Burma's Economy 2010:
A Fresh Look at Some Elemental Issues

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Sean TURNELL[†]

Burma Economic Watch and,
Economics Department, Macquarie University, Sydney, Australia

Abstract

The serial underperformer of the Asia-Pacific, Burma's economy is unbalanced, volatile, and largely without the institutions and qualities necessary to achieve sustainable economic growth and development. Using new and hitherto largely unobtainable data, this paper explores the fundamentals of Burma's economy, examining concerns over economic growth, public finances, monetary and financial policies, international trade and investment, privatisation actions, and post-Cyclone Nargis aid. The paper concludes pessimistically as to the likelihood of meaningful change in Burma in the foreseeable future.

1. Introduction

Burma's economy in 2010 is unbalanced, unstable and devoid of 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 economy as it stands at the cusp of the 'elections' that will be held in early November. These will not likely deliver anything but superficial changes to the country's governing apparatus, and promise little in the way of meaningful economic reform.[1]

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

[†] Correspondence: Sean Turnell, Economics Department, Macquarie University, NSW, 2109, Australia. Email: sean.turnell@mq.edu.au

[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 (given their incentives otherwise) to be unlikely sources of economic reform, and none has yet advanced anything close to a credible economic platform.

2. *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 petrocarbons 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.

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).[3] Based on calculations undertaken by this author, increasing net exports account for just over half of average GDP growth 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.[4] At around $US435, per capita GDP in Burma

[2] See, for instance, Turnell, Bradford and Vicary (2009) and EIU (2010).

[3] The SPDC have not published GDP growth claims for 2009/10, but when they do so it may be confidently expected that the decade-long narrative of 'double digit success' will continue. The MCSO has published data on electricity usage, however – which fell by 2.6% across the year. Meanwhile, the output of cement and bricks – reliable proxies for activity in the construction industry – fell 9.1% and 9.9% across 2009/10 (MCSO 2010).

[4] *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).

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).

2.1 A Legacy of Chronic Economic Mismanagement

The current grim state of Burma's economy is the product of nearly fifty years of wilfully inept economic management under a military regime that took power in a coup in 1962, and soon after instigated a programme known as the 'Burma road to socialism'. In the face of manifest failure this 'road' was abandoned in increments in subsequent years, but the fundamental nature of the regime – and of its prerogative over all important aspects of the economy – has remained constant. Burma's military apparatus throughout its rule has commandeered the largest part of the country's output, while it simultaneously dismantled basic market institutions. Primary amongst these consequently 'missing' institutions have been any semblance of the rule of law, or of sound property rights. The greatest proportion of the population in Burma have no legal title over their property or possessions (including land), no certainty that it will not be expropriated by the state without compensation (their lived experiences would tell the contrary), and a circumscribed and uncertain ability to use their own labour and resources.

Instead of functioning amidst formal rights and laws, economic activity in Burma exists according to a set of parallel rules of the *informal* economy – rules determined by arbitrary procedures for dispute settlement, nepotistic patron-client relationships between the military, state and business, extra legal allocations of natural resource concessions and of licences to engage in external (export/import/foreign exchange) activity, and by a governing apparatus that is as unpredictable as it is predatory. In Burma the economic time horizon is very short and, in the absence of trust, investment in long term capital formation (by local or foreign investors) or in the acquisition of personal skills and capabilities, is replaced by an understandable very short-term focus on survival.

In 2009, Transparency International listed Burma as the third most corrupt country in the world (only Somalia and Afghanistan are regarded as worse). Given the unpredictable and idiosyncratic way that Burma's informal 'rules of the game' are applied, these perceptions reflect an unsurprising reality. Such corruption, moreover, is but a component of a broader criminalisation of Burma's economy. This criminalisation is manifested in many ways, cultivated in an environment where powerful figures in the ruling regime (and parties with connections to it) operate independently of formal law or other checks on their actions. Of course, it is also apparent in other objectively measurable ways, including Burma's re-emerging role as a significant regional narcotics exporter. Reversing a decade of declining output, Burma's production of illicit opium has been increasing since 2007, and the country has consolidated its position as the world's second largest producer of the narcotic (after Afghanistan). Perhaps even more significant has been Burma's growing role as a maker and trafficker of synthetic drugs (primarily amphetamine-type stimulants) to Asia and the world beyond, a development that has often escaped the attention typically devoted to opium.[5]

[5] For more on Burma's prominent role in the production and trafficking of narcotics, see UN Office on Drugs and Crime (UNODC, 2009), US Department of State (2010), and 'Drug economics in Burma's new political order', *Mizzima News Special Report,* August 6, 2010, available online at: http://www.mizzima.com/news/inside-burma/4218-drug-economics-in-burmas-new-political-order.html.

The US Government labels Burma as one of three countries that has 'failed demonstrably to meet its international narcotics obligations', and there is something of a consensus amongst observers of Burma that senior figures within the regime collaborate with and protect leading narcotics producers. The naiveté of assuming otherwise is noted with dry understatement in the 2010 edition of the US State Department's *International Narcotics Control Strategy Report:*

> The Burmese regime monitors travel, communications and activities of its citizens to maintain tight control of the population. GOB [Government of Burma] officials are likely aware of the cultivation, production, and trafficking of illegal narcotics in areas they control (US State Department 2010, p.173).

As shall be examined below, a 'privatisation process' undertaken by the SPDC across 2009/10 only underlines the perception that Burma's economy is morphing – from more or less highly centralised state control, into something of a hydra of state, quasi-state, military, and criminal elements.

3. Burma's Public Finances

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:

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.

3.1 A Contrived Fiscal Deficit

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

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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 negligible, and so make next to no impact upon public revenues. However, rendered into the accounts at the unofficial (but realistic in terms of purchasing power) exchange rate of around *kyat* 1,000:1 (the rough average of recent years), 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 SPDC's willingness to place its spending discretions over open and accountable governance.

Of interest, since it flies in the face of both need and true revenue capacities to do otherwise, Burma was the only country in Southeast Asia through 2009/10 not to engage in any domestic fiscal stimulus to offset the effects of the slowing global economy.

3.2 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 its 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.

3.3 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. A major new report into Burma's taxation arrangements, released in late August 2010 (with the collaboration of Burma Economic Watch), painted an especially grim picture:

> People in Burma are forced to hand over large proportions of their income and property in official and unofficial taxes and this happens so often for each family, that it makes basic survival extremely hard…Taxation in Burma…becomes all-consuming as families desperately try to find the money and other resources to pay these taxes, and in finding ways to cope with the devastating effect it has on their already dismal income.[6]

Of course, devising tax systems that raise sufficient revenue is a problem common to many developing and transition economies. One point of distinction with respect to Burma, however (at least in terms of most Southeast Asian countries, if not many in Africa) 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 the widespread 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 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 [USDA][7], 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.[8] Such taxes are used for a variety of causes, including to finance

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[6] This report, *We have to give them so much that our stomachs are empty of food: The Hidden Impact of Burma's Arbitrary and Corrupt Taxation,* was compiled by the 'Network for Human Rights Documentation – Burma', and largely written by Alison Vicary (of Burma Economic Watch and Macquarie University).

[7] Now transformed into the Union Solidarity Development *Party* (USDP) – the primary vehicle through which Burma's current leaders aim to remain in power beyond the November 7 elections.

[8] In an effort to raise funds for the November 7 elections, in recent times the USDP (and before that, the USDA) has been imposing a 3,000 *kyat* fee on members of TPDCs, VPDCs and certain categories of state

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 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.

3.4 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 below, such bonds on issue increased by 65% across 2008/09, before increasing more than three-fold in 2009/10. 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 2010/11. Of course, in the past Burma's high inflation rates have rendered its bond 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.[9] 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 September 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

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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. See also EIU (2010, p.6).

[9] 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.

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.[10]

3.5 Printing Money

With Burma's foreign earnings corralled away, and its taxation arrangements broadly dysfunctional, 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 2009/10 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.[11]

Table 4: Financing Burma's Fiscal Deficit

(Kyat millions)

Year*	Central Bank Lending to Government	Commercial Bank Lending to Government	Government Treasury Bonds Outstanding
2001/02	675,040	40,985	131,918
2002/03	892,581	43,248	132,895
2003/04	1,262,588	35,546	110,675
2004/05	1,686,341	89,217	111,627
2005/06	2,165,154	100,358	78,961
2006/07	2,762,626	186,998	117,614
2007/08	3,534,687	389,398	179,777
2008/09	3,880,765	620,875	297,358
2009/10*	4,725,431	987,731	876,116

**Calendar year, ending December 31.*
***as at September. Source IMF (2010).*

[10] 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>

[11] 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 'around 10%' is nevertheless consistent with other estimates, including that of the EIU (2010). Beyond 2010, Burma's inflation rate is almost certain to accelerate – not least because of the chronic 'need' for the SPDC to borrow from the central bank to finance its domestic spending. At present the prices of many consumer items are also rising in Burma from another direction – the SPDC's closure (since July) of the Mae Sot-Myawaddy border crossing checkpoint, which has driven up prices from a range of goods from Thailand that normally flow through this corridor.

4. 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 perhaps 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 woe. 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 ban on private commercial banks lending to farmers and cultivators.
- 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 have created a system of (corruption-inducing) credit rationing, and other distortions.
- 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 (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.

Given the above, and along with macroeconomic instability and the near-complete lack of the necessary institutional and legal infrastructure necessary for a functioning banking system, it will be of no surprise to the reader that Burma's banks are essentially moribund institutions that perform a very limited role in the economy. The vast majority of people in Burma have no ready access to a bank (there are less than a thousand bank branches in Burma [compared to around 7,000 in neighbouring Thailand], and most of these are concentrated in urban centres), and so very few have a bank account.[12] Most people in Burma do not trust banks, with many wealthier citizens having lost money during the country's 2003 banking crisis, and all are wary of Burma's long history of deposit freezes, 'demonetisation' episodes, and other monetary depredations.[13] It is almost impossible for consumers to borrow for any purpose from a bank, and most people rely (as they have always done) on informal moneylenders to meet their credit needs – often suffering under usurious interest rates as a consequence. To the extent that Burma's banks function on familiar lines it is mostly as lenders to business (often to 'connected' conglomerates), and as the providers of limited financial services such as (domestic) remittance facilities. Finally, certain of Burma's banks have functioned as little more than vehicles for the 'laundering' of narcotics, illegal logging and mining, and other illicit income activities. [14]

[12] Most banks in Burma refuse to accept deposits of less than 100,000 *kyat* in any case.

[13] Recent reports of senior figures in Burma's ruling regime buying gold and precious stones, in preparation for the uncertainties that may follow the November election, are accordingly consistent with 'what is trusted and what is not' as a store of value in Burma. See 'Generals in reshuffle buying diamonds, gold', *The Irrawaddy,* August 31, 2010, available online at: < http://www.irrawaddy.org/article.php?art_id=19346&Submit=Submit>.

[14] 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).

In 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'.[15] 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 that such entities are unlikely saviours of Burma's financial sector, or of its international credibility.

4.1 Burma's Rural Financial Crisis[16]

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, meaning that small scale moneylenders are the sole recourse of most. Moneylender interest rates, however, are high – 10 to 20% per month being typical, even with collateral – and at levels that disallow returns to farmers that are little above that necessary for mere

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[15] Rendered into English, 'Amara' translates as 'eternal'; 'Shay Saung' as 'forward' or 'leading'. 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 euphemistic 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 this latest tranche of banking licences were exclusively granted to such obvious cronies of the SPDC has likewise caused more than a little unhappiness amongst other business figures in Burma. One such prominent business person complained that it was '…unfair that not every businessman [sic] who has the capital required by the law has the opportunity to do private banking. Only those who are directly dealing with the regime or a helpful to the generals are permitted. This is not a true market economy system. It's a monopoly'. 'Burma Relaxes Banking Regulations', *The Irrawaddy,* June 14, 2010, online at: http://www.irrawaddy.org/article.php?art_id=18716. This same article also notes the tensions *amongst* the existing private banks, and the favouritism granted to some against the tight restrictions maintained against new branch openings and other operational issues of concern to the banks. Kanbawza Bank, which is headed by Aung Ko Win, a noted protégé of Burma's 'number two', Vice Senior-General Maung Aye, seems to be especially favoured in this context, leading to the complaint from a competitor that discrimination 'between private banks exists in many ways. The most important is that whatever business you are allowed to do, you won't be successful unless you are friends with the generals or give them money'.

[16] For a more complete discussion of the problems facing rural finance in Burma, see Turnell (2010).

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.[17] 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.[18]

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 (Dapice *et al* 2009). This is a large commitment of capital, but (even at the higher end of the range) 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 on its last legs, 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, 2010 FAO 2009, Turnell 2009, 2010).[19] A proposal from the TCG to expand the funds available for microfinance in Burma, as a key strategy for post-Nargis reconstruction, was quietly shelved following resistance from the Burmese regime in late 2009 (ACTED 2010, p.12).[20]

[17] 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).

[18] Based on survey data in TCG (2009, p.34), around 12% of cultivators in Cyclone 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, 2010).

[19] 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, 2010).

[20] 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). In a similar vein, the privately-owned Tun Foundation Bank has been active in a limited number of villages, providing loans of K20,000 per acre at 3% per month. At this stage, however, the initiative remains something of a 'pilot' project (TCG 2010, p.31).

5. 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	2009/10
Exports	2,928	3,558	5,233	6,402	6,732	7,507
Imports	1,805	1,816	2,690	3,075	4,160	4,052
Foreign Exch. Reserves	1,026	2,505	3,640	4,040	5,105	6,050*

*Source: MCSO 2010, IMF 2010, EIU 2010 and author's calculations. *Estimate.*

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.[21] The likelihood that even vaster fields of natural gas exist in the Bay of Bengal, on the seabed in areas subject to contending territorial claims by Burma and Bangladesh, suggests that the *potential* role that gas could play in transforming Burma's economy remains a crucial, if unresolved, issue.[22]

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.[23] Of course, this aspect of Burma's gas export story, and the ill-disciplined and unaccountable spending it

[21] For a general background on the gas sector in Burma, see Kolås (2007).

[22] Estimates of recoverable reserves of natural gas in the Bay of Bengal (a relatively under-surveyed maritime region) are subject to wide variation. Nevertheless, and in the light of new methods of offshore extraction (the BP disaster in the Gulf of Mexico notwithstanding), it is possible that accessible gas volumes in this area could amount to more than all of that in Burma's existing fields combined – in which case, and depending upon how the dispute with Bangladesh is resolved, such fields could yield to Burma up to $3-$4 billion per year. One of the more revealing aspects of Burma's current dispute with Bangladesh over maritime boundaries (a dispute that at present is the subject of bilateral negotiations between the two countries), is what each country wants to do with the gas, should they win control over it. For Bangldesh, the gas is seen as a resource for the production of domestic energy – providing the means to alleviate the electricity shortages that currently hold back its industrialistion efforts. In Burma, on the other hand, more consideration is applied to the export potential of gas, and as the source of ready cash for the SPDC. For more on the potential gas fields in the disputed waters between Burma and Bangldesh, as well as the conflict between the two, see Bissinger (2010). This dispute could be the motivation for the SPDC's purchase of the MiG-29s from Russia in 2009 (below).

[23] 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).

permits, has been adding the unfortunate characteristics of what is commonly known as a 'resources curse' to the already long-list of problems that beset macroeconomic policy-making in Burma.[24]

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 products, allowing some enterprising agricultural firms to identify and meet demand for these commodities from India.[25] 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). 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 has become infeasible. [26]

Table 7: Exports: Selected Categories and Totals

($US millions)

Category	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Gas	1024.4	1,079.6	2,039.1	2,520.7	2,362.9	2,882.5
Beans and Pulses	224.0	322.3	608.6	627.9	932.3	920.4
Teak and Hardwoods	391.6	474.4	521.3	538.4	489.1	489.2
Garments	216.1	271.9	279.1	282.7	289.8	280.7
Rice	31.8	36.6	3.1	102.5	202.2	252.9
Fish and Seafood	71.7	93.5	126.4	193.0	264.0	271.1
TOTAL	2,927.9	3,558.2	5,232.9	6,402.1	6,732.3	7,507.1

Source: MCSO (2010), author's calculations.

[24] 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 (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).

[25] 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).

[26] The next largest market is Bangladesh, which in 2009/10 took 7% of Burma's rice exports (US Department of Agriculture 2010). In a move that once again has introduced great uncertainty into Burma's rice export sector, in August 2010 the SPDC suddenly announced that exporters would henceforth have to apply to the Ministry of Commerce for export licences, rather than the Myanmar Rice Industry Association. For more, see 'Government takes over issuing of rice export permits', *The Irrawaddy,* August 30, 2010, available online at: http://www.irrawaddy.org/article.php?art_id=19331.

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 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 primarily 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	42.2	9.0
China (incl. Hong Kong)	20.6	30.3
India	13.3	4.6
Singapore	8.9	28.9
Africa (various)	5.0	0.0
Japan	2.3	6.2
EU	0.5	1.7
Other	7.2	19.3

Source: MCSO 2010, EIU 2010, and author's calculations.

5.1 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 over $US6 billion.

5.2 Exchange Rate

To outside observers, the most obvious manifestation of Burma's macroeconomic troubles are its dual, and highly diverging, exchange rates.[27] Formally rigidly fixed against the IMF's

[27] In actual fact there are more than 'two' exchange rates in play in Burma, as a number of other metrics are employed for various purposes – including, for instance, the levying of customs duties, and for the internal accounts of various state-owned enterprises. Burma has also long had in circulation 'Foreign Exchange Certificates' (FECs) – a type of parallel currency (which is meant to be convertible at parity with the US dollar) for use by tourists, and Burmese citizens for whom the possession of most foreign currencies is technically a crime. In practice (that is, in Burma's all-important informal foreign exchange 'market'), FECs trade at a substantial discount to the US dollar, hence creating yet another relevant 'exchange rate' for the country. In recent months, for reasons that are probably related to doubts that FECs will continue beyond the November election, the FEC discount against the US dollar has increased markedly.

'Special Drawing Rights', but in practice against the US dollar at a rate of approximately K6:$US1, Burma's 'official' exchange rate bears little relationship to the 'market' rate as determined daily, informally, according to demand and supply. Currently this rate stands at around K980:$US1, over one hundred and fifty times below the official standard. Wild swings in the market value of the *kyat* are reasonably frequent, to which the SPDC's counter is invariably to order the arrest of those dealing in it.

In addition to its sometimes disorderly fluctuations, the unofficial exchange value of the *kyat* has been in secular decline for some time, and in this it acts as something of a barometer of Burma's macro-economy. Table 9 below records the *kyat's* declining market value vis-à-vis the US dollar over the last decade:

Table 9: Indicative (Unofficial) Exchange Rates, *kyat*/$US1

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*
650	960	900	1,000	1,300	1,450	1,300	1,250	1,000	980

**As at September.*

Beyond painting an image (rightly) associated with the most chaotic of economies, Burma's multiple exchange rate apparatus imposes costs. Creating an obvious incentive for corruption (for those able to buy dollars at the official rate, and sell at the market rate) and an impediment to foreign investment, the dual exchange rates cost existing businesses within Burma seeking to export or import (who are forced to inhabit a 'grey' area of legal vulnerability), and those generally needing official approval in some form. All up, the IMF (2007, p.16) estimates that economic losses associated with the inefficiencies of Burma's divergent exchange rates amount to as much as 5–10 per cent of the country's GDP.

The recent *strengthening* of the *kyat* has a number of causes, but mostly reflects Burma's swelling trade surpluses since 2006. The extent of the appreciation, however, underperforms the 'fundamentals' in this respect, highlighting the substantial risk premium built in to the market's perceptions of the true value of the *kyat.* Much volatility in the informal exchange rate of the *kyat* can be expected in the lead up to the November 7 elections.

5.3 Tourist Arrivals

Tourism to Burma has long underperformed its potential, the causes of which include a lack of crucial infrastructure and, above all, the ruling regime's appalling human rights reputation which has significantly tarnished the country's 'brand'. Tourist arrivals in Burma have never topped more than half a million – a number that compares especially poorly to that of neighbouring Thailand which, despite its own on and off again political dramas, manages to attract around 14 million visitors each year.[28] Table 10 reveals the patterns of tourist flows into Burma over the last five years:

[28] Data from the Tourism Authority of Thailand, available online at http://www.tourismthailand.org/.

Table 10: Tourism Arrivals and Country Source

Year	USA	Europe*	Japan	China	Thailand	Total
2006/07	9,253	62,243	12,998	8,933	25,861	370,974
2007/08	6,309	29,359	6,820	12,122	25,387	288,776
2008/09	5,564	20,917	4,934	11,397	19,964	255,288
2009/10	7,399	37,186	7,838	17,361	38,189	298,556

Source: MCSO (2010) and author's calculations.
**Includes the United Kingdom, France, Germany, Italy Belgium and Switzerland.*

A number of observations leap out from the data above:

- Political developments in Burma are critical. As can be seen from Table 10, tourist arrivals in Burma suffered a precipitous (24.9%) fall across 2006/07 to 2007/08 – a period which (just before Cyclone Nargis in May 2008), included the uprising that became known as the 'Saffron Revolution'.
- Tourism numbers fell again (11.6%) the following year in the wake of Cyclone Nargis, but this devastating natural disaster clearly had less negative impact than the political developments of the previous year.
- The overall tourist numbers mask significant country and regional source variations. For want of a better label, 'rich country' visitor numbers were affected to a much greater extent by the atrocities committed in 2007 than those from countries such Thailand and China. Tourists from Japan, for instance, fell 48% across 2006/07 – 2007/08 (not so surprising perhaps, given that one of the most prominent victims in the crackdown on the Saffron protests was the Japanese photojournalist, Kenji Nagai), while across the same period visitors from the US fell 31%, and Europe 54%. Visitors from Thailand, however, fell only 2%, while those from China actually rose – by 36%. Travellers from both of these countries need only cross the border over land (limiting the pre-planning a trip might otherwise entail, and its 'transactions costs' accordingly), which may go some way to explaining the differences. Equally, such 'tourists' may not in fact be such, but workers, entertainers and assorted traders that are in Burma in substantial numbers from both countries. Finally, it may usefully be noted that visitors from China may have been less aware than others of Burma's 2007 uprising – an event that was suppressed in the Chinese press almost to the same degree as it was in Burma.
- There are some curious idiosyncrasies with respect to tourist numbers and country source according to gender. For most countries, the majority of tourists to Burma are male, for reasons that one might speculate relates to the 'adventure tourism' branding employed by some of the airlines and agencies selling travel packages to the country. This disparity is strikingly reversed, however, for Thailand and (especially) Russia. The former may be accounted for by trading activities of numerous kinds, the latter (to put it bluntly) could well be driven by the demands of the sex trade in Burma/China border areas, well populated by gambling and 'entertainment' venues of questionable repute.

- In 2009/10, tourism to Burma recovered somewhat (up 17%), but the visitor total remained 20% below the 2006/07 peak.

In early 2010, in an effort to boost tourist numbers, a system of allowing visitors to obtain 'visas on arrival' was introduced (including, importantly, at Burma's Yangon International Airport). However, this liberalisation in Burma's (hitherto often onerous) visa arrangements was suspended on September 1, no doubt as a consequence of the SPDC's anxieties about the upcoming elections.

5.4 Remittances

In 2008 this author was part of a team that produced a report into the remittances that Burma's migrant workers send home (Turnell, Vicary and Bradford 2008). These remittances, which are overwhelmingly channelled outside the formal banking system (but especially through the well-established and greatly-trusted 'Hundi' arrangement) provide a significant source of income for many Burmese households. It has not been possible to replicate the 2008 study in full, but anecdotal reports from sources behind the earlier work suggest that the value of remittances flowing into Burma have declined in recent months. The principal cause of this fall is likely to be the slowing global economy, and the resulting unemployment of Burmese workers abroad.

6. 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 10 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 case of announced hydro-electric projects, which usually involve large capital outlays, often in politically-sensitive (and non-Burman ethnic population) areas.[29] 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.

[29] 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: 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 11 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.

Table 11: 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.*

7. 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 2009/10, 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).[30] 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).[31]

8. Privatisation

Perhaps the most prominent *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.[32] 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).[33]

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 properly 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

[30] 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.

[31] 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.

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

[33] Advertisements were placed in newspapers in Rangoon calling for bidders for a small range of assets and enterprises, but no results or prices paid were subsequently revealed.

earlier with respect to the current 'fund raising' of the USDA/USDP, this need may well be currently exacerbated by cash-absorbing election manoeuvring.[34]

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 November 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.[35]

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 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.[36]

9. 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 was closed down and responsibilities for all aspects of post-Nargis relief and reconstruction reverted to government ministries.[37] The end of the TCG brought down with it the hopes that some had entertained that Burma's regime had overcome their fear and suspicion of international assistance. According to the ASEAN Secretary-General, Surin Pitsuwan, '[i]t was hope that

[34] 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.

[35] 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 holders of power will not in practice give up much – but uncertainty is nonetheless created for individual players. The EIU (2010, p.6) comes to a similar assessment to the above.

[36] 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).

[37] 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.

[the TCG] could serve as a mechanism for assistance to other parts of Myanmar once the confidence and comfort level had been raised, but that did not happen'.[38]

Of course, in many ways 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.[39] 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 partners were getting too nervous. Repeatedly we were being denied travel permits in the Delta.[40]

Along the way there has been some opening to groups providing relief and reconstruction too, but officially-created obstruction 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.[41]

Problems located within international and local aid organisations themselves have compounded the problems of post-Nargis recovery. Some of these were highlighted in the final report of the TCG, which noted a number of perennial afflictions of aid operations. These included the lack of coordination between aid providers, the delivery of projects 'on a sporadic basis, with no defined engagement with the community', and the unwillingness of

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[38] 'Burma dashes Asean and UN hopes of disaster cooperation', Larry Jagan, *The Irrawaddy,* September 1, 2010, available online at: < http://www.irrawaddy.org/highlight.php?art_id=19349>.

[39] 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. In September 2010 the SPDC once again halted the issuing of Nargis-related visas for international humanitarian aid workers.

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

[41] 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 from URL: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).

providers to 'encourage or respond to requests from villagers' (TCG 2010, pp.13, 17). Such problems, understandable enough perhaps in the often chaotic environment of humanitarian emergencies, are unfortunately endemic in the long-embedded aid sector in Burma. Dominated by the UNDP (the coordinating agency for UN efforts broadly in Burma), this sector has been hamstrung by the limitations imposed upon it by Burma's regime, but its problems likewise extend beyond this. A recent (June 2010) independent assessment of the UNDP's centrepiece effort in Burma, the 'Human Development Initiative' (HDI), found that it made only a 'modest' and 'limited difference' to the villages in which it was active (Birgegaard *et.al.* 2010, p.9). Concluding that the performance of much of the HDI was 'unsatisfactory' and should not be funded in its present form beyond 2011, the independent assessment team found fault both with the Burmese regime as well as design flaws within the HDI:

> …the absence of a policy/regulatory/institutional framework conducive to broad-based economic and social development has constrained HDI in having a greater impact. However, if this is the case, it raises concerns regarding the potential of a programme such as HDI to make a difference. While acknowledging these constraints the Team ascribes design flaws of HDI a much greater explanatory value on the issue of impact (Birgegaard *et. al.* 2010, p.10).

The end result of the problems (merely briefly recounted above) is that, two years after Nargis, the situation of most people in affected areas remains precarious. According to the TCG (2010, p.21), agricultural output in Nargis-affected areas remains 30% below pre-Cyclone levels. For the fishing sector (an important source of employment and income in the Irrawaddy Delta) the situation is even more dire. Fishing output, employment and fish stocks are all 'drastically reduced', while around 80% of fishermen have been unable to replace the boats, nets and equipment they lost in the Cyclone (TCG 2010, p.23). The reason for the latter situation, noted above in the context of agriculture broadly, is the near-total collapse of Myanmar's rural financial system, and the neglect of the same by both Myanmar's regime and international aid agencies. The neglect by the aid community of the credit and debt situation – in the face of what the TCG acknowledges (2010, pp.9-11) as the strong preferences of villagers for credit assistance *above all else* – has a number of causes, but primarily the difficulties of operating microfinance and similar schemes in Burma's restrictive political and institutional environment.

Total international assistance to Burma in the wake of Nargis has totalled (as at June 2010) over $US600 million. The relief provided by Burma's regime across the same time has amounted to less than one sixth of this, and likewise less one sixth of the funds it spent on the new fighter planes from Russia in 2009, and a mere two weeks of the foreign exchange that accrues from Burma's gas exports. Seen in this light, the frustration expressed by some international NGOs as to what they seem to regard as the international community's penny-pinching might be a tifle overdone.[42] Such ire is 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.

[42] 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>

10. Concluding Comments

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

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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