Dissecting the Data: Burma's Macroeconomy at the Cusp of the 2010 'Elections'

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Introduction

Burma's macroeconomy is unbalanced, unstable and largely without the institutions and attributes necessary to achieve transformational growth. Employing new data and techniques selected to gaze through the characteristic informational fog, this paper aims to examine the fundamentals of Burma's macroeconomy as it stands at the cusp of the 2010 elections. These elections, already without political credibility, promise little in the way of the reforms Burma needs to achieve economic stability and growth.[1]

The argument briefly outlined here is organised below according to a sequence of concerns, beginning with a critique of Burma's economic growth, followed by an examination of the country's fiscal circumstances, monetary and financial policies, and international trade. Along the way various topical issues and concerns are explored, as well as more foundational matters.

Economic Growth

As examined in numerous external reports, claims of double-digit growth by Burma's ruling military regime (currently self-styled as the 'State Peace and Development Council' [SPDC]) are without foundation, and are unsupported by various proxy measures of economic progress.[2] Amongst the most important of these is energy use. Put simply, economies that enjoy strong growth overwhelmingly require more or less equally strong growth in their consumption of energy. This is especially the case with respect to petroleum products and electricity – the increased use of which is a *sine qua non* of an economy genuinely growing, and in which machinery, communication systems and all the other accoutrements of economic development become increasingly important.

[1] Of the parties that have registered so far for these elections, most are the creation of the current ruling regime or of entities connected to it. Such parties might reasonably be supposed to be unlikely sources of economic reform, and none has yet advanced anything close to a credible economic platform.
[2] See, for instance, Turnell, Bradford and Vicary (2009) and EIU (2010).

Table 1 below, accordingly, might be regarded as something of an articulate 'numerical critique' of the SPDC's economic growth claims – juxtaposing their annual GDP growth assertions against the regime's own data on annual changes in petroleum and electricity consumption in Burma:

Table 1: SPDC GDP Growth Claims/Energy Consumption

Year	Claimed GDP Growth Rate (%p.a.)	Change in Petroleum Consumption (%p.a.)	Change in Electricity Consumption (%p.a.)
2004/05	13.6	-9.5	0.2
2005/06	13.6	2.2	11.4
2006/07	13.1	12.0	0.0
2007/08	11.9	-0.1	0.1
2008/09	10.1	-17.0	5.9

Source: Asian Development Bank (ADB, 2010), Myanmar Central Statistical Organisation (MCSO, 2010), International Monetary Fund (IMF, 2010)

Of course, the above data does not imply that (aggregate) GDP growth has not been taking place in Burma over recent years, but that it has certainly been greatly exaggerated by the SPDC. In all likelihood Burma's economy has been growing at an average of about 2 to 3 per cent across the years above, with such growth driven by the country's increasing trade surpluses (a consequence of Burma's emergence as a significant regional exporter of natural gas – more on which below). Based on calculations undertaken by this author, increasing net exports account for just over half of average GDP over the last five years. This is significant. Remove net exports from the equation, and the domestic economy has been growing at a rate that falls short of that of population growth – implying that per capita GDP in Burma has been declining in recent years.[3] At around $US435, per capita GDP in Burma ranks amongst the lowest in the world, and by some margin the lowest in Southeast Asia (EIU 2010, IMF 2010, Turnell, Bradford and Vicary 2009).

Fiscal Policy

Burma's Fiscal Deficit

In 2008/09 the gap between officially recorded state revenue and spending in Burma – the country's fiscal deficit – amounted to around 3.5% of GDP. In the wake of the 'global financial crisis' such a figure does not appear dangerously high. However, the way it is 'financed', the spending priorities it reveals, the revenues it hides – are all indicators of a fiscal environment in Burma that is a source of instability, and a brake on growth. Table 2 reveals the broad picture:

[3] *Significantly* falling per capita income, if one accepts the population growth estimate of the Asian Development Bank (of around 2% p.a. across the selected time period). Somewhat less so if we take the figures published by the US Central Intelligence Agency (of around 0.8% p.a.) (ADB 2010, CIA 2010).

Table 2: Total Government Revenue, Spending and Overall Fiscal Balance

(% GDP)

	2004/05	2005/06	2006/07	2007/08	2008/09
Total Govt Revenue.	6.5	6.7	7.7	7.3	6.5
Total Govt Expenditure.	11.2	10.1	11.9	11.1	10.0
SOE Deficit	2.7	1.8	2.0	1.9	1.9
Overall Fiscal Deficit	4.7	3.4	4.2	3.8	3.5

Source: ADB 2010, EIU 2010, IMF 2010, and author's calculations.

The data presented in Table 2 is based on Burmese official data, and that estimated by respected international agencies and organisations. It captures a truth more or less universally accepted that Burma's governing apparatus is chronically short of funds, is persistently in the pursuit of the same and, in doing so, acts in ways that are destructive of the country's economic circumstances. That said, there is much to suggest that Burma's fiscal difficulties are largely a contrivance of the SPDC. The large negative contribution to Burma's public finances from the officially recorded deficits of state-owned enterprises (SOEs), readily apparent in Table 2, are highly sensitive to the method by which their foreign exchange earnings are recorded (this is especially relevant to the gas earnings of the Myanmar Oil and Gas Enterprise [MOGE], more on which later). Converted, as is the SPDCs practice, into their *kyat* equivalent at Burma's official, but highly unrealistic and essentially moribund exchange rate (of around 6 *kyat* = $US1), the foreign exchange earnings of Burma's SOEs are near enough to zero, and so make next to no impact upon public revenues. However, rendered into the accounts at the unofficial (but realistic) exchange rate of around *kyat* 1,000:1, then these earnings (*kyat* 5,270 billion instead of *kyat* 24.7 billion) would have an extraordinary impact. Indeed, rendered thus, Burma's 2008/09 fiscal position turns from a deficit of 3.5% of GDP into a *surplus* of around 15%. Of course, the latter is vulnerable to many complicating variables (not least the obscurities of the regime's spending offshore) – but the swing is indicative both of the poor fiscal structures and systems in Burma, as well as of the SPDCs willingness to place its spending discretions over open and accountable governance.

Spending Priorities

The anomalies regarding SOE earnings on the revenue side of Burma's fiscal position are, as surmised above, matched by similar anomalies and outright distortions on the spending side. The magnitude of public spending relative to recorded revenues is problematic as noted, but so is allocation and the priorities this reveals. As can be seen in Table 3 below, a vast proportion of state spending in Burma goes to the military, whose activities in both this and other contexts is parasitic to Burma's economy. Military spending is consistently and vastly in excess of that spent on health and education *combined*, a phenomenon that is unique to Burma amongst the nations of Southeast Asia. This is important, not just in what it exposes in the way of the regime's current priorities (hardly a secret) or its willingness to sustain immense human suffering amongst the people it rules over, but also for the implications for Burma's future created by this wilful neglect of the country's (present and prospective) human capital:

Table 3: State Spending Defence/Health and Education

		2004/05	2005/06	2006/07	2007/08	2008/09
Defence	**(%GDP)**	1.9	1.6	1.9	1.2	1.8
	(% Govt. Exp)	22.7	19.8	18.9	17.8	21.0
Health and Education	**(%GDP)**	1.4	0.8	1.4	1.1	1.0
	(% Govt. Exp)	17.0	9.3	14.1	12.0	13.0

Source: ADB 2010, EIU 2010, IMF 2010, and author's calculations.

With Burma's foreign earnings corralled away, and its taxation arrangements broadly dysfunctional (more below), the SPDC resorts to borrowing from the central bank ('money printing' in the popular vernacular) as the primary vehicle for funding its spending. This is readily apparent in Table 4, which reveals persistent annual double-digit percentage increases in central bank advances to the State across the last decade (including an extraordinary 21.8% growth in the incomplete 2008/09 financial year). Such money printing has been the primary driver of Burma's high inflation rates (easily the highest in the region), which have seldom been under 25% in the last decade, and which have also been just one of the factors undermining trust in Burma's currency, and formal monetary instruments more broadly.[4]

Table 4: Financing Burma's Fiscal Deficit

(Kyat millions)

Year	Central Bank Lending to Government	Commercial Bank Lending to Government	Government Treasury Bonds Outstanding
2000/01	675,040	40,985	131,918
2001/02	892,581	43,248	132,895
2002/03	1,262,588	35,546	110,675
2003/04	1,686,341	89,217	111,627
2004/05	2,165,154	100,358	78,961
2005/06	2,762,626	186,998	117,614
2006/07	3,534,687	389,398	179,777
2007/08	3,880,765	620,875	297,358
2008/09*	4,727,436	973,943	896,119

** as at August. Source IMF (2010).*

[4] With falling global commodity and food prices (at least with respect to the items relevant to Burma), Burma's inflation rate is likely to moderate across 2010 but, at perhaps a little less than 10%, will remain the highest in Southeast Asia. Precision in estimating inflation rates in Burma is not possible – a consequence not just of the inadequacies in the collection of statistics in Burma, but also of great variations in prices across regions, between town and country, and so on. A figure of 'a little less than 10%' is nevertheless consistent with other estimates, including that of the EIU (2010). Such a rate does have important implications for Burma's financial system, however, since (for the first time in many years), maximum allowable bank interest rates will become 'positive'.

Taxation Developments

Burma's taxation arrangements are chaotic, arbitrary, in large part out of the control of central authorities – and singularly inefficient in either collecting sufficient tax revenues or in imposing reasonable and non-distortionary costs on productive enterprise.[5] Of course, devising tax systems that raise sufficient revenue is a problem common to many developing and transition economies, but what distinguishes Burma from most is the *wide range* of bodies that levy 'taxes' of one kind or another. The central government in Burma formally has on its books taxes applying to income, profits, land values, as well as customs duties, but to these must be added charges of various forms levied by;

- Township Peace and Development Councils (TPDCs)
- Village Peace and Development Councils (VPDCs)
- The Burmese Military *(Tatmadaw)*
- Government Organised NGOs (GONGOs)

The first two local-government entities above (TPDCs and VPDCs) impose various taxes, charges and fees, at varying rates according to the person or enterprise involved. The payment of bribes to TPDC and VPDC personnel is likewise commonplace, sometimes instead of paying the charges levied, sometimes in addition to them. Methods for assessing and ensuring payment are often unorthodox (if hard to avoid), including imposing taxes according to the digits that make up a person's telephone number, and the use of roadside barriers to make sure of compliance. The *Tatmadaw's* methods of tax extraction (of both cash and kind), tend to be informal, opportunistic, random, and all too often conducted via the force of arms. Roadside barriers and toll booths are a favoured collection methodology for them too (rather more aggressively), and make easier the expropriation of vehicles, motor cycles, fuel, food and other supplies that is characteristic of the military's 'taxation'. Meanwhile, the implicit taxes imposed by various GONGOs in Burma (the Union Solidarity Development Association, the Myanmar Maternal Child Welfare Association, and so on – organs of the State whose titles belie their often sinister reputation), are mainly enforced through the 'peer pressure' they are able to yield at the township and village level.[6] Such taxes are used for a variety of causes, including to finance the visits to towns and villages of leading government and other VIPs, whilst also constituting a not insignificant source of private income for GONGO officials.

The taxes outlined above – mostly arbitrary in their timing, magnitudes and in who must pay them – create great uncertainty in Burma for both businesses and citizens alike. To this end

[5] A major new report into Burma's taxation arrangements, written by Alison Vicary (Macquarie University) for the National Network for Human Rights Documentation/Burma, is to be published shortly.

[6] In an effort to raise funds for the party it has created to run in Burma's 2010 elections (the 'Union Solidarity Development Party' [USDP]), in recent times the USDA has been imposing a 3,000 *kyat* fee on members of TPDCs, VPDCs and certain categories of state employees. For more on this, see 'USDA cards for BPDC members and regime employees', *Burma News International,* May 17, 2010, online at: http://www.bnionline.net/news/khonumthung/8569-usda-cards-for-bpdc-members-and-regime-employees.html. For further testimonies regarding USDP election spending and the 'incentives' it is providing to potential voters, see 'Kyaw Thein Kha, 'USDP Handing Out "Incentives" in Shan State', *The Irrawaddy,* May 26, 2010, online at :http://www.irrawaddy.org/highlight.php?art_id=18562.

they play havoc in their skewering of incentives and their misallocation of resources, and in the way that they couple with so much else in the country that is random and ill-conducive to creating the circumstances from which businesses, farmers and ordinary people can invest, work, save – in short, to carry out the activities necessary to secure their own, and the country's future.

An Emerging Bond Market

A potentially positive development in the realm of Burma's fiscal situation has been the emergence of a greatly expanded issue of government bonds as a budgetary funding vehicle. As can be seen in Table 4 above, such bonds on issue increased by 65% across 2007/08, before increasing more than three-fold in 2008/09. The bonds have maturities of two, three and five years, with a coupon rate of between 11 and 11.5%. Depending upon the price paid for the bonds at issue (there exists no formal secondary market for securities trading in Burma, so the issue price is the only one relevant), the real yields on these securities will likely be positive across 2009/10 and 2010/11. Of course, in the past Burma's high inflation rates have rendered its bonds yields 'negative' in real terms, and they remain hostage to the country's inflation performance.

The question of who is buying Burma's bonds is a crucial one in considering whether their expanded issue can be regarded as genuine fiscal progress or not. In the past Burmese government bonds were purchased almost exclusively by the domestic commercial banks, and attracted very little interest from investors otherwise.[7] Of course, this can hardly be wondered since, as noted above, Burma's high inflation over the last two decades would have guaranteed that investors in its bonds would have lost money in real terms, even as they faced (given Burma's sorry monetary history) the constant danger of wilful default. Examining the data relating to the latest expansion of Burma's bond issuance reveals that the banks remain substantial holders of this debt (40% of the total as at June 2009), but as a relative share of bond holdings this is down significantly (across 2003 to 2008 the average share of banks' holdings of Burmese government bonds was just over 80%). The 'new' buyers seem to be Burmese businesses. Ordinarily this would be a positive development, but the reason for their purchases may reflect simply a lack of opportunities in the broader economy. According to one business figure and potential bond buyer:

> [b]usiness is not good and I see no better prospects in the gold market, the car market or the property market. If I invest my money in government banks, it lies idle. The opportunity to invest in government treasury bonds is…interesting.[8]

[7] Treasury bonds were first issued by Burma's current military regime in 1993. For more on the background to these and other financial instruments in Burma, see Turnell 2009. Perhaps the most active and important 'financial market' in Burma today is the lottery based on the last two digits of the daily closing value of the Stock Exchange of Thailand Index (SETI). Of course, this is just one of a number of illegal lotteries that operate in Burma, but it is the only one that (however tangentially) connects its 'investors' with international financial markets.

[8] Aung Thet Wine, 'New Government Bonds and Securities Selling Fast', *The Irrawaddy,* January 4, 2010, online edition, < http://www.irrawaddy.org/article.php?art_id=17520>

Money, Finance and Banking

Burma's monetary and financial system is little more than a subsidiary of its fiscal arrangements, as the overwhelming share of the country's financial resources are devoted to the State and its spending proclivities. The 'macro' aspect of this has been noted already with respect to the activities of the Central Bank of Myanmar, but its sectoral implications are likewise important to note. These can be seen in Table 5 below, which reveals the extent to which the private sector in Burma has been, relative to the State, starved of capital. In 2008/09, a mere 15% of domestic credit creation made its way to the private sector (which will be the only likely source of economic growth for Burma in the future). The trend, moreover, has been one of continual decline – with the private sector's relative share of credit falling by nearly 25% in the last 5 years. By way of comparison, the private sector's share of credit creation in Cambodia, Laos, Vietnam and Thailand – countries that in various ways might be regarded as Burma's 'peers' – is, at over 90% for each of these, almost the mirror image of the situation in Burma (IMF 2010). Of course, the governments of these countries are imperfect democracies *at best,* but they comprise administrations nonetheless that have what might be called a 'development focus' – and, with this, a better understanding of the role and importance of private finance in transformative growth.

Table 5: Domestic Credit Allocation

(Kyat billions/% of Total)

	2004/05	2005/06	2006/07	2007/08	2008/09
Tot. Domestic Credit	2,391.7	2,977.4	3,794.2	4,629.5	5,732.9
Public Sector	1,929.0 (81)	2,411.9 (81)	3,136.0 (83)	3,861.4 (83)	4,843.0 (85)
Private Sector	462.7 (19)	565.5 (19)	658.2 (17)	768.0 (17)	889.9 (15)
Agriculture	10.4 (0.4)	12.5 (0.4)	18.1 (0.5)	23.8 (0.5)	22.0 (0.4)
Private Sector (%GDP)	5.1	4.6	3.9	3.3	2.8

Source: IMF 2010 and author's calculations.

Equally as destructive of Burma's economic prospects as the credit drought for the private sector broadly, is what can only be described as the *famine* of formal credit to the country's agricultural sector. The source of over 50% of Burma's GDP, and the home of over 70% of the country's population, agriculture receives a paltry 0.4% of credit created. Moreover, and as with credit allocated to the private sector as a whole, the trend has been worsening, with rural credit's share falling from 2007/08 to 2008/09 in both absolute and relative terms by nearly one-fifth (a year in which, as a consequence of Cyclone Nargis, the *need* for affordable credit in rural Burma was greater than ever).

The insatiable demands of the Burmese state apparatus is the primary cause of dysfunction in the country's monetary and financial sector, but it is not the only malady. Much responsibility for the lack of development of Burma's banking sector, for instance, is the direct result of various regulatory measures that greatly inhibit (and sometimes explicitly outlaw) the emergence of viable institutions and financial markets. Some of these regulatory restrictions and prohibitions include:

- A cap on the interest rate that banks can pay on deposits and charge on loans of 12 and 17% respectively. Such rates are well below the rates of inflation that have prevailed in Burma for decades – and accordingly have ensured that investing in Burma's banks has been a certain loss-making proposition in real terms.
- A ban on the provision of uncollateralised credit by Burma's banks. All loans must be backed by real estate or a fixed deposit account to a value that is at least 100% of the credit advanced. Needless to say perhaps, such a requirement excludes poorer borrowers.
- A ban on private commercial banks lending to farmers and cultivators.
- A ban (in place since Burma's banking crisis of 2003) on banks receiving 'at call' deposits. Such deposits are the lifeblood of most banking systems, and of liquidity management for individuals and enterprises.
- A ban on deposit withdrawals from the Myanma Agricultural Development Bank (MADB, which just means that it attracts almost nothing in new deposits as a consequence).
- A prohibition against the accumulation of interest beyond the principal of a loan. This has the effect of ruling out banks making long-term loans (such as those that elsewhere are standard for home mortgages), for consumers and businesses alike.

In late May 2010, four new private banks were given licences to start operations. The four, the brand names of which are reported to be Asia Green Bank, Ayerwaddy Bank, Amara Bank and Shay Saung Bank, are owned by some of Burma's leading 'conglomerates'.[9] All of these, as well as the prominent 'tycoons' that control them, are on international sanctions lists, some because of alleged links to the narcotics trade in Burma, some because of their close association generally with Burma's ruling regime. It might reasonably be supposed

[9] See 'Four Businessmen Granted Private Bank License', *The Irrawaddy,* May 31, 2010, online at: http://www.irrawaddy.org/article.php?art_id=18587, and Kyaw Tha, 'Junta cronies get nod to run banks', *Mizzima News,* June 3, 2010, online at http://www.mizzima.com/business/4001-junta-cronies-get-nod-to-run-banks-.html. The four 'successful bidders', and the tycoons that control them are; the Htoo Company, Asia Green Bank, (headed up by Tay Za); the Max Myanmar Company, Ayerwaddy [or 'Irrawaddy'] Bank, (Zaw Zaw): IGE Ltd, Amara Bank, (Nay Aung), and: Eden Group Ltd, Shay Saung Bank (Chit Khaing). In addition to these four, however, two other groups applied for banking licences, apparently unsuccessfully. These were the Loi Hein Co., Ltd (Sai Sam Htun) and Asia World Co., Ltd (Htun Myint Naing, aka Steven Law). See 'Myanmar to grant giant private entrepreneurs to run banks', *Xinhua,* May 17, 2010, online at: http://news.xinhuanet.com/english2010/business/2010-05/17/c_13299541.htm, and Nayee Lin Latt, 'Six Burmese businessmen seek private banking licenses', *The Irrawaddy,* May 19, 2010, online at: http://www.irrawaddy.org/article.php?art_id=18501. Asia World is an especially notorious firm that is regarded by the US Treasury (amongst others) as one of the world's 'key heroin traffickers'. All of the conglomerates, however (successful or otherwise in their bank licence applications), are entities that, in the label employed by the Reserve Bank of Australia, 'benefit from [Burmese] government economic policies'. For more on the background of these conglomerates, and the various accusations against them, see US Department of the Treasury, 'Treasury Sanctions Additional Financial Operatives of the Burmese Regime', press release, February 25, 2008, online at http://www.ustreas.gov/press/releases/hp837.htm; Reserve Bank of Australia, 'Banking (Foreign Exchange) Regulations 1959, Sanctions Against Burma', media release, October 22, 2008, online at: http://www.rba.gov.au/media-releases/2008/mr-08-23.html.

that such entities are unlikely saviours of Burma's financial sector, or of its international credibility.[10]

Burma's Rural Financial Crisis

As was apparent from the aggregate numbers in Table 5 above, Burma's rural financial arrangements are in greater disarray than is the financial sector more broadly. Formal credit is almost impossible to obtain by all but the largest and most 'connected' cultivators (and usually only the subsidiaries of prominent conglomerates), meaning that small scale moneylenders are the sole recourse of most. Moneylender interest rates, however, are high – 10 to 15% per month being typical, even with collateral – and at levels that disallow returns to farmers that are little above that necessary for mere subsistence. As a consequence of the lack of affordable credit, many cultivators in Burma simply do without, and no longer employ productivity-enhancing inputs such as fertiliser, while similarly adopting planting and harvesting methods that likewise minimise costs, even as they diminish output.[11] Meanwhile, farmers with existing debts are increasingly being forced into default, with the consequence that the spectre of large-scale land alienation – as land increasingly passes from farmers into the hands of moneylenders – once again haunts Burma.[12]

Fixing Burma's rural credit crisis, recapitalising existing institutions (the MADB principally, which is meant to be the exclusive provider of rural credit), or creating new ones (such as those to deliver microfinance), would require anything between $US400 million (according to the UNDP) and $US1 billion (the Kennedy School/Harvard study of Dapice *et al* 2009). This is a large commitment of capital, but it represents less than six months of Burma's gas export earnings, and one-sixth of existing external reserves. Neither such an application of funds, however, nor any other meaningful reform to Burma's rural credit system, appears to be on the agenda of Burma's current regime. The MADB is all but moribund, while microfinance in Burma is greatly stymied by the lack – not just of capital – but even a legal framework that allows such institutions to lawfully make loans, charge interest and collect deposits (TCG 2009, FAO 2009, Turnell 2009).[13] A proposal from the TCG to expand the funds available for microfinance in Burma, as a key strategy for post-Nargis reconstruction,

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[10] Burma has long been regarded by many foreign governments and international agencies as a jurisdiction of 'prime money laundering concern'. For more on the history of criminality in Burma's banking sector, see Turnell (2009).

[11] This includes the widespread return of the labour and input saving 'broadcasting' method of rice planting throughout Burma, in place of the dramatically more productive – but more input intensive – 'transplanting' method. The planting of rice through broadcasting had largely disappeared in the closing years of British rule in Burma. For more on all of this, see FAO (2009), TCG (2009), Turnell (2009).

[12] Based on survey data in TCG (2009, p.34), around 12% of cultivators in Nargis affected areas have lost their land to moneylenders, or to local authorities pursuing unpaid debts. This extraordinary statistic may be usefully compared to the alienation of land in the Delta to *Chettiar* moneylenders in the 1930s – when around 25% of the region's paddy fields were seized (across the decade) as collateral on unpaid debts, prefacing great economic and political turmoil in the years ahead. For more on this, and its modern parallels, see Turnell (2009).

[13] There are currently six microfinance institutions in Burma (plus a number of microfinance 'like' schemes run by various charities and NGOs), with nearly 400,000 clients and a loan portfolio of around $US 30 million. For more on microfinance in Burma, and the challenges it faces, see Turnell 2009.

was quietly shelved following resistance from the Burmese regime in late 2009 (ACTED 2010, p.12).[14]

The External Sector

For the last five years Burma has been running substantial trade surpluses, reversing a trend of several decades in which the country existed at the precipice of external penury. Table 6 below reveals the would-be healthy situation, and the foreign reserves accumulation it has allowed:

Table 6: Total Exports, Imports and Foreign Exchange Reserves

($US millions)

	2004/05	2005/06	2006/07	2007/08	2008/09
Exports	2,928	3,558	5,233	6,402	6,780
Imports	1,805	1,816	2,690	3,075	4,160
Foreign Exch. Reserves	1,026	2,505	3,640	4,040	5,105

Source: MCSO 2010, IMF 2010, EIU 2009.

Of course, the reason for this dramatic reversal is Burma's aforementioned emergence as a significant regional exporter of natural gas. Such exports currently account for around 12.5% of Burma's GDP. At present the gas is exclusively exported to Thailand, but in late 2013 (should events go to plan) gas volumes of only slightly smaller magnitudes will be piped across Burma and into China's Yunnan Province. This gas will come from new fields (the so-called 'Shwe' fields) that are currently being brought to the point of exploitation off Burma's coast in the Bay of Bengal.

Yet, as noted above, Burma's gas revenues (which are exclusively received by the state-owned MOGE), are not appropriately recorded in the country's consolidated public accounts. This failure allows others, and a broader malfeasance in the fact that a large portion of these same revenues do not make their way into Burma at all, but reside offshore in various accounts in an assortment of international financial centres.[15] Of course, this aspect of Burma's gas export story, and the ill-disciplined and unaccountable spending it permits, has been adding the unfortunate characteristics of what is commonly known a 'resources curse' to the already long-list of problems that beset macroeconomic policy-making in Burma.[16]

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[14] Amidst the gloom, one (albeit, superficial as yet) positive development in the provision of rural credit in Burma during 2009 was the emergence of a number of 'agricultural development companies' (ADCs - essentially millers, wholesalers and the like) providing trade finance to cultivators. Under government pressure, some 25 of these ADCs provided loans to around 33,000 farmers to a value of about $US 10 million. The interest rate charged on the advances is around 2% per month (roughly 27% per annum). Of course, this represents a veritable 'drop in the ocean' in terms of Burma's rural finance needs, and the scheme's viability in the absence of government pressure must be open to doubt. Similarly, such arrangements always bring with them the potential for exploitation, since they can 'lock in' cultivators to a monopoly buyer of their output. For more on the scheme, see US Department of Agriculture (2010b).

[15] For more on this, and the general consensus (which includes this author) regarding the veracity of the accounts that have reported the phenomenon, see ERI (2009).

[16] In December the SPDC spent approximately $US570 million (EUR 400 million) on the purchase of 24 new MiG-29 fighter planes from Russia. The latest in a long line of profligate spending bouts by Burma's regime

Beyond gas, beans and pulse exports have been the great 'success story' of Burmese agriculture in recent years – a success story that is due to the regime's neglect of the sector, allowing some enterprising agricultural firms to identify and meet demand for these commodities from India.[17] Teak and hardwood exports from Burma likewise yield substantial revenues, but at great environmental and social cost. Burma's rice exports, a mere shadow of the era when Burma was the world's largest rice exporter, overwhelmingly consists (84% of the total) of low priced 'broken rice' shipped to various African countries (US Department of Agriculture 2010b).[18] Burma's once vibrant rice export sector is greatly hampered by a number of hurdles, including the SPDC's imposition of a 20% export tax, on and off prohibitions against private sector exports, a lack of access to trade finance, and port infrastructure that is degraded to such an extent that shipping large volumes of rice is extraordinarily difficult.

Table 7: Exports: Selected Categories and Totals

($US millions)

Category	2004/05	2005/06	2006/07	2007/08	2008/09*
Gas	1024.4	1,079.6	2,039.1	2,520.7	2,385.0
Beans and Pulses	224.0	322.3	608.6	627.9	745.0
Teak and Hardwoods	391.6	474.4	521.3	538.4	411.4
Garments	216.1	271.9	279.1	282.7	292.0
Rice	31.8	36.6	3.1	102.5	198.2
Fish and Seafood	71.7	93.5	126.4	193.0	177.3
Border Trade (Misc.)	348.1	430.6	647.4	750.0	660.0
TOTAL	2,927.9	3,558.2	5,232.9	6,402.1	6,780.0

** as at December. Source: MCSO (2010), author's calculations.*

Burma's deliveries of natural gas determine the dominance of Thailand as the primary destination of its exports as revealed in Table 8. Amongst the other markets; India is the primary customer for Burma's beans and pulse exports as noted, China is a voracious market for gems, timber and much border trade (a large extra portion of which goes unrecorded), while the EU and Japan are markets for Burmese garments. On the import side, China is the largest source, supplying (along with Thailand) most of the consumer

(which also includes the creation of the country's improbable new capital city of 'Naypyitaw', the purchase of nuclear reactors from Russia – as well as earlier purchases of other sophisticated offensive weaponry), it is a transaction that is close to a stereotypical example of the 'cursed' spending allowable through resource rents. For details of the MiG purchase, and the regime's rejection of the much cheaper option of buying the same aeroplane from Malaysia, see 'More MiG 29s for Myanmar', *Defence Industry Daily,* January 24, 2010, available online at: http://www.defenseindustrydaily.com/More-MiG-29s-for-Myanmar-06119/#more-6119. For more on the general issue of a resources curse in Burma, see Turnell (2008).

[17] In 2009/10 India purchased 84% of Burma's formal exports of beans and pulses. A large volume (perhaps as large as that of the formal trade) of beans and pulses are also exported via border trade, especially to China. Poor harvests in both India and China in 2009/10 (and the important fact that, thus far, the SPDC seems content to leave the industry largely alone) suggests that Burma's success as a beans and pulse exporter is likely to continue into the immediate future (US Department of Agriculture 2010a and 2010b).

[18] The next largest market is Bangladesh, which in 2009/10 took 7% of Burma's rice exports (US Department of Agriculture 2010).

goods that make their way into Burma, as well as capital goods and machinery, and transport goods of various types (though here too, the imports from China and Thailand through border trade are greatly understated). The relatively large share of Burmese imports supplied by Singapore reflect high value goods and services – electronics and communications equipment, professional services (banking, and the health facilities enjoyed by Burma's elite), chemicals, and relatively complex manufactures.

Table 8: Destination of Exports/ Source of Imports 2008/09

Country	Export Destination (%)	Import Source (%)
Thailand	52.0	20.8
India	17.0	3.4
China (incl. Hong Kong)	9.5	32.1
Africa (various)	5.3	0.0
Japan	4.4	3.0
EU	2.7	2.4
Singapore	1.2	20.4
Other	7.9	17.9

Source: MCSO 2010, EIU 2010.

Foreign Reserves

Burma's emergence as a significant regional gas exporter has enabled it to accumulate what, by the country's historical standards, are significant and fast growing international reserves. As can be seen in Table 6 earlier, by the end of calendar year 2010 these reserves will reach nearly $US6 billion.

In addition to these accumulating 'earned' reserves (but along with all member nations of the IMF in the wake of the global financial crisis), Burma received an allocation of 202.3 million 'Special Drawing Rights' (SDRs) during 2008/09.[19] This allocation was ear-marked for increased infrastructure spending by the Burmese government and, by end-2009, SDR 150 million of the new allocation had been spent (IMF 2010).

Foreign Investment

Foreign direct investment (FDI) in Burma is overwhelmingly concentrated in gas, oil, hydro-electricity and other energy and extractive industries. This is readily apparent in Table 9 below, as is the substantial 'gap' between the announcements of FDI, and that which ultimately is implemented amidst Burma's unstable and risky political and economic environment. The distance between these two metrics is particularly pronounced in the

[19] SDRs are an international reserve asset created by the IMF (in 1969) to provide member countries with a reserves 'cushion' against fluctuations in their net international payments position. Their value is based on that of a basket of four key international currencies, and currently 1 SDR is worth around $US1.51. Along with every other member of the IMF, Burma received extra SDR allocations in August and September 2009.

case of announced hydro-electric projects, which usually involve large capital outlays, often in politically-sensitive (and non-Burman ethnic population) areas.[20] The dominance of extractive industries in the FDI that Burma attracts is likewise instructive. Such investment relies little upon local institutions, skills or much other interaction beyond rapid cutting, digging and carrying away. Given the way such investment also imposes significant cost externalities upon adjacent populations for little in the way returns (few real jobs are created, while skill transfer is negligible since most expertise is imported in), as well as fuelling something in the way of a resources curse noted above, it can reasonably concluded that FDI in Burma is presently doing little in creating the foundations for future growth.

Table 9: Foreign Direct Investment in Burma

	FDI Approvals ($US million)	FDI Implemented ($US million)	% of Implemented FDI in Resource Extraction
2004/05	158.3	251.1	91
2005/06	6,065.7	235.9	97
2006/07	719.7	427.7	98
2007/08	205.7	714.8	83
2008/09	984.8	927.5	98
2009/10*	62.3	539.1	100

** As at September 2009. Source: MCSO 2010*

The country-source of FDI into Burma (Table 10 below) more or less reflects its use, with the top investors (China, Thailand, France, Korea) all being either direct consumers of Burma's resources and energy, or host to corporations involved in such extraction. The seemingly significant numbers associated with the United Kingdom are a distracting anomaly – overwhelmingly this is investment nominally from the British Virgin Islands, a prominent global tax-haven that is also host to many international energy exploration companies, including (of relevance in this context) state-owned ones from China.

[20] The very large number for FDI approvals in 2005/06 above primarily reflects the authorisation of the Tasang Hydro-Electric dam currently under construction on the Salween River. This project was initially a joint venture between Burma's state-owned electricity utility and Thailand's MDX Group, but the latter has since sold its controlling stake to China Gezhouba Group – a Chinese state-owned enterprise that specialises in the financing and construction of dams in developing countries. The Tasang Dam project is the subject of much controversy on both environmental and human rights grounds, and construction has been subject to many delays (and with these, likewise in the application of funds).

Table 10: Country Source of Implemented FDI ($US million)

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10*
China (incl.HK)	115.6	57.2	55.9	425.9	519.1	136.7
France	76.2	91.4	133.8	132.7	55.7	21.1
India	0.2	0.0	0.0	0.0	0.0	0.0
Korea	5.1	0.1	119.8	12.8	189.6	189.6
Singapore	0.9	2.6	0.0	2.5	13.5	2.6
Thailand	4.2	32.3	71.0	86.4	84.3	161.5
UK	12.9	43.4	45.7	49.8	54.2	20.2
Vietnam	0.0	0.0	0.0	4.6	0.0	0.0

** As at September 2009. Source: MCSO 2010.*

External Debt

Little considered in the context of increasing international reserves, and other controversies surrounding its relationship with the multilateral financial institutions such as the IMF, World Bank and ADB, is Burma's relatively substantial foreign debt, much of which is formally in arrears. At the end of 2009/09, Burma's stock of total debt outstanding stood at $US 8.1 billion, or nearly 30% of nominal GDP (IMF 2010, ADB 2010).

Most of Burma's international debt consists of (past) concessional loans made bilaterally by other countries and by the multilateral financial institutions. Of the bilateral loans, the biggest single creditor is Japan, which is owed around $US2.2 billion, and Germany, which is owed almost $US350 million. Both of these debts are in arrears. Of the debts to multilateral institutions, the bulk outstanding is owed to the Asian Development Bank ($US325 million), and the World Bank's International Development Association ($719 million).[21] As with the bilateral concessional loans, Burma's debts to the ADB and IDA are in arrears, a circumstance that accordingly is just one of the 'technical reasons' that precludes new loans to Burma from these institutions.

Much of the remainder of Burma's international debt consists of that outstanding to international suppliers of various kinds (many from China), as well as credit extended in recent times by regional, semi-government export/import and national development banks (a set within which China again features strongly).[22]

[21] Details of past IDA lending to Burma, both in terms of dollar magnitudes and the nature of funded projects, can be found at the World Bank website at: http://web.worldbank.org/external/projects/main?query=myanmar&menuPK=224076&pagePK=218616&piPK=217470&theSitePK=40941.

[22] Especially prominent in this regard is the China Development Bank and the China Export-Import (EXIM) Bank, both of which are prominent funders of the (many) hydropower, oil, gas and mining projects in Burma being undertaken by Chinese firms in ostensible partnership with various Burmese state-owned enterprises.

Privatisation

Perhaps the most 'news breaking' *economic* topic in Burma in 2009/10 has been the sudden rush by Burma's regime to sell-off tranches of state assets and enterprises.[23] Altogether nearly 300 enterprises and properties have been sold off, including ports, rice mills, cigarette and textile factories, cinemas, hotels, an airline, fish and agricultural processing plants, ruby, jade and gold mines – as well as a score of government buildings in Rangoon whose occupants have since decamped to Naypyitaw. The buyers of these assets, in a program that has involved nothing even close to public tendering or any other accountable or transparent process, have been more or less a roll-call of Burma's 'usual suspects' of regime-connected individuals and conglomerates (some of which have been noted already as the bidders for new banking licences) – Tay Za's Htoo Group, the Max Group of companies headed by Zaw Zaw, Steven Law's Asia World company, as well as Burma's two giant military owned corporations, the Union of Myanmar Economic Holdings Limited, and the Myanmar Economic Corporation (all of which appear on US and other country sanctions lists).

The question of 'why' the rush to privatise is one that has exercised many observers of Burma. A number of theories have been advanced, none of which are completely satisfactory. One notion is that the sales are simply about raising cash for a governing apparatus that is otherwise short of funds. Clearly, in a country with Burma's gas export revenues, the 'government' *should* not be short of money. Yet, as noted above, such revenues are not wholly brought back into Burma, and an even more negligible component makes its way into (official) public revenues. This being the case, and with Burma's ramshackle and largely dysfunctional taxation system, it is highly likely that the funds available for domestic spending may well fall short of need. Of course, and as noted earlier with respect to the current 'fund raising' of the USDA, this need may well be currently exacerbated by cash-absorbing election manoeuvring.[24]

Another possible reason for the privatisation scramble also relates to Burma's up-coming elections, though in quite a different guise. These elections will not be free and fair, and no-one (within the regime or outside of it) expects the existing arrangements to substantially alter, so there is little question but that the military will remain in charge. However, whilst this is true for the military regime collectively, it may not be true for its individual members. Some within the current power-elite will gain from the 2010 elections, some will (relatively, and perhaps even absolutely) lose out. Asset sales are usually fraught affairs, and so it might be logical to those in (political and economic) power today to apportion Burma's economic wealth amongst themselves now, and while they (individually) possess the unambiguous coercive power to do so.[25]

[23] For an overview of this current round of privatisations in Burma, see Ba Kaung (2010).

[24] Adding credibility to this assessment are similarly widespread accounts of shortages in physical currency – especially low-denomination *kyat* notes. So severe is this shortage that, in some outlying parts of Burma especially, various 'tokens' have emerged to fulfil the role of small-scale means of exchange.

[25] Supporting this notion are those provisions of the 2008 constitution that, on the surface at least, assigns certain powers to state and regional governments. Of course, on this too we can be sure that the central

But whatever the motivation, Burma's current round of privatisations represent what can only be described as close to a textbook example of institutional expropriation by Burma's existing political and economic elites. This is not without cost to the country even now, but the long term damage it invites – through the denial of necessary reforms by powerful parties whose wealth and power depend precisely on their ability to set the rules of the game in favour of their narrow interests – will likely be the real story of this latest unfortunate turn in Burma's economic journey.[26]

Post-Nargis Reconstruction

In 2008 Burma was struck by Cyclone Nargis. A disaster that impacted primarily upon the Irrawaddy Delta, and Burma's prime rice-growing lands, the Cyclone killed around 140,000 people, made homeless around 2.5 million, and destroyed the livelihoods of many more. In response to the disaster substantial relief and reconstruction aid (financial and material) was made available to Burma by an array of international actors, much of it ultimately coordinated by the Tripartite Core Group (TCG), a body established by, and comprising, the Burmese Government, the Association of Southeast Asian Nations (ASEAN) and the UN. In July 2010, however, at the request of the Burmese authorities, the TCG will be closed down and responsibilities for all aspects of post-Nargis relief and reconstruction will revert to government ministries.[27]

In many aspects the termination of the TCG is just the latest in a long line of actions taken by the Burmese regime to restrict and control foreign access and assistance to Nargis affected areas – actions that infamously included the initial refusal to allow foreign assistance and supplies in the immediate first weeks after the Cyclone hit, and the travel, visa and other restrictions on foreign aid workers that have persisted up to the present.[28] Meanwhile, and rather less reported, has been the sustained harassment (including imprisonment) of local people and organisations in providing aid and assistance. The following account, provided to Human Rights Watch (HRW 2010, p.85) by a representative of an international NGO, is illustrative of the near-universal (if mostly expressed *sotto voce*) experience:

> The government started to target efforts that were too visible, or getting popular. Overall there were more arrests [of Burmese aid workers], so we couldn't scale up [and] the local

holders of power will not in practice give up much – but uncertainty is nonetheless created for individual players.

[26] For more on the pernicious effects of such expropriation in transition economies, and the long-term damage of crony-based privatisation, see EBRD (1999), Hellman (1998), Hellman and Kaufman (2001), Stiglitz (2000) and Waldner (2003).

[27] See 'Two-years on: Asean to handover Post-Nargis humanitarian coordination to Myanmar', press release, ASEAN Secretariat, May 2, 2010, Rangoon, available online at: http://www.aseansec.org/24672.htm.

[28] For a recent report of such difficulties, and which summarises the experiences of many of the affected international NGOs, see 'Carving out humanitarian space post-Nargis', press release, May 24, 2010, United Nations Office for the Coordination of Humanitarian Affairs, available online at: http://irinnews.org/Report.aspx?ReportId=89230.

> partners were getting too nervous. Repeatedly we were being denied travel permits in the Delta.[29]

Of course, along the way there has been some opening to groups providing relief and reconstruction too, but officially-created obstruction in Burma should not go unremarked, especially as it has made materially worse a situation that in the best of circumstances would be dire for vast numbers of people. Likewise, that which should not go unnoticed is the rampant corruption at many levels of the Burmese regime in siphoning away relief supplies from international and local donors, in other patterns of outright graft – and in more subtle ways such as the direction of relief and reconstruction activities through entities and individuals (including most of Burma's leading conglomerates) closely connected to the military regime.[30]

The end result of the problems briefly recounted above is that, two years after Nargis, and the situation of many (most) people in affected areas remains precarious. This is especially the case with respect to failures in the recreation of livelihoods, as a consequence of which various international NGOs have expressed frustration that only about 'one-third' of the funds suggested by the TCG as being necessary for recovery in Nargis areas had been received from international donors.[31] Such ire might be better directed explicitly and unequivocally at Burma's ruling regime – not only as the party with direct responsibilities to the people they rule over, but also as the principal obstacle to external assistance. Meanwhile, the degree to which Burma's ruling regime has abrogated its responsibilities to the victims of Nargis is made very clear in its spending allocations. In 2008/09 Burma's regime spent just $US85 million on post-Nargis reconstruction – less than half of that provided by international donors in the same year, one seventh of the funds spent by the regime on its new fighter planes, and a mere two weeks of the foreign exchange accruing from Burma's gas exports.

Concluding Comments

The inescapable conclusion that emerges from the above is that macroeconomic policy-making in Burma is not just ill-conducive to sustained economic growth, but is actively destructive of Burma's prospects.

[29] This interview conducted by HRW took place in February 2010. For similar accounts, see Vitsuwanvanichkij *et al* (2010).

[30] Included in this graft and corruption was a requirement of the Burmese regime early in the post-Nargis period that all international aid monies be exchanged at a regime-determined exchange rate. Via this simple procedure the regime expropriated up to $US10 million from international donors, with the UN admitting to $US 1.56 in losses via this device. For more, see 'UN loses $US10 million in distorted Burmese official exchange rate', *Mizzima News,* July 29, 2008, available online at: < http://www.mizzima.com/news/world/836-un-loses-us--10-million-in-distorted-burmese-official-exchange-rate.html> (many other media outlets likewise picked up on this story at the time). According to Transparency International's 'Corruption Perceptions Index', Burma is perceived as the third-'most corrupt country in the world' (behind Somalia and Afghanistan). See http://www.transparency.org/policy_research/surveys_indices/cpi/2009/cpi_2009_table.

[31] See, for instance, 'Myanmar cyclone two years on', press release, Oxfam, May 2, 2010, http://www.oxfam.org/en/pressroom/pressrelease/2010-05-03/myanmar-cyclone-two-years-aid-effort-only-quarter-funded-survivors>

Of course, this is hardly surprising. Policy is not made in a vacuum, but is the application of what are ultimately political decisions by, and through, a country's underlying institutions. Of these in turn, what history and the experience of other countries (democratic and otherwise) tells us is that economic growth and development hinges upon the protection of private property (especially against state depredation), the widespread inviolability and enforcement of contracts, certain basic freedoms, reasonably functioning physical infrastructure, openness to international exchange, and policy making that is largely rational and consistent. Such institutional attributes are not yet present in Burma, and their absence denies not just the implementation of sound economic policies, but even the spaces within which they can be discussed. The 2010 elections notwithstanding, meaningful economic reform in Burma is, regrettably, neither in progress, nor in prospect.

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