenfranchisement of the Rohingya who are denied citizenship and had their white cards, and hence citizenship was revoked before the 2015 elections.

4 | Stability of Democratic Institutions

With the free and fair elections in November 2015, Myanmar has taken another step toward the establishment of a semi-democratic system under military tutelage. The military exerts significant influence over political decisions at every level of the state, in both the executive and the legislature, and at the national and local levels.

Yet, democratic institutions remain quite weak. Parliamentary activity has strengthened in recent years, though the majority of the NLD parliamentarians elected in 2015 are inexperienced in lawmaking and debating. It remains to be seen whether parliament can develop into a powerful institution or whether it will only be a rubber-stamp.

Whereas the national parliaments could act as an agent of change, the regional parliaments are far less powerful. Most of them acted largely as rubber-stamps for the regional government, signing off on budget request and bills, and ignoring widespread complaints about unpopular projects. Scrutiny is minimal and brought to bear by only a handful of the members of parliament. In contrast to the national level, the chief minister (in the regions) are appointed by the president of the central state and are accountable predominantly to him. Regional parliaments are unable to reject the president's choice.

Additionally, there were local elections in January 2016, but administrators were selected by household leaders instead of popular elections. Therefore, there are no democratic institutions at the local level, and village tract administrators perform more administrative than political roles.

During the 2015 elections, the NLD campaigned for far-reaching changes including full-fledged democratization, and a reduction of the military's role in politics, whereas the USDP under Thein Sein campaigned for keeping the status quo. The huge election victory for the NLD gives the party broad popular legitimacy and can be seen as being reflective of a widespread popular desire to further democratize the political system.

However, the military sees itself as guardian of the "discipline-flourishing democracy." In 2014, it blocked a motion in parliament to reduce the military's role. Although military commander Min Aung Hlaing accepted the election outcome and congratulated NLD leader Aung San Suu Kyi, he also made it clear that the army's

Performance of democratic institutions

2

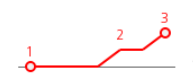
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Commitment to democratic institutions

3

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role will not be changed in the short term. In an interview with the Washington Post, he emphasized that a longer period of stability and peace is a necessary precondition for the military's withdrawal from politics.

The military also seems to be of the opinion that the democratization process in certain respects has gone too far already. In October 2014, the military group in parliament proposed an enhanced role for the NDSC. The military wanted the body to be able to dissolve parliament under certain circumstances. Parliamentarians from other parties blocked the motion. The military is also not comfortable with the growing number of protests against military projects, often triggered by the military appropriating lands. These incidents show the dissatisfaction of parts of the military with the semi-democratic order.

5 | Political and Social Integration

The party system is characterized both by the antagonism between the military-sponsored USDP and the NLD, which used to be the major opposition party from 1990 to 2015 and the existence of a large number of small ethnic parties.

The USDP and the NLD are parties that are active union-wide, drawing electoral support, membership and organizational resources from areas all around the country. Both parties also have branch offices in most townships. Nevertheless, both the USDP and the NLD are weak institutions and prone to factionalism. Moreover, both parties are highly hierarchical with regard to their internal structures, limiting their ability to aggregate and represent social interests. The USDP – a party, consisting predominantly of former military representatives, established in 2010 – was paralyzed by a leadership struggle between President Thein and Party Chief Shwe Mann in 2015. The party could only gain 30 seats in the house of representatives.

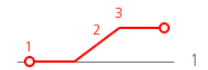
The NLD is dominated by its leader, Aung San Suu Kyi, who is keeping the party together with firm leadership and personal rule. She selected the central committee of the NLD herself. Reportedly, she also personally selected the candidates for the 2015 elections. The NLD could win a landslide with 255 seats in the house of representatives.

In addition, there are many smaller ethnic political parties. Only a few of these have won seats in the national parliament or can be considered strong in the “states” or “special administrative zones,” where their ethnic constituencies form a majority. The most successful ethnic parties in the 2015 elections were the Arakan National Party (ANP), with 12 seats, and the Shan Nationalities League for Democracy (SNLD). Other ethnic parties secured only a small number of seats, like the Pao National Organization, with three seats; the Ta’ang National Party, with three seats; Lisu National Development Party, also with three seats; the Zomi Congress for

Party system

3

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Democracy. The Kachin State Democracy Party, the Kokang Democracy and Unity Party and the Wa Democratic Party secured only one seat each.

The spectrum of interest groups working within the country has clearly broadened since the political opening. There are no official statistics on the number of active NGOs in Myanmar. Some estimate that the number of NGOs is as high as 10,000 although many of them are not registered. The new Association Law, which was written with the input from civil society organizations and passed by parliament in July 2014, gives interest groups room to organize without many restrictions. It provides voluntary registration procedures for local and international NGOs and contains no clauses that might lead to criminal persecution.

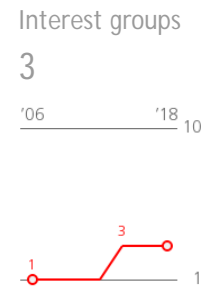
Despite progress in the legal environment, NGOs still face enormous challenges in terms of capacities and finances. The huge run of foreign donors on NGOs and their staff leads to bottlenecks. Moreover, on the local level, activists and NGOs still face hurdles from the authorities. Some interest groups, such as lawyer networks (bar associations), farmer groups or students, etc. face resistance and pressure from local authorities.

Traditional civil society organizations are often religious-based and provide support for funerals and family or community emergencies. In ethnic areas, civil society organizations often have connections to the ethnic armed organizations and help to bring peace. They have conducted peace related trainings, organized consultations on the peace process and participated in cease-fire monitoring.

Despite this, there are a number of challenges for civil society in the areas of ethnic minorities. These include the legacy of military rule, which has influenced civil society's willingness to engage directly in political arenas. There is a lack of communication and coordination between non-state armed organizations and civil society. Also, there is tremendous mistrust among all stakeholders.

While the NGO sector has been pretty vibrant in recent years, other interest groups could also gain room to organize and lobby for their interests. However, most business organizations are either formed by the government or heavily dominated by "cronies" of the former military regime. They hardly reach out to all businesses in their field, restricting interest group representation. While the NGO sector has seen a number of alliances, business associations are still hesitant to work with NGOs.

The Data from the first round of the Asian Barometer Survey (ABS) 2015 reveals that Myanmar's citizens are strong proponents of democracy, but the majority of them do not hold liberal values that underpin these democratic systems. However, 72% agree that democracy is the most preferred system. When asked if democracy, despite its problems, "is still the best form of government," 90 % of Myanmar's respondents agreed. Nearly as many (89 %) opine that "democracy is capable of solving the problems of their society." Not only do citizens place considerable faith in democracy



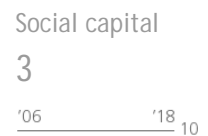
Approval of democracy
n/a

as a form of government, but they also have a healthy notion of what democracy means. The results of the 2015 elections were in line with the strong popular support for democracy indicated in the ABS responses, as Myanmar’s citizens rejected continued rule by the military and its USDP proxy party.

At the same time, the ABS data indicate a lack of liberal values, compounded by a lack of understanding of how democracies work. For instance, 72% of the respondents believe that the legislature should not place checks on the government and reject notions of horizontal accountability. Instead, traditional values are still widespread. Respondents emphatically rejected a secular state, with 83% supporting a consultative role in lawmaking for religious leaders, and 81% supporting a direct link between religion and citizenship. Given these results, the outlook for a stable democracy based on equality and inclusion are rather bleak.

The 2014 Asia Foundation survey conveys that social trust is especially low, and political disagreements are deeply polarizing. 77% of all respondents believed that most people cannot be trusted (71% in the states, 80% in the regions). The picture improved when respondents were asked whether most people in their neighborhood could be trusted, with 56% agreeing strongly, or somewhat, that most people can be trusted, and 43% disagreeing. The survey results hence point to low social capital in society, which has experienced around fifty years of fighting between the central government and various armed ethnic groups.

Myanmar’s civil society has a huge number of traditional self-help groups centered on Buddhist monasteries and faith-based, groups and ethnic networks have long existed in rural Myanmar and in ethnic minority areas in particular. However, these ethnic and religious divisions are limiting the formation of social capital. Moreover, the current liberalization has seen a flourishing of hate speech and religious intolerance toward Muslims, which reflects the lack of trust in a multi-religious community.



II. Economic Transformation

6 | Level of Socioeconomic Development

Myanmar remains one of the world’s least developed countries. In UNDP’s Human Development Index ranked the country 148th out of 187, with the lowest value in Southeast Asia. Moreover, Myanmar has the highest poverty rate in Southeast Asia. According to official publications of 2016, 25.6% live below the national poverty line. Poverty is twice as high in rural areas where 70% of the population lives. The

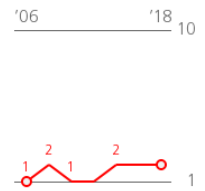
Question
Score

Socioeconomic
barriers
2

remote areas, mainly populated by Myanmar's ethnic minority groups, and areas emerging from conflict are particularly poor.

In addition, as a result of decades of armed conflict, military rule and – since the 1990s – military-dominated “predatory capitalism,” horizontal inequality (between ethnic groups) and vertical inequality (between members of the military elite and their civilian cronies on the one hand and the rest of the impoverished Myanmar population on the other hand) is presumably high, although reliable data is almost nonexistent and the reliability of published data remains questionable.

Undernutrition rates continue to be among the highest in Southeast Asia. More than 35% of children in Myanmar show signs of stunted growth caused by chronic malnutrition, while 8% are acutely malnourished. Serious disasters affect food security regularly. In 2015, floods and landslides affected 1.7 million people and destroyed more than 500,000 hectares of rice fields and killed more than 250,000 livestock. Coupled with food insecurity, only about half of school age children complete their primary education.



Economic indicators		2013	2014	2015	2016
GDP	\$ M	60132.9	65574.7	62600.9	67429.6
GDP growth	%	8.4	8.0	7.3	6.5
Inflation (CPI)	%	5.5	5.5	10.8	-
Unemployment	%	0.8	0.8	0.8	0.8
Foreign direct investment	% of GDP	3.7	3.3	6.5	4.9
Export growth	%	96.5	18.2	20.7	-
Import growth	%	99.5	33.5	36.7	-
Current account balance	\$ M	-388.6	-1897.3	-2493.8	-
Public debt	% of GDP	33.2	29.9	34.9	36.4
External debt	\$ M	7251.2	6266.0	6657.4	6453.0
Total debt service	\$ M	67.1	62.0	76.2	100.0

Economic indicators		2013	2014	2015	2016
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	-	-	-	-
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	0.8	1.0	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	3.8	3.6	4.1	-

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

In the late 1980s, the then military regime officially abandoned socialism and introduced a market economy. Despite this rhetorical commitment, the economy remained controlled by the state (or, more precisely, the military), which restrained market-based competition. Since 1989, the military has initiated a series of large-scale privatizations, such as the 2009/2010 privatizations, when over 300 state-owned enterprises, including major airlines, ports, mines, factories, were transferred directly to cronies of the regime or military conglomerates, which continue to control substantial parts of the economy. Structures of “crony capitalism” continue to exist, and the current politico-economic structure is best characterized as an oligarchy. The political liberalization since 2011 also entailed a number of economic reforms, which were enacted to attract Foreign Direct Investment. Export Taxes were lowered, and restrictions on financial services were eased. In 2012, the country ended its grossly overvalued foreign exchange system, which had been in place for 35 years, and floated the Myanmar Kyat. In 2013, the central bank was separated from the Finance Ministry and formally granted functional autonomy. In practice, however, the central bank still lacks independence (see further 7.4). The kyat is used increasingly, although the dollar is still in circulation. New policies have been enacted that relax the previously strict trading rules by opening certain sectors up to foreign participation. Investment permits with corresponding incentives and benefits are also issued under the 2012 Myanmar Foreign Investment Law, as well as investment permits issued under the 2014 Special Economic Zone (SEZ) Law. In 2015, Myanmar wrote its first competition law, which will come into effect in 2017. A revised Foreign Investment Law came into force in 2016, which is supposed to improve the investment climate and will come into effect in April 2017. According to the Heritage Foundation’s Economic Freedom Index, Myanmar is ranked as a “mostly unfree”

Market-based competition

3

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country. This is already an improvement over the last few years, when it falls into the lower category of “repressive”. Significant obstacles for market competition remain.

The NLD government has promised in mid-2016 to support competition and a vibrant private sector. It aims to practice a market-oriented system in every sector, cut unnecessary red tape, dilute the power of mono-policies and expand access to credit. At the same time, the economic policy agenda of the new NLD government remains rather vague and confined to a rudimentary 12-point-program that the party published as late as July 2016.

While reliable figures are lacking, the informal sector is estimated to be extensive.

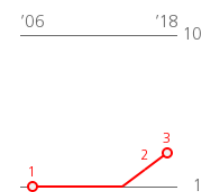
Myanmar’s Competition Law, passed on February 24, 2015, aims to prevent trade monopolies, market control and unfair competition by businesses – activities that are deemed to be inconsistent with the state policy of promoting a free and fair competitive commercial environment. The Competition Law authorizes the establishment of a Competition Commission, which shall be responsible for implementing rules and regulations promoting fair competition. The law also envisions the creation of an investigation committee that shall be responsible for investigating and imposing penalties and fines on businesses that are found to violate of the law. Judging from the scope of the Law and the serious penalties laid out in it for any breach, it seems as Myanmar tries to follow the example of strong antitrust regimes in the region, such as Malaysia and Singapore. In view of the de facto existence of strong oligarchical structures, it remains to be seen, however, whether and to what extent the law will actually be enforced. While the law was issued in early 2015, the president has designated the law to come into force in February 2017 only. The Myanmar Competition Commission, to be tasked with handling matters of cartel conduct, has not yet been formed.

Myanmar has been a Member of the World Trade Organization (WTO) since 1995. At the same time, however, the country has been isolated from a large part of the global economy for many years. The government adopted measures to open up the economy only since 2011. Under President Thein Sein, the country has been revising trade-related legislation. Recognizing that the country needs foreign capital and technology for sustainable development in the future, the government started to liberalize its highly controlled economy. The external environment has improved with the United States and the EU lifting most of their economic sanctions. Myanmar is now much more integrated into the global economy than before.

The country promulgated the new Foreign Direct Investment Law in 2016 and liberalized external trade. This entailed the abolition of the powerful and restrictive Trade Council, reducing export tax, relaxing the licensing system for external trade and allowing the private sector to engage in hitherto restricted trading areas such as construction materials, motor vehicles, cooking oil and fuel imports. The new investment policy announced in November 2016 and implemented in April 2017

Anti-monopoly policy

3



Liberalization of foreign trade

4



gives tax exemptions in certain priority sectors, for instance agriculture and labor-intensive industries and infrastructure. Except for large-scale investments, a permit by the Investment Commission is no longer needed.

A WTO member, the country has an official tariff figure that is low on paper. The average applied MFN tariff was 5.6% in 2016, about the same as in 1996 and slightly lower than in 2008. However, non-tariff measures seem to be significant, since import and export licenses are considered case by case with apparent corruption in the process. Import and export taxes are also high. Certain import items are still limited to shield the local market, for instance some agricultural products.

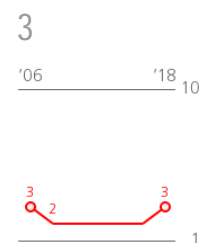
Myanmar did not have a functioning financial system during the time and in the immediate aftermath of military rule, and supervision rules are still underdeveloped and poorly enforced. Former President Thein Sein's reforms have put critical legislative foundations in place, technologies and other innovations have advanced. Under the guidance of the International Monetary Fund (IMF), the World Bank and a number of bilateral donors, the government enacted a number of laws that have strengthened the banking system. A new managed floating exchange rate has been established and foreign exchange restrictions have been eased (with the Foreign Exchange Management Law 2012). The central bank Law 2013 has confirmed the Independence of the central bank and thus broadened the scope of responsibility to include monetary and foreign exchange policies.

Despite the establishment of the legal framework, the banking system is still in its infancy: the four state-owned banks are still dominating it, ten semi-official and 14 private banks were allowed to operate since 2011. Moreover, foreign banks have been allowed to enter the market as well. Since 2014, 13 foreign banks are operating inside the country. However, they are limited in their operations to foreign investors and domestic banks and are allowed to have one branch only. On the whole, the banking system remains small and unable to provide the required financing to support fast paced economic growth.

At the end of 2015 the Myanmar stock market opened, but at the end of 2016 only four companies are listed: First Myanmar Investment (FMI), Myanmar Thilawa Special Economic Zone Holdings (MTSH), Myanmar Citizens Bank (MCB), and First Private Bank (FPB). Their shares have been shaky in the first years.

Since the whole banking system is in its infancy, the authorities consider that banks have not been exposed to serious non-performing loans (NPL).

Banking system



8 | Currency and Price Stability

In 2013, Myanmar's central bank was separated from the finance ministry and a new law formally gave it autonomy to act independently. The central bank is responsible for Myanmar's managed floating exchange rate that the regime introduced in 2012. Under these arrangements, a daily auction is held by the central bank among the commercial banks to determine a reference rate for the kyat against the U.S. dollar. De facto, however, the degree of autonomy is still low. In June 2015, for instance, the president's office stepped in to coordinate the dollar-kyat exchange and to react to a loss of the kyat against the dollar – a move that was heavily criticized by businesspeople and economists. The move illustrated the central bank's lack of regulatory powers and weakness in financial policy-making. Another reason is the lack of human capital and economic expertise at this level. Often the bank's decision-making seems to be guided either by the government or institutions like the IMF or the World Bank. Political interference is still considered high. In their economic manifesto, the NLD has promised to step up the central banks autonomy.

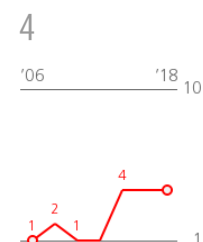
The main objective of monetary policy is price stability. Inflation increased to an average 5.9 in 2014, 11.4 in 2015. The drivers were primarily the dropout of agricultural products due to heavy flooding in June 2015.

The new NLD government has not yet devised or implemented any fiscal or debt policies to promote macroeconomic policies at this time. However, in mid-2016, the government presented a 12-point economic program which aims to, among other things, strengthen financial management and work on fiscal prudence and macroeconomic stability.

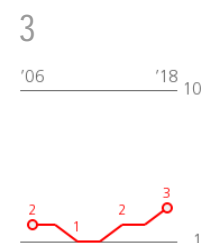
An overarching priority for the new administration is to further strengthen the clarity, communication and credibility of economic policies. The government also plans to tackle smuggling and to “fully account for Myanmar's foreign exchange earnings,” especially from the sale of natural resources, streamline the tax system to boost public revenues, and develop capital and money markets to help finance the growing budget deficit, which is expected to reach K3.76 trillion by the end of this financial year. The public-sector deficit in 2015 to 2016 increased to 3.2% of GDP compared to 1.1% the previous year and is expected to grow further to 4.5% of GDP in 2016 to 2017. The government cut spending while trying to maintain support to priority areas such as education and health. The budget for 2017 to 2018, which was passed on March 15, 2017, entails budget cuts of around MMK300 billion, which affects planned and existing projects by the ministry of industry among others. With nearly 14% of the total budget, the defense budget remained untouched and equaled the share of the budget for health and education combined (together, 13%).

The current account deficit is projected to expand further over the medium-term due to a combination of slowing gas exports, slowing demand in China and large

Anti-inflation /
forex policy



Macrostability



investment-related import needs. However, strong foreign direct investment (FDI) flows are projected to remain a stable source of financing for the overall balance of payments, and its deficit should thus moderate in 2016/17.

9 | Private Property

The protection of property rights is still weak or nonexistent. On the one hand, the constitution recognizes the right to private land property; on the other hand, it also enshrines that the “ultimate owner” of all lands and natural resources is the state in Article 37). This means that citizens can own land, but that the state can confiscate the property if it so desires. Most ordinary people do not have legal ties to their land or other property. The military has confiscated many private plots for government projects, including the establishment of military camps, government buildings, agrarian projects, and industrial zones (etc.), and also for private use by former military personnel, usually without providing adequate compensation. According to findings by the Farmland Investigation Commission, a parliamentary commission set up in 2012 to investigate the problem, the military had confiscated 247,077 acres (almost 100,000 hectares) of land. The commission recommended that land which had not yet been developed by the military be returned to farmers. In February 2014, the military announced a commitment to return 154,116 acres of land to its original owners. Yet, in practice, it remains to be seen whether this will happen. The NLD pledged to address the problem of the military appropriation of land during the election campaign, and since taking office has set up a task force aimed at resolving land disputes within 12 months.

Myanmar was included for the first time in the World Bank’s Doing Business Report in 2013 and has improved from ranked 182nd out of 189, to 170 in 2017.

The past half-decade has seen numerous rounds of privatizations. Yet, all have been highly opaque, and often either military cronies or military companies have benefitted from this process. For instance, most of the heavy industries owned by the Ministry of Industry have been transferred to the military conglomerate Myanmar Economic Company (MEC). Even shortly before the handover of power to the NLD government at the end of February 2016, another round of privatization spurred the anger of the NLD parliamentarians. The NLD openly criticized the government’s handling of these privatizations schemes.

Both the Thein Sein government and the NLD government have stressed the importance of SMEs for the creation of employment and income. The SME Law of 2015 aimed at improving human resource development and boosting technological innovations. Large parts of SMEs are informal entities, most of them are family-owned or related to self-employment.

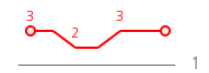
Property rights
2

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Private enterprise
3

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10 | Welfare Regime

Until the recent reform period, the social safety net was thin and social protection coverage was very limited in terms of both legal and effective coverage. The country's social security system was organized around two different schemes – the pension scheme for civil servants and a social security scheme, which is supposed to cover formal employment in the private sector. The first scheme is managed by the

Ministry of Finance and is a pension scheme for civil servants. The second scheme came into effect in 1956 and includes coverage in the cases of death of the breadwinner, employment injury, sickness and maternity, but also free medical care to contributors in the social security board's health care facilities. However, the combined coverage of both schemes is extremely thin, protecting less than two million persons.

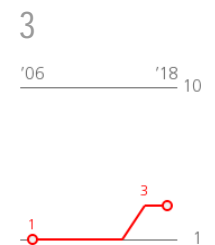
Under President Thein Sein social policies started figure more prominently in public policy discussions. The government passed a new Social Security Law in 2012, which came into effect in April 2014. The law provides for cash benefits of up to 60% of a worker's salary in case of illness or maternity. Money for funeral arrangements will be increased by one to five times of a worker's salary. Retirement benefits under the new scheme have also seen a boost.

In 2015, the government adopted a strategy that attempts to provide a social safety net for all its citizens for the first time. The government presented the Social Protection Strategic Plan, which aims to gradually phase in eight flagship social protection programs over the next 10 years. They aim to provide cash allowances to pregnant women and children up to age two, gradually extend those allowances to older children, provide cash allowances to people with disabilities, administer school nutrition programs, implement public employment and vocational education programs, introduce social pensions, establish self-help groups for the elderly, and provide integrated social protection services.

The Thein Sein Government increased social spending, albeit from a very modest level. Although the expenses for health have been doubled, they still make up around 4% of the national budget in 2015/2016. In the recent 2017 – 2018 budget the share of health and education combined amounts to 13%. Military expenses are still 13% of the national budget.

It is not clear what the NLD priorities will be in terms of social security. The NLD party manifesto was patchy in this respect and also the inaugural address by President Kyaw provided only a few clues to what his priorities are, regarding social security.

Social safety nets



The social status of women is traditionally high, and the country has a number of prominent politicians and intellectuals influencing public debates (Aung San Suu Kyi, Nita Yin May and Dr. Ma Thida). Women represent nearly half of the labor force (49.8%) and formally have the same chances in education. Nevertheless, the literacy rate, which is 92% among those aged 15 to 24, is higher for men (95%) than for women (90%). Women also attend university less often than men. Moreover, women are much more vulnerable in the war-torn areas of the ethnic communities, which is visible in the high rates of human trafficking, rape and forced prostitution.

The 2015 general elections drastically improved the representation of women in political office, with a significant increase both in the number of women who contested seats and the number of women who were ultimately elected to office. The number of women parliamentarians in the new parliament has increased to 14.5% of all elected parliamentarians in the new Union Parliament and to 12.5% at the state and region parliaments.

Ethnic minorities face severe de facto discrimination. They have less access to higher education, particularly in engineering and medicine, since these universities are concentrated in Yangon. Since 2014, ethnic minority languages are taught in primary schools. Especially minorities such as Muslims and Rohingya as well as Karen face even harder discrimination and sometimes suffer from brutal violations of their rights because of their minority status.

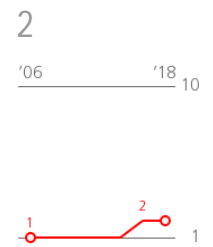
The most glaring case of discrimination is the legal and political discrimination of the Rohingya minority, who have been denied citizenship, seen their rights of free movement severely restricted and, been subject to severe human rights violations, which have amounted to ethnic cleansing (especially in 2012 and late 2016). Members of the Rohingya community are also denied access to higher education. The Myanmar Race and Religion Protection Laws (2015) codify severe forms of discrimination against the wider Muslim minority, restricting their rights to free marriage, the choice to have children, etc.

11 | Economic Performance

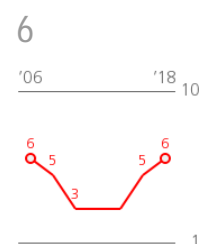
Myanmar has transformed from a notorious economic underachiever into one of the ten fastest growing economies worldwide. Since the start of the reform period in 2011, Myanmar has steadily achieved an economic growth above 5%. In 2011, GDP growth was 5.4%, in 2012, 7.3%, in 2013, GDP growth was at 8.5% and it decreased to a growth of 7.4% in 2014.

In 2015/2016, the economy grew at a healthy pace of 7.3%, despite massive floods after Cyclone Komen in July 2015 and a weak external environment. Taking into account sluggish activity in the first half of the year 2015, economists predict a slower growth for 2016/2017. The slowdown is largely associated with a temporary halt in

Equal opportunity



Output strength



construction projects in Yangon – which accounts for more than 20% of the country’s economic activity – for regulatory compliance purposes. The growth of agricultural production was also softer than expected, disappointing predictions of a rebound from last year’s floods, while the suspension of investment approvals by the Myanmar Investment Commission (MIC) earlier in the year contributed to the slowdown. At the same time, the external environment has been somewhat unfavorable due to slowing demand from major trading partners (e.g., China) and significant natural gas and other commodity price declines in 2015 to 2016.

On a per capita, basis GDP fell slightly from \$1,118 in 2011/12, according to IMF data, to \$1,100 in 2012/13, before rising again to \$1,112 in 2013/14 and then to a provisional level of \$1,228 in 2014/15. The IMF foresees continued per capita GDP growth in the coming years, with the fund forecasting a rate of \$1,269 in 2015/16, \$1,364 in 2016/17 and \$1,502 in 2017/18. These figures put Myanmar at the lower end of per capita GDP in Southeast and South Asia as a whole, according to the IMF. Nonetheless, a small, but growing, middle-class population and changing consumer habits have become more visible in Myanmar.

Foreign investment has increased tremendously since 2011. Having reached a record \$9.5 billion worth in FY 2015/16, foreign direct investment (FDI) decreased by 65% year-on-year (y-o-y) to \$3.3 billion in December, according to the Directorate of Investment and Company Administration. However, FDI is widely expected to make a strong return to growth in response to the lifting of additional United States sanctions in the second half of 2016 and growing interest from China. Altogether, natural resources still account for one-third of foreign investment. Both the Thein Sein government and the NLD have sought to encourage investments in labor-intensive sectors, such as the textile industry. However, such investments have been slow to materialize, owing to investors having a lack of confidence in the existing legal framework and global competition from other low wage countries, such as Bangladesh.

Falling growth and falling investments have also contributed to an overall balance of payments deficit in 2015/2016 (0.7% of GDP) and low foreign exchange reserves (2.5 months of imports in March 2016).

Due to election uncertainties and floods in the agricultural sector, inflation, which has been contained to an average 5.5% in 2013 and 2014, increased to 10.8%.

12 | Sustainability

Natural resource sectors, such as forestry, agriculture, fisheries and mining have played critical roles in the development and economic transformation of the country. Serious environmental problems have emerged as a result, such as deforestation, increased pollution, overfishing, environmental degradation due to mining, etc.

Environmental
policy

3

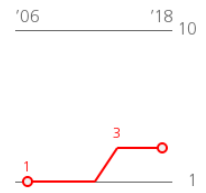
Recent data reveal a rate of deforestation that is the highest among major Southeast Asian countries. The country's main environmental laws and policy statements (Environment Conservation Law 2012, Agenda 21 and Agenda 2030 commitments) embrace the goal of establishing a balance between environmental protection and economic growth. However, Myanmar has yet to take broader steps to protect its natural resources. The lack of a comprehensive institutional and legal structure, expertise and greater capacity for natural resource management and funding remain challenges.

Myanmar ranks 153 out of 180 in the 2016 Environmental Performance Index, which ranks countries based on 22 performance indicators in policy categories such as air and water pollution next to impacts on agriculture, fisheries and forests. Myanmar is thus among the world's least developed countries with regard to environmental management and regulation. The national board that compiled the survey for Myanmar has identified seven principal environmental concerns: illegal logging, increased pollution of water (and soil erosion), a decline of fertility, increased emission of greenhouse gases, inadequate solid waste management, impacts of the mining industry and threats to biodiversity.

The Thein Sein government has strengthened the institutional base for policy making by creating an Environmental Ministry, in 2011. A new Environmental Conservation Law was passed and in 2012. In 2013, the government issued a new policy, according to which Environmental Impact Assessments are mandatory for both local investments and FDI. However, these assessments are difficult to implement, since currently, the authorities do not have the required resources and expertise to proceed as well as due to widespread corruption. Information management systems are not up to date, and the necessary environmental data is often either nonexistent or not accessible to support decision-making.

In April 2014, Myanmar officially banned the export of raw timber logs to slow deforestation and boost its production. The NLD government has extended the ban for 2016, into 2017. The NLD's election manifesto pledges to undertake a range of environmental protection measures. However, in light of the existing capacity shortages and extensive corruption, it is questionable whether these measures can be implemented. Moreover, general environmental awareness remains low and politicians, as well as local companies, are often not sufficiently aware of the impact of their activities.

The country's education system, once one of the best in the region, crumbled under decades of military rule. Because anti-government demonstrations often begun on university campuses, the military regime resorted to shutting down universities, often for several years at once (in the 1990s). The whole education sector has seen decades of neglect. Accordingly, quality and competitiveness are low, and there is no significant national R&D sector.

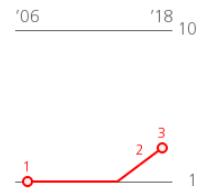


Education policy /
R&D
3

In 2011, the Thein Sein government started a Comprehensive Education Sector Review (CESR), which is a three-phase initiative to rebuild Myanmar's education network. Currently in its third phase, the CESR was initially scheduled to be completed by the end of 2014, but it has encountered some delays, particularly regarding the reform of education laws.

Parliament passed a new education law in September 2014, which grants universities considerable autonomy over their own affairs but following student protests, a new bill was signed by President Thein Sein in June 2015. Although it adopted some of the requested demands of the student protestors, such as the recognition of student unions and the teaching of ethnic languages, it still failed to address some of the key issues, such as the demand that the education budget be increased to 20% of the national budget within five years. The new bill stated that the 20% mark will be a goal, but gave no indication over the time frame.

In an effort to bolster the development of the education system, spending significantly increased during the tenure of President, Thein Sein (2010 – 2015). The latest increase in funding has been earmarked to employ an additional 50,000 teachers, while the free education system launched in recent years has been extended to higher education to assist in the drive to expand the number of graduates entering the workplace. The budget increase will also be allocated to university stipends and scholarships, as well as supplementing fees at technical institutions. The NLD government has made education reforms the cornerstone of its program but it is too early to evaluate if this is followed by a sustainable reform strategy in the education sector.



Governance

I. Level of Difficulty

The structural constraints on governance are very high. Poverty rates are high throughout the country, and education levels are very low. The educated workforce is small, and the administrative capacity of the bureaucracy to tackle these problems is very weak. Infrastructure is inadequate, as the national transport network (road and railway) is outdated and access to electricity is insufficient, although car and railroad networks were extended and electricity coverage increased over the past half-decade. According to government data, the length of total road networks increased by 24% from 2010/11 to 2015/16, and railway networks also increased to 73%. In addition, access to electricity increased from 27% in 2011 to 34% in 2015 among all households.

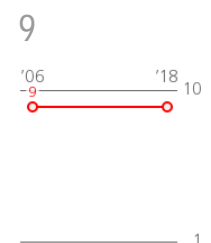
The rate of HIV prevalence among the population is approximately 1% to 2%, which requires policy commitment to managing and reducing the disease but is well below the scale of some of the hardest-hit countries in Africa. However, Myanmar still has high incidences of malaria and tuberculosis.

While structural constraints on governance are extremely high, the current political and economic opening brings the additional challenge of an overflow of demands from foreign donors and international civil society organizations, who want to assist in the current transformation. Moreover, the current opening raises expectation of the general population, who expect sudden change within a short span of time.

In addition, several areas of Myanmar play an instrumental role in the country's food security. Especially the coastal areas and the Irrawaddy Delta, as shown by Cyclone Nargis in 2008 and the 2015 floods.

Although there was some civic engagement by student and labor unions under the democratic government in the 1950s, the government still tried to set up its own unions to control such movements. After the military takeover in 1962, all independent civil society organizations were outlawed. Only traditional civil society organizations, often religious-based and centered around monasteries, pagodas or churches, survived. In the 1990s, room for civil society existed only in areas of limited state control, such as the education and health sectors or in the ethnic regions, where civil society organizations were helping local ethnic communities. Over the

Structural
constraints



Civil society
traditions

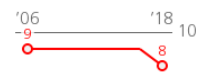
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last decade, this has clearly changed. Many local community organizations and NGOs have been formed in the wake of the cyclone Nargis in 2008, to address local social and economic problems. The opening since 2011 has seen an immense growth of civil society organizations, which have started to influence the policy-making process, are actively criticizing the government, advocating political parties and parliamentary representation. In nearly every sector (e.g., education, environment, land, civil military relations), civil society organizations are active and are now involved in various steps of policy-making. Some have started to reach out into the states and provinces. For instance, during the Myanmar EITI process, civil society organizations formed as a watchdog organization to control local level politicians and bureaucrats. However, most of them are uncoordinated and still working on their own organizational development. Due to the long history of authoritarian rule and suppression by the authorities, trust both between civil society actors themselves and between civil society and the government actors is a major issue, especially in conflict areas and in ethnic-minority areas. Civil society was and is much divided along ethnic, political and religious lines which makes it very difficult to build social capital.

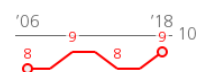
Since 1948, various armed ethnic groups have waged war against the government for autonomy in their ethnic areas. Although the military regime forged ceasefires with more than a dozen armies, no significant concessions to the ethnic groups were made under military rule. The ceasefires called by General Khin Nyunt in the 1990s were so-called “gentlemen’s agreements” allowing the armed ethnic groups a certain control over their territory in exchange for ending open military confrontation. Between 2009 and 2011, the military ordered ethnic groups that had signed ceasefires to transform into border guard forces under the Myanmar military’s control. While a handful of small and militarily rather weak ethnic groups accepted the border guard proposal, the largest groups refused to lay down their weapons, and many ceasefires collapsed, so that ethnic conflicts escalated.

In 2011, the government of Thein Sein started a new peace initiative, which culminated in the signing of the NCA in October 2015. However, the NCA was only signed by eight out of 21 recognized Ethnic Armed Organizations. Most of these eight groups were rather small and lacked military capacity. The most powerful ethnic armed groups abstained. In addition, the NCA is not a peace treaty. Following the government and military’s stance, proper peace negotiations – concerning issues of ethnic autonomy, disarmament, the question of federalism, etc. – can be held only during the envisaged political dialog. In the last years, however, the beginning of the political dialog has been continuously postponed.

Since 2011, there has also been open armed conflict between the Myanmar army and the KIO/KIA in Kachin State and parts of Shan State. Moreover, the situation in Rakhine State deteriorated further. Long-simmering religious conflicts between Buddhist Rakhine and Muslim Rakhine led to clashes in October 2012, which left



Conflict intensity
9



Conflict intensity
9

almost 200 people dead and approximately 140,000 displaced. The origins of this religious violence are manifold. The crisis has its roots in citizenship issues since the Rohingya are not considered part of the official nation state because most are believed to have arrived after independence in 1948. Yet, this is highly disputed, and other sources claim that while there has certainly been a migration from Bangladesh into Rakhine state, many Rohingya actually trace their ancestry back to the time before independence and even before British colonization. The situation in Rakhine State seemed to have deteriorated further. According to a Crisis Group Report, a Mujahedeen Group called Harakah al-Yaqin (or Faith Movement in Arabic) formed to fight against long-standing injustices and repression. In October and November 2015, it launched attacks against the security forces in Arakan State. The army responded with a heavy-handed security operation, using disproportionate force and looting 1,500 homes. According to UN estimates, 69,000 people were forced to flee to Bangladesh.

The NLD government made peace a priority. Endowed with a huge electoral legitimacy and having the full support of China, the NLD leader reached out to several ethnic groups. Aung San Suu Kyi has limited the role of the Myanmar Peace Centre – the government’s support and negotiation structure created by Thein Sein – and established the Myanmar National Reconciliation and Peace Centre, which has far-ranging responsibilities in managing the peace process. She tries to bring the non-signatory ethnic armed groups into the peace process and organize a political dialog that will lead to a federal union in the long term. In August 2016, the Panglong 21st Century Conference began. The conference aimed at building the foundations for a federal democratic union, but it was poorly organized and failed in winning the trust of the ethnic armed organizations. Even though the government announced a seven-point roadmap to peace and reconciliation in October 2016, the weak capacity of the secretariat of the National Peace and Reconciliation Center, as well as the ongoing offensives of the Myanmar army against non-signatory ethnic armies, particularly the KIO/KIA and Shan State Army North, are both obstacles to negotiations progressing. These same ethnic minorities are major stakeholders and forging on with an attempt to discuss a political solution for a future state structure without them presents an opportunity for derailment.

There are some positive developments though. The huge election victory of Aung San Suu Kyi gives her a strong mandate to build peace. Together with strong international support, international actors have a fair chance to overcome mistrust.

II. Governance Performance

14 | Steering Capability

The Thein Sein administration had an ambitious agenda. But, his agenda did not often translate into a detailed policy framework with the right incentives in every policy field. The success was also limited by veto actors or spoilers. Despite the long period between the elections in November 2015 and the inauguration in March 2016, the NLD government gave out its priorities and goals very late. In her first address to the nation in April 2016, Aung San Suu Kyi indicated five broad priorities: national reconciliation, internal peace, rule of law, constitutional amendment and further democratic development, among which, she stated, national reconciliation was the most important. By this, she appears to aim at healing divisions, particularly between the military and the civilian population and the supporters and opponents of the NLD. Even after Spring 2016, in certain policy areas, directions were given out at a later stage, in some they were absent. In many fields, the NLD government seems to have no direction at all, with policy-making being done in a vacuum. These shortcomings might be the result of the NLD's lack of experience or the cabinet's close adherence to Aung San Suu Kyi's will.

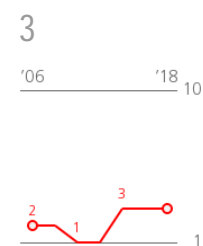
The NLD government has only been in power for less than a year at the time of writing. Consequently, it cannot be assessed whether the new policies of the NLD government will be implemented.

Generally, the implementation capacity of the government is poor, mainly due to technical incompetence and widespread corruption at all levels. Ministers and top-level civil servants are chosen on seniority rather than expertise. Lower ranking officials are accustomed to top-down instructions and rarely take the initiative, which can be particularly problematic at a time of change. The concentration of leadership in the NLD administration makes delegation problematic since everybody is waiting for instructions from Aung San Suu Kyi. The NLD government took over the bureaucrats of the former administration to guarantee job security.

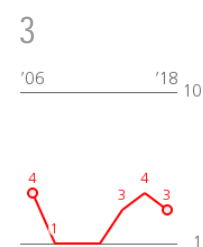
The capacity of civil servants at the middle and lower levels is also declining, since they have not been able to engage in proper graduate or postgraduate studies at home or abroad. Although a few have been sent abroad for short courses, there have been no effective human development programs aimed at providing long-term benefits to the country. Combined lack of technical resources, human capital and lack of funds has resulted in sluggish economic growth in the past.

Question
Score

Prioritization

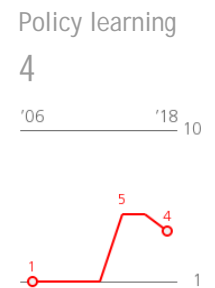


Implementation



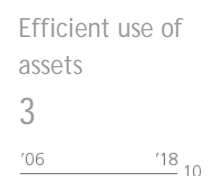
Additionally, the military can serve as a veto power, where it is in control (border areas, security, and peace process).

The new NLD government demonstrates the willingness to learn about policy, but its ability is limited. The government is willing to learn from international experience and accept the recommendations of the international community. Since the government is active on all fronts and the number of new laws enacted by parliament and pushed by the government is massive, there is relatively little room to monitor progress. Yet, the Thein Sein government showed a clear willingness to work with the international community on certain policies. For instance, the president sent a signal to international investors to join the Extractive Industries Transparency Initiative (EITI). The government brought all stakeholders to the table to negotiate Myanmar's candidature. In collaboration with civil society actors and the private sector, the government has fulfilled all the required steps to become a candidate country in 2016. It has produced its first EITI report in 2016. This shows its willingness to disclose the income from natural resources and work with the international community, though a number of challenges remain in this field, such as the lack of proper data (for natural resource earnings) and the lack of the cooperation from ethnic armed groups. Myanmar is also working with the World Bank to overhaul the financial system. But, due to the failure of the NLD to convene the multi-stakeholder group, the 2017 EITI report – due in March 2017 – might be delayed.



15 | Resource Efficiency

The government is only gradually beginning to use its assets effectively. It still keeps a huge amount of resources in the budget for the military (more than 13.2% in 2015, 13.5% in 2016 and 2017), and is only slowly modernizing productive sectors such as agriculture, manufacturing and education. For 2017/2018, the government has proposed a slightly increased deficit (4.5% of GDP), which gives it little opportunity to fulfill promises to increase social spending.



Aung San Suu Kyi has substantially reduced the number of ministries/vice ministries by about one-third to improve efficiency and reduce costs. She has nominated mainly NLD members into her cabinet, though some positions were filled with experienced technocrats (such as the Health Minister Myint Htwe). The NLD government tries to show that it is different from its predecessor. However, the NLD has no experience in governing, and it remains to be seen whether it can use state resources effectively.

The Myanmar financial management system is underdeveloped and focuses almost exclusively on financial control, while other key planning tools, such as strategic plans, medium term budgeting and multi-annual budgeting are almost entirely absent. In contrast, financial control is relatively well-developed when it comes to detailed

transactions-level documentation, though cost control of programs remains weak due to limited information.

Though the 2008 constitution allowed for fiscal decentralization, an understanding of intergovernmental fiscal relationships is nearly nonexistent. There is, for instance, a very low priority on improving local revenue collections. Local tax policies and administration are also underdeveloped.

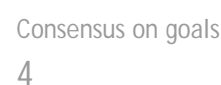
There is traditionally poor policy coordination. There are overlapping responsibilities, redundancies and frictions between various ministries. Moreover, there is generally little communication between government agencies. During the time of military rule, many local areas were de facto ruled by regional commanders of the military rather than the civilian administration. In many areas, the regional military commands still retain a lot of influence on policy-making, limiting the power of civilian administrative units. Moreover, coordination between these military commands and the government’s ministries is often lacking.

In the early phase of the NLD government, the main focus is on Aung San Suu Kyi, with every ministry seeming to wait for her initiative. Generally, there is still a lack of action, coordination and initiative. Given the inexperience of the NLD government and the concentration on peace and reconciliation as main policies, this is understandable.

The NLD government has stepped up its campaign to combat corruption. Aung San Suu Kyi summoned state and regional speakers and deputies to the capital in February 2016 just before the lawmakers took their seats to issue a stern warning to root out corruption and avoid endangering the party’s credibility with voters. In April 2016, she banned civil servants from accepting gifts worth more than 25,000 kyats in an effort to stamp out “tea money” incentives. So far, the new government has not been trapped in a major corruption scandal indicating Aung San Suu Kyi’s influence over her party and the government. At the same time, the government did not disclose any form of corruption within the bureaucracy, which tarnishes the government’s anti-corruption drive. In the light of weak institutional channels to fight corruption – the 2013 Corruption Commission lacked teeth and was widely seen as ineffective – this new campaign helped to improve the situation somewhat. However, corruption is still very much a fact of daily life.

16 | Consensus-Building

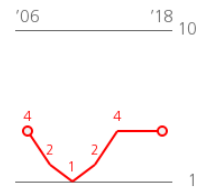
There is an agreement within both the political and military elite that political and economic reforms are necessary in order to catch up economically. But, how to translate this into being is highly contested, and there is considerable disagreement on how to reach this goal. All contested issues have been excluded from the cease-fire document, such as revenue sharing questions, the role of the army and



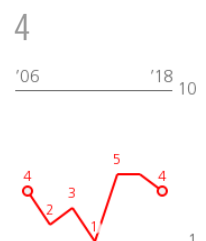
disarmament. The Myanmar army officially supports the goal of a democratic federal union but sees itself as a guardian to safeguard this process. The interpretation of federalism might be different from what ethnic groups and the NLD want. The military blocks further democratic reforms and tries to moderate between the various groups. Whether a liberal democracy is a long-term goal for the military is also highly questionable. It does not trust the civilian politicians and therefore might stop the reform process if it perceives core national interests, such as national unity (as defined by the military) as being at stake. The military has already announced that a vision of far-reaching constitutional change which includes a reduction of the military's role shouldn't be expected in the short term. The NLD and the ethnic groups agree on a federal democracy as a long-term goal. At the moment, the NLD is in cahoots with the military, which creates suspicions on the side of the ethnic groups that the Burman ethnic majority might dominate the union and ethnic identities might be curtailed. Ethnic groups have made the goal of a federal union a top priority and included the establishment of a federal army. This goal, however, is unacceptable to the military.

There is general consensus on the need for economic reforms, but the concept of a market economy is far less known. On the one hand, the economic manifesto of the NLD unveiled in August 2016 plans to introduce a market-oriented system in every sector, increase efficiency and end monopolies. It remains to be seen whether the NLD can modernize the economy and introduce far-reaching reforms. There is also a widespread fear of local businesses to be left behind in the competition with western competitors. Moreover, both the former regime's cronies, who are now partly supporting the government, and the military conglomerates might block further economic liberalization.

The de facto government leader Aung San Suu Kyi does not have control over the military. Aung San Suu Kyi is trying to appease the military and win the generals' trust. For instance, in the peace process, she is actively seeking the support of the military. But, the military is an autonomous player in the peace process and has de facto autonomy over all security-related policy fields. So far, the reform process is in the interest of the military and, therefore, the generals do not openly oppose it. Yet, the 2008 constitution also gives them the opportunity to end the reform process by taking power in the case of emergency or deterioration of security. Thus, it's fair to say that the military still guards and controls the extent of liberalization and could use its influence to severely disrupt the reform process if it sees a deterioration of security or emergence. Civilian control over the military is nonexistent, and civilian reform actors do have extremely limited possibilities to exclude or co-opt veto players within the military.



Anti-democratic actors



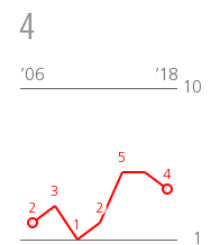
The new political leadership attempts to bridge cleavage-based conflict and expand political consensus. Aung San Suu Kyi is making peace the priority of her government and tries to find an inclusive solution for all ethnic groups.

However, sometimes this means walking a tight line between various interest groups. For instance, Aung San Suu Kyi has long refrained from publicly addressing the plight of the Rohingya and the wider Muslim minority to avoid losing the support of the Buddhist majority population, among whom anti-Muslim sentiments are widespread. In October 2016, an armed group of alleged Rohingya attacked the Myanmar border guard forces in Rakhine state, and the military responded with a violent crackdown which mainly targeted the local Rohingya population with massive human rights violations, and 69,000 fled to neighboring Bangladesh. All this led to an outcry in the international community. Discrimination and hate speech propagated by ultra-nationalist Buddhist monks remains widespread. Due to pressure from the international community, Aung San Suu Kyi installed a commission under the leadership of Kofi Annan. The commission has been tasked with finding conflict-prevention measures, ensuring humanitarian assistance, rights and reconciliation, establishing basic infrastructure and promoting long-term development plans in Rakhine state. And the commission has been given a year to conduct research and submit a report on its findings. This shows that the NLD government tries to moderate between military and civilian, local and international interests. However, one also has to stress that the military is part of the government, which limits the ability of Aung San Suu Kyi's government to moderate cleavage-based ethnic and religious conflicts.

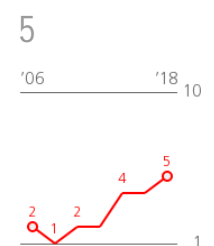
With the increasing pace of liberalization and democratization, civil society became included in decision-making more regularly than before, playing an increasingly active role in the formulation and revision of laws, and giving advice to members of the cabinet and the government. The Thein Sein government – which lacked broad electoral legitimacy – was quite open to including NGOs in law and policy making. It remains to be seen whether the NLD can include civil society groups in the same way. There has never been much cooperation between the NLD and the NGO community. During the first months in office, the NLD government has cut down on these forms of involvement and has repeatedly voiced the view that policy making decisions should be made by elected people's representatives rather than NGOs.

National reconciliation is one of the main tasks of the current NLD government. This will not take the form of trials or truth commissions, in which military actors will have to be held accountable for past human rights abuses. The military is a veto player in the reform process and, therefore, the government will not try to initiate these kinds of reconciliation policies. Also, Aung San Suu Kyi has made clear that reconciliation needs peace first. Aung San Suu Kyi has defined national reconciliation as “healing past divisions, particularly between the military and the civilian populations and between supporters and opponents of the NLD.” It remains to be seen whether Aung San Suu Kyi can make the peace process an all-inclusive affair that caters to the

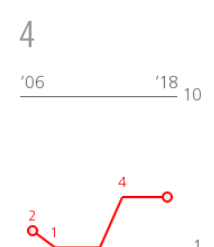
Cleavage /
conflict
management



Civil society
participation



Reconciliation



reconciliation needs of the ethnic groups as well. There is a danger that a narrow understanding of national reconciliation between the NLD and the military is applied and not between Burman and non-Burman ethnic groups.

17 | International Cooperation

Nearly all Western donors have increased their support through aid flows to Myanmar. However, the amount of aid is less than aid flows from Asian donors, such as China, Korea and Japan. The latter has increased its aid. The overall impact of aid flows remains to be seen.

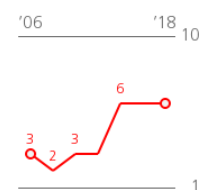
The Thein Sein government promised to cooperate with international donors and coordinate aid. It signed the Naypyidaw Accord for Effective Development Coordination, which is a localized version of the Paris Declaration and the Accra Agenda for Action, both international principles that attempt to ensure aid effectiveness and cooperation. The Thein Sein government has also adopted the Framework for Economic and Social Reform (FESR), in consultation with civil society groups, which has been used by both government and international development partners as a guide and follow-up mechanism for continuing international assistance and monitoring the government's implementation. A number of working groups consisting of government agencies and donors have been built to steer implementation in 16 sectors. It is, however, too early to assess the effectiveness of this institutional framework. From January 1, 2014, \$3.4 billion in multilateral and bilateral aid has been promised, but only 30% has been disbursed so far. In general, the Myanmar government is welcoming international aid as a positive means of modernization. However, in critical areas, such as human rights or the Rohingya issue, the government is more reluctant to implement reforms advocated by multilateral agencies. Moreover, government capacity to coordinate the aid is very low. The rapid influx of aid and the failure of international donors to coordinate is a problem.

Suu Kyi has the solid backing of the international community. The aid will be channeled through the new Development Assistance Coordination Unit (DACU) and the Cooperation Partners Group (CPG), which met in December 2016 to discuss the priorities of the government. The NLD government has identified a shortlist of the most urgent development projects across Myanmar that could be financed with international aid money. These projects are in line with the NLD economic policy announced in mid-2016.

The government of Aung San Suu Kyi has solid backing from the international community, which is often reluctant to criticize the government given the country's authoritarian legacy. Foreign governments seem to have acknowledged that finding peace and an overhaul of the state will need time and therefore have refrained from criticizing the ongoing human rights violations in the country. With one exception:

Effective use of support

6



Credibility

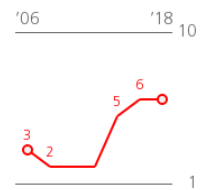
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the Rohingya problem. International NGOs and the UN have recently criticized the government for failing to address the human rights violations. The NLD government has installed an international commission, which is responsible for giving policy advice to Aung San Suu Kyi. On some other promises, the NLD government so far has not acted, such as signing major international human rights conventions (such as the CAT, or the ICCPR).

Myanmar has successfully re-engaged with the international community in recent years. The country has seen a number of high-profile visitors between 2012 and 2015. In 2015, the country concentrated on the elections, which have gained widespread international attention. The government of Thein Sein invited international election observers, including from the Asian Network for Free Elections and cooperated fruitfully with them. The NLD government is continuing this active cooperation with foreign governments.

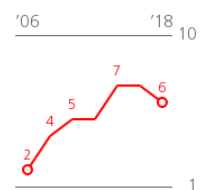
Apart from heads of states, a number of international organizations have re-engaged with Myanmar to support the reform process: the World Bank, the Asian Development Bank, the IMF and numerous donor organizations. Myanmar has also tried to maintain good relations with its neighbors, especially India, China and Thailand. All three neighbors together with South Korea and Malaysia are competing for gas and oil extraction rights in Myanmar. In return, China and India provide military equipment to Myanmar, as does Russia. China additionally provides interest-free loans and development assistance. China benefits from preventing internal unrest that could affect China's border. While China remains the most important development partner in the region, the country has also successfully participated in the Association of Southeast Asian Nations. In 2014, it chaired the regional organization for the first time. Aung San Suu Kyi has held her first Association of Southeast Asian Nations' (ASEAN) meeting in 2016. At the same time, she has engaged with China to get support for her domestic policies. While ASEAN was supportive of the new government in general, some member states have criticized Myanmar for its handling of the Rohingya issue. For instance, Malaysian Prime Minister Najib Razak called the October 2016 incidents in Rakhine state a "genocide." ASEAN has also openly criticized the human rights violation of the Rohingya. The Myanmar government has insisted that these are the internal matters of Myanmar.

The flow of refugees often complicates diplomatic quarrels with the neighboring countries. For instance, the 69,000 Rohingya refugees who fled to Bangladesh after October 2016, led to diplomatic tensions. China has had regular inflows of Kokang refugees, following the military confrontation between the Myanmar army and the Myanmar National Democratic Alliance Army (MNDAA) in 2015.



Regional cooperation

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Strategic Outlook

Myanmar's transition has arrived at a critical juncture. Since it was steered and dominated by the military until 2015, the new phase brings challenges, opportunities and risks. Aung San Suu Kyi has to walk the tightrope of winning the trust of the Army Chief of Staff General Min Aung Hlaing and other senior generals within the army without losing the support of the country's ethnic groups. She has a strong mandate to win over the ethnic groups and press them to take part in the peace process. While both the government and the ethnic groups have rhetorically committed themselves to the principle of federalism, the underlying understandings and definitions of this concept need to be discussed more broadly in an open discourse navigate differing interpretations and find common ground. This will require time and continuous dialog. The international community needs to support this process by giving best-practice examples of federalism.

At the same time, Aung San Suu Kyi needs to convince the military to refrain from military offensives against the country's ethnic and religious minorities, which always include serious human rights abuses and also put the government in a negative light. The military has made significant efforts to start the transition, but needs continued assurance that the opening is in its interest. Confronting the military will not bring the desired results. There is a constant danger that the military may undermine the reform process from within. The management of the peace process will ultimately decide the future of the transition.

The government is under constant pressure from the international community to solve the Rohingya problem. Although this might be low on the government's agenda, showing commitment to finding a solution to this protracted problem will be crucial in securing international support for Myanmar and save energy for other problems.

On the economic front, the government needs to tackle the problems of land-grabbing and agrarian reform. Only when the current growth, which is concentrated in Yangon and the resource sector, spills over to the countryside, will there be a dividend in the form of continuous support for the government.

The government should also work with international partners to fuel investment into manufacturing and infrastructure. The country's over-reliance on the export of natural gas and oil is dangerous. It should try to implement a transparent revenue management for revenues from natural resources to avoid the resource curse. In accordance with its financial abilities, expenses in the education and health sector need to be gradually increased. Myanmar should take international advice into account, and continue to implement plans for a social safety net.

Given the inexperience of the governing NLD, the government needs to make sure to include as many stakeholders as possible in questions of political and economic importance, even if this entails criticism of the NLD's role in governing. Moreover, the government's reputation will improve if it continues to reform repressive laws, which still inhibit full democratization.