

# Myanmar

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REV2003

# Myanmar

## Country Forecast Highlights

MOST LIKELY REGIMES AND THEIR PROBABILITIES	
<b>18-Month:</b>	Hard-line SPDC 60% (55%)
<b>Five-Year:</b>	*Transitional Reform 40%

FORECASTS OF RISK TO INTERNATIONAL BUSINESS				
	Turmoil	Financial Transfer	Direct Investment	Export Market
<b>18-Month:</b>	High	D+	C	D+
<b>Five-Year:</b>	Very High	C-	D+	D+

() Indicates change in rating.

\* Indicates forecast of a new regime.

KEY ECONOMIC FORECASTS			
Years	Real GDP Growth %	Inflation %	Current Account (\$bn)
1999-2003(AVG)	5.7	26.6	-0.12
2004(F)	0.6	30.0	-0.10
2005-2009(F)	3.1	34.0	-0.13

## Hard-liners in Control

### Key Points To Watch...

- ✓ A series of Cabinet changes carried out in recent months, most notably the sacking of Prime Minister Khin Nyunt, the acknowledged leader of the moderate faction within the governing SPDC, appears to signal the ascendance of the hard-liners within the military regime, a development that bodes ill for any near-term progress toward an easing of political constraints...
- ✓ At the same time, SPDC Chairman Than Shwe has called for the release of hundreds of prisoners, including several long-time detainees belonging to the pro-democracy NLD, a move that has left the regime's intentions shrouded in uncertainty...
- ✓ In any case, the SPDC's refusal to release NLD leader Suu Kyi, who was informed in late November that she will remain in "protective custody" at least until September 2005, all but eliminates any chance that the international community will ease the heavy pressure it has been applying on the government over the past year...

- ✓ As such, further moves toward the establishment of so-called “guided democracy,” in which the military continues to play a dominant role behind a façade of elected civilian government, are expected during the five-year forecast period. However, the prospects for any substantive role for the NLD in shaping policy remain dim...

### Political Dangers Will Offset Benefits of Liberalization

- ✓ Sanctions are likely to remain in place at least during the early part of the forecast period, exacerbating economic stresses that have already forced the imposition of strict limits on bank withdrawals in order to forestall a crisis in the banking sector...
- ✓ The shortage of local currency has left many employers unable to meet payroll obligations or pay suppliers. Consequently, the economy will continue to languish in 2004, growing by less than 1%, while inflation will remain high, despite declining domestic demand, registering 30% for the year...
- ✓ In an attempt to counteract political intrigue, domestic disquiet, and international isolation, the government may ease some formal restraints on foreign business. Nevertheless, many of Myanmar’s most profound economic liabilities are beyond the government’s capacity to address...
- ✓ Some of the worst difficulties stem from such informal barriers as inefficiency and administrative corruption, problems that will not be easily remedied...
- ✓ The SPDC’s long-term survival will require an eventual accommodation with pro-democracy forces in the country. That said, the junta is unlikely to permit any political reforms that threaten the ultimate authority of the military in government matters...
- ✓ Some semblance of civilian involvement in political affairs, however limited, will help to ease international pressure and reassure investors, providing a boost to the economy. Improving conditions in Myanmar’s main export markets and a relaxation of sanctions by the middle of the forecast period will stimulate expansion, but the economic damage inflicted early on will hold annual real GDP growth to an average of 3.1% through 2009, a level that is far below potential...
- ✓ Loose monetary policies, shortages of hard currency, and the volatility of the currency in the parallel market will create persistent upward pressure on prices, and inflation will average 34% annually over the forecast period.

### Economic Forecasts for the Three Alternative Regimes

	Transitional Reform			Hard-line SPDC			Divided SPDC		
	Growth (%)	Inflation (%)	CACC (\$bn)	Growth (%)	Inflation (%)	CACC (\$bn)	Growth (%)	Inflation (%)	CACC (\$bn)
2004	0.6	30.0	-0.10	1.0	28.0	-0.09	0.0	37.0	-0.14
2005-2009	3.1	34.0	-0.13	-0.5	42.0	-0.18	2.7	30.0	-0.28

## Political Fact Sheet

**CAPITAL:**

Yangon

**CONSTITUTION:**

1974 (suspended)

**ADMINISTRATIVE SUBDIVISIONS:**

7 states and 7 divisions

**POPULATION:**

2003: 49.49 million

**AREA:**

678,576 sq. km.

**OFFICIAL LANGUAGE:**

Myanmar

**STATUS OF PRESS:**

Completely controlled

**SECTORS OF GOVERNMENT****PARTICIPATION:**

The government owns and operates all major sectors of the economy except agriculture, which is strictly controlled.

**CURRENCY EXCHANGE SYSTEM:**

pegged to the SDR

**EXCHANGE RATE:**

11/19/2004 \$1=6.26 kyats

**ELECTIONS:**

National Assembly members were previously elected to four-year terms; last, May 27, 1990; next, not yet scheduled, pending new constitution.

**HEAD OF STATE:**

Chairman, State Peace and Development Council (SPDC), Than Shwe (1992)

**HEAD OF GOVERNMENT:**

Prime Minister Soe Win (2004)

**OFFICIALS:**

Maung Aye, Vice Chairman, SPDC

Thein Sein, Secretary 1, SPDC

Htay Oo, Agriculture & Irrigation

Tin Naing Sein, Commerce

Thein Zaw, Communications, Posts & Telegraphs

Saw Tun, Construction

Than Shwe, Defense

Lun Thi, Energy

Hla Tun, Finance & Revenue

Nyan Win, Foreign Affairs

U Thaung, Home Affairs

Aung Thaung, Industry

Kyaw Hsan, Information

Maung Oo, Labor

Ohn Myint, Mines

Soe Tha, National Planning & Economic Development

Thura Myint Maung, Religious Affairs

Thein Swe, Transport

**LEGISLATURE:**

The State Peace and Development Council (SPDC) controls the government. A new constitution is currently being written.

# Myanmar Databank

	1994-1998 Average	1999-2003 Average	1994	1995	1996	1997	1998
<b>Domestic Economic Indicators</b>							
GDP (Nominal, \$bn)	151.72	366.76	79.13	106.71	135.13	181.03	256.58
Per Capita GDP (\$)	3352	7609	1802	2406	3016	3979	5555
Real GDP Growth Rate (%)	6.5	5.7	7.5	6.9	6.4	5.8	5.9
Inflation Rate (%)	29.4	26.6	24.1	25.2	16.3	29.7	51.6
Capital Investment (\$bn)	20.23	40.36	9.14	14.57	20.19	24.29	32.98
Capital Investment/GDP (%)	13.3	11.0	11.6	13.7	14.9	13.4	12.9
Budget Revenues (\$bn)	10.97	17.37	5.43	7.09	9.41	14.27	18.67
Budget Revenues/GDP (%)	7.1	4.8	6.9	6.6	7.0	7.9	7.3
Budget Expenditures (\$bn)	13.79	22.78	8.07	11.49	13.68	15.94	19.77
Budget Expenditures/GDP (%)	9.5	6.3	10.2	10.8	10.1	8.8	7.7
Budget Balance (\$bn)	-2.82	-5.40	-2.64	-4.40	-4.27	-1.67	-1.10
Budget Balance/GDP (%)	-2.4	-1.5	-3.3	-4.1	-3.2	-0.9	-0.4
Money Supply (M1, \$bn)	29.57	116.32	16.45	22.23	28.66	35.57	44.96
Change in Real Wages (%)	1.7	0.9	3.4	2.1	1.3	1.0	0.7
Unemployment Rate (%)	15.1	15.2	15.0	15.2	15.2	15.1	15.2
<b>International Economic Indicators</b>							
Foreign Direct Investment (\$bn)	0.29	0.21	0.13	0.28	0.31	0.39	0.32
Forex Reserves (\$bn)	0.35	0.38	0.42	0.56	0.23	0.25	0.31
Gross Reserves (ex gold, \$bn)	0.35	0.38	0.42	0.56	0.23	0.25	0.31
Gold Reserves (\$bn)	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Gross reserves (inc gold, \$bn)	0.37	0.39	0.43	0.57	0.24	0.26	0.33
Total Foreign Debt (\$bn)	6.19	19.99	5.75	5.90	6.11	6.59	6.59
Total Foreign Debt/GDP (%)	4.7	5.4	7.3	5.5	4.5	3.6	2.6
Debt Service (\$bn)	0.27	0.44	0.19	0.21	0.25	0.33	0.35
Debt Service/XGS (%)	13.1	15.7	12.0	11.0	12.5	14.9	14.9
Current Account (\$bn)	-0.32	-0.12	-0.13	-0.26	-0.28	-0.42	-0.50
Current Account/GDP (%)	-0.2	0.0	-0.2	-0.2	-0.2	-0.2	-0.2
Current Account/XGS (%)	-15.3	-4.9	-8.4	-13.9	-14.1	-19.0	-21.2
Exports (\$bn)	0.96	2.09	0.86	0.93	0.95	0.98	1.08
Imports (\$bn)	1.95	2.16	1.47	1.76	1.89	2.13	2.48
Trade Balance (\$bn)	-0.99	-0.08	-0.61	-0.83	-0.94	-1.15	-1.40
Exports of Services (\$bn)	0.44	0.42	0.27	0.36	0.43	0.53	0.63
Income, credit (\$bn)	0.01	0.04	0.01	0.02	0.01	0.01	0.01
Transfers, credit (\$bn)	0.58	0.25	0.41	0.56	0.60	0.69	0.64
Exports G&S (\$bn)	2.00	2.79	1.55	1.87	1.99	2.21	2.36
Liabilities (\$bn)	0.34	0.42	0.34	0.33	0.34	0.34	0.34
Net Reserves (\$bn)	0.03	-0.03	0.09	0.25	-0.10	-0.08	-0.01
Liquidity (months import cover)	0.3	-0.1	0.7	1.7	-0.6	-0.5	0.0
Currency Exchange Rate	5.992	6.396	5.975	5.667	5.861	6.184	6.274
Currency Change (%)	-0.4	0.6	3.0	5.2	-3.4	-5.5	-1.5
<b>Social Indicators</b>							
Population (million)	44.95	48.19	43.92	44.35	44.80	45.50	46.19
Population Growth (%)	1.4	1.4	1.9	1.0	1.0	1.6	1.5
Infant Deaths/1000	55	76	50	49	48	48	79
Persons under Age 15 (%)	36	32	36	36	35	35	36
Urban Population (%)	25	27	25	25	25	25	25
Urban Growth (%)	1.4	3.0	1.9	1.0	1.0	1.6	1.5
Literacy % pop.	83	83	82	83	83	83	83
Agricultural Work Force (%)	65	65	65	65	65	65	65
Industry-Commerce Work Force (%)	14	12	14	14	14	14	14
Services Work Force (%)	21	23	21	21	21	21	21
Unionized Work Force (%)	0	0	0	0	0	0	0
Energy - total consumption (10 <sup>15</sup> Btu)	0.12	0.15	0.11	0.12	0.12	0.13	0.14
Energy - consumption/head (10 <sup>9</sup> Btu)	0.01	0.01	0.01	0.01	0.01	0.01	0.01

Note: fiscal year beginning April 1

# Myanmar Databank

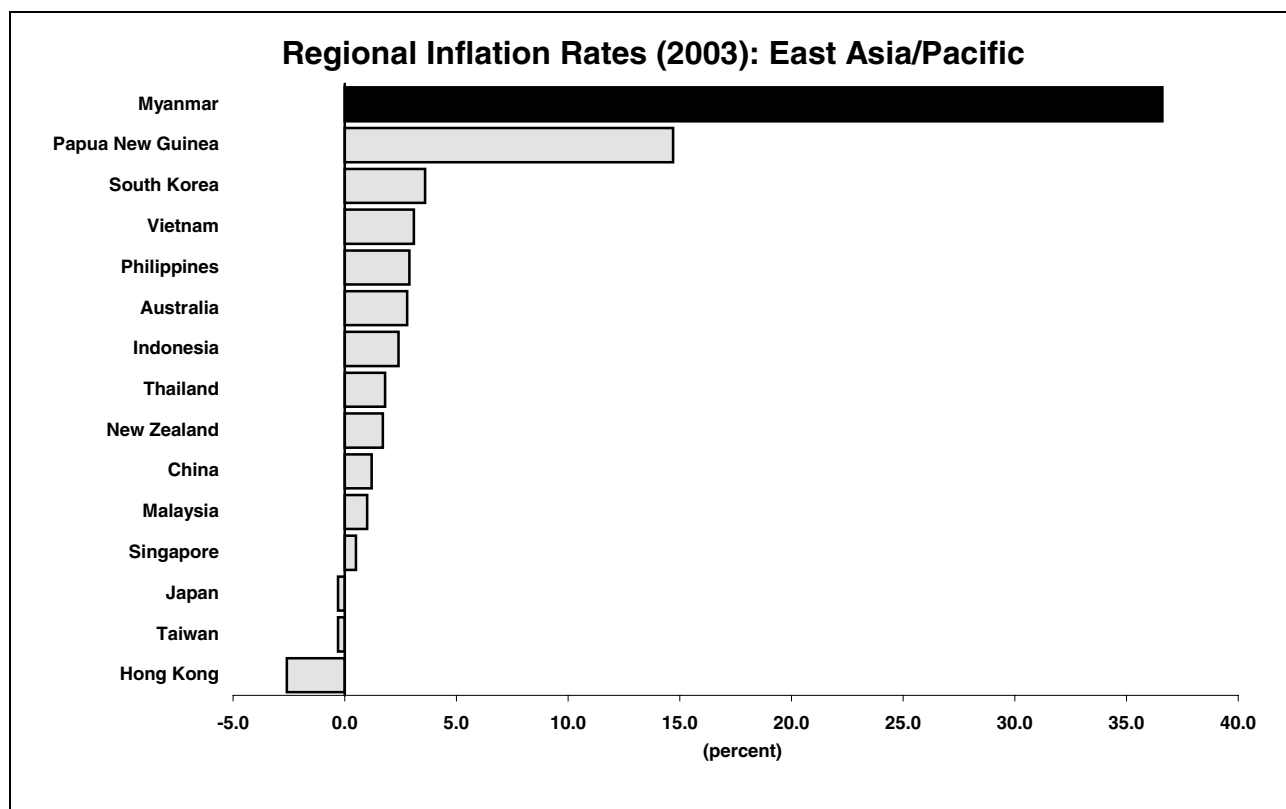
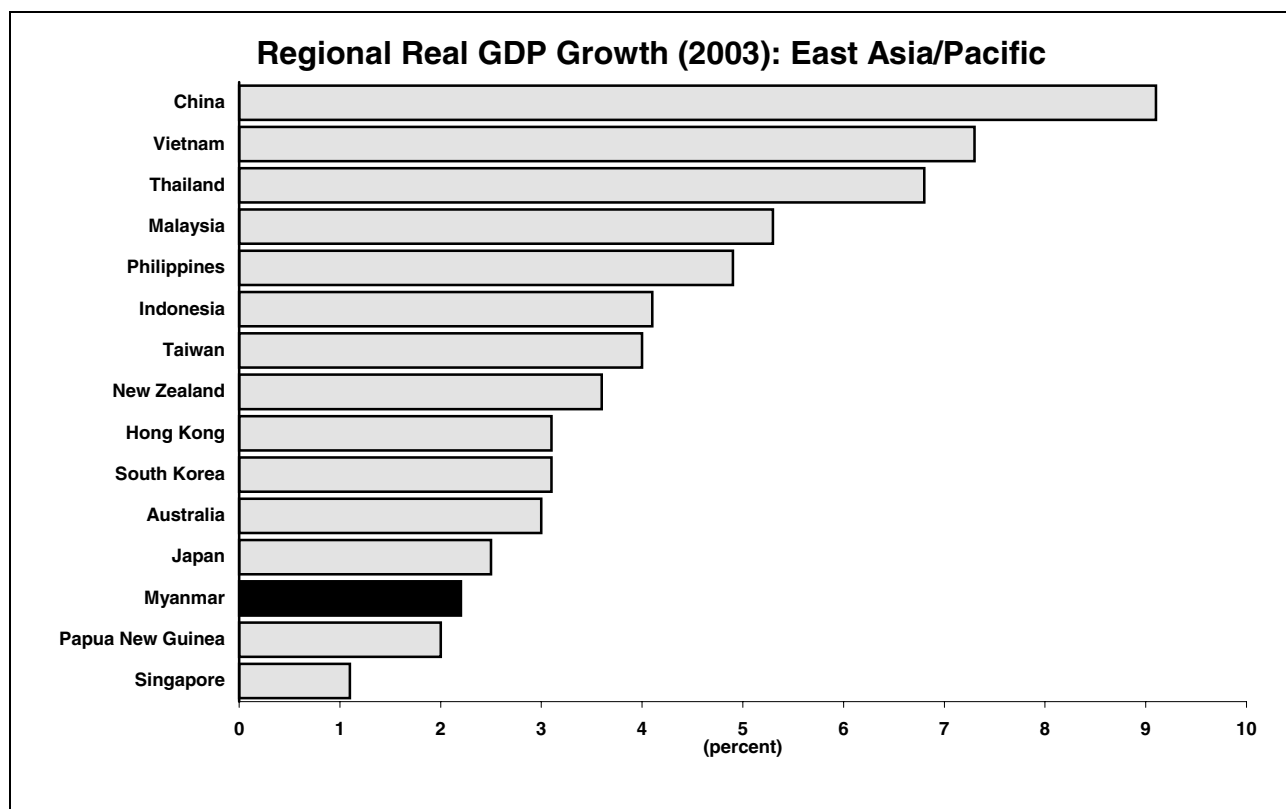
	1994-1998 Average	1999-2003 Average	1999	2000	2001	2002	2003
<b>Domestic Economic Indicators</b>							
GDP (Nominal, \$bn)	151.72	366.76	351.97	355.41	366.07	375.56	384.78
Per Capita GDP (\$)	3352	7609	7509	7476	7595	7688	7775
Real GDP Growth Rate (%)	6.5	5.7	10.8	6.3	4.8	4.2	2.2
Inflation Rate (%)	29.4	26.6	18.3	-0.1	21.1	57.1	36.6
Capital Investment (\$bn)	20.23	40.36	38.84	39.45	40.24	41.31	41.94
Capital Investment/GDP (%)	13.3	11.0	11.0	11.1	11.0	11.0	10.9
Budget Revenues (\$bn)	10.97	17.37	19.79	20.96	15.63	15.00	15.49
Budget Revenues/GDP (%)	7.1	4.8	5.6	5.9	4.3	4.0	4.0
Budget Expenditures (\$bn)	13.79	22.78	24.67	34.43	16.69	18.76	19.34
Budget Expenditures/GDP (%)	9.5	6.3	7.0	9.7	4.6	5.0	5.0
Budget Balance (\$bn)	-2.82	-5.40	-4.88	-13.47	-1.06	-3.76	-3.85
Budget Balance/GDP (%)	-2.4	-1.5	-1.4	-3.8	-0.3	-1.0	-1.0
Money Supply (M1, \$bn)	29.57	116.32	55.56	72.36	104.90	153.58	195.21
Change in Real Wages (%)	1.7	0.9	1.0	0.9	1.0	0.8	0.9
Unemployment Rate (%)	15.1	15.2	15.2	15.2	15.0	15.2	15.3
<b>International Economic Indicators</b>							
Foreign Direct Investment (\$bn)	0.29	0.21	0.26	0.26	0.21	0.19	0.13
Forex Reserves (\$bn)	0.35	0.38	0.27	0.22	0.40	0.47	0.55
Gross Reserves (ex gold, \$bn)	0.35	0.38	0.27	0.22	0.40	0.47	0.55
Gold Reserves (\$bn)	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Gross reserves (inc gold, \$bn)	0.37	0.39	0.28	0.23	0.41	0.48	0.56
Total Foreign Debt (\$bn)	6.19	19.99	6.59	14.50	25.62	26.29	26.93
Total Foreign Debt/GDP (%)	4.7	5.4	1.9	4.1	7.0	7.0	7.0
Debt Service (\$bn)	0.27	0.44	0.33	0.37	0.56	0.49	0.45
Debt Service/XGS (%)	13.1	15.7	14.8	15.0	18.0	15.6	15.0
Current Account (\$bn)	-0.32	-0.12	-0.28	-0.21	-0.17	0.01	0.05
Current Account/GDP (%)	-0.2	0.0	-0.1	-0.1	0.0	0.0	0.0
Current Account/XGS (%)	-15.3	-4.9	-12.6	-8.5	-5.5	0.3	1.7
Exports (\$bn)	0.96	2.09	1.29	1.66	2.43	2.54	2.51
Imports (\$bn)	1.95	2.16	2.18	2.17	2.38	2.16	1.93
Trade Balance (\$bn)	-0.99	-0.08	-0.89	-0.51	0.05	0.38	0.58
Exports of Services (\$bn)	0.44	0.42	0.51	0.48	0.41	0.38	0.30
Income, credit (\$bn)	0.01	0.04	0.05	0.04	0.04	0.03	0.03
Transfers, credit (\$bn)	0.58	0.25	0.38	0.29	0.22	0.19	0.15
Exports G&S (\$bn)	2.00	2.79	2.23	2.47	3.10	3.14	2.99
Liabilities (\$bn)	0.34	0.42	0.34	0.34	0.53	0.54	0.37
Net Reserves (\$bn)	0.03	-0.03	-0.06	-0.11	-0.12	-0.06	0.19
Liquidity (months import cover)	0.3	-0.1	-0.3	-0.6	-0.6	-0.3	1.2
Currency Exchange Rate	5.992	6.396	6.223	6.426	6.684	6.573	6.076
Currency Change (%)	-0.4	0.6	0.9	-3.3	-4.0	1.7	7.6
<b>Social Indicators</b>							
Population (million)	44.95	48.19	46.87	47.54	48.20	48.85	49.49
Population Growth (%)	1.4	1.4	1.5	1.4	1.4	1.3	1.3
Infant Deaths/1000	55	76	83	76	74	74	72
Persons under Age 15 (%)	36	32	36	36	30	30	30
Urban Population (%)	25	27	26	26	27	27	27
Urban Growth (%)	1.4	3.0	5.5	1.4	5.3	1.3	1.3
Literacy % pop.	83	83	83	83	83	83	83
Agricultural Work Force (%)	65	65	65	65	65	65	65
Industry-Commerce Work Force (%)	14	12	14	14	14	10	10
Services Work Force (%)	21	23	21	21	21	25	25
Unionized Work Force (%)	0	0	0	0	0	0	0
Energy - total consumption (10 <sup>15</sup> Btu)	0.12	0.15	0.14	0.15	0.15	0.15	0.16
Energy - consumption/head (10 <sup>9</sup> Btu)	0.01	0.01	0.01	0.01	0.01	0.01	0.01

Note: fiscal year beginning April 1

# Myanmar Country Forecast

1-Dec-2004

Comparison: Myanmar



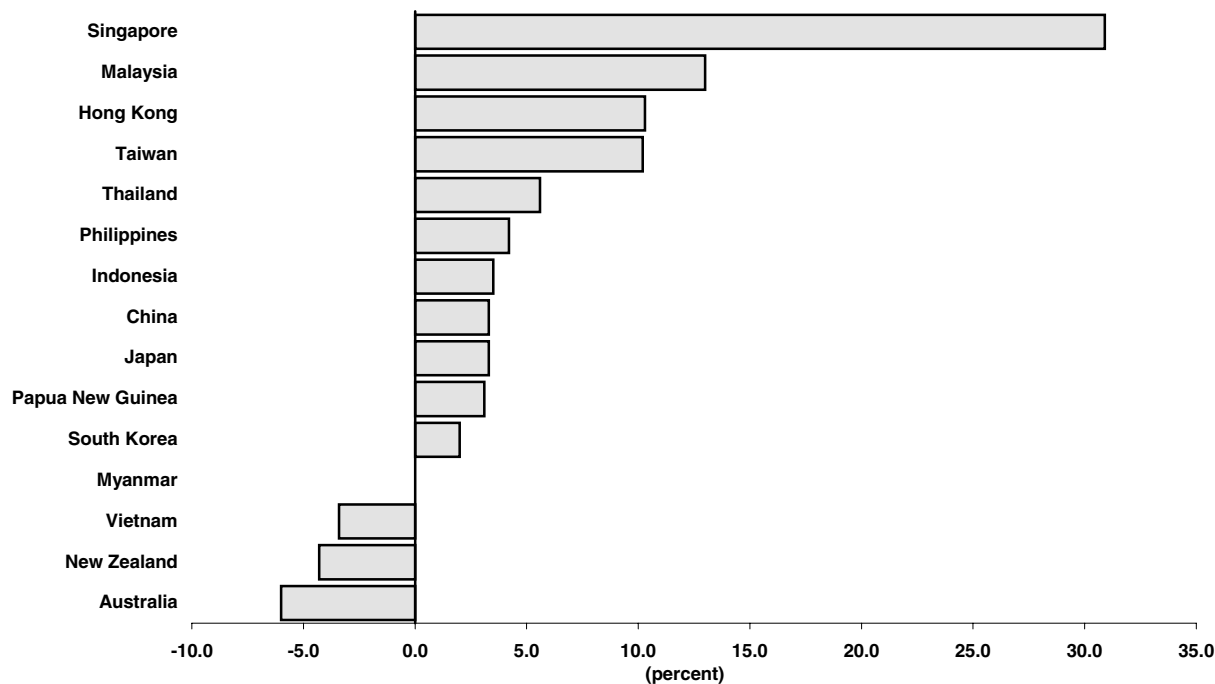


# Myanmar Country Forecast

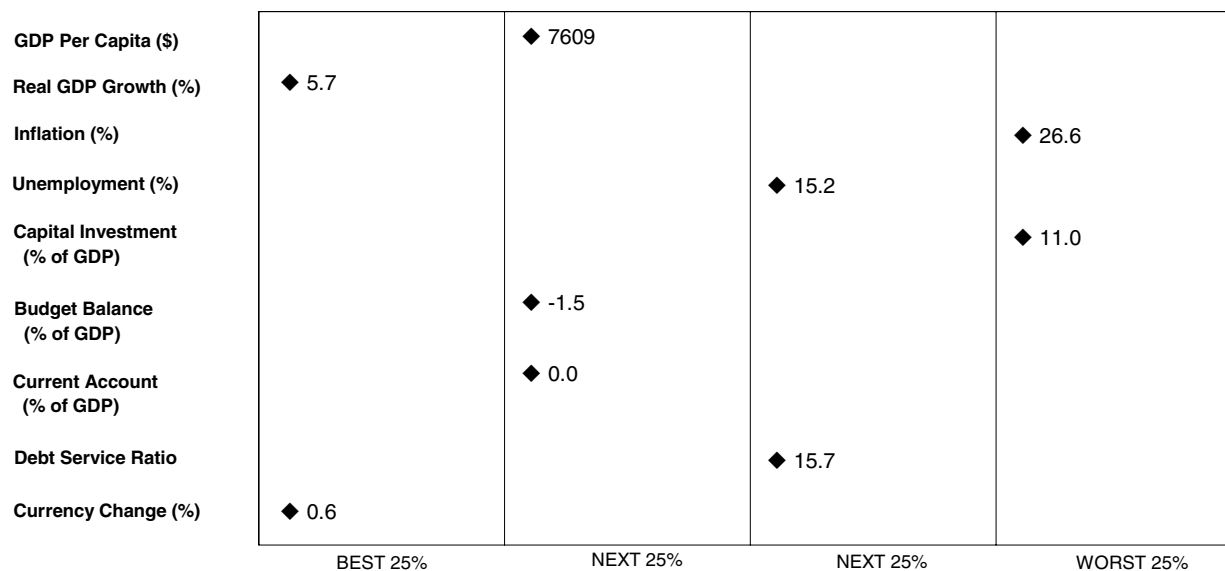
1-Dec-2004

Comparison: Myanmar

## Regional Current Account/GDP (2003): East Asia/Pacific



## Economic Performance Profile Country's Ranking Relative to All Countries Covered by Political Risk Services 1999-2003



**Social Indicators****as of 2003****Primary Energy**


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Energy Consumption ( $10^{15}$ Btu):	0.16
Per Capita Consumption ( $10^9$ Btu):	0.01

**Population**


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Annual Growth	1.3%
Infant Deaths per 1,000	72
Persons Under Age 15	30%
Urban Population	27%
Urban Growth	1.3%
Literacy	83%

**Work Force Distribution**


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Agriculture	65%
Industry-Commerce	10%
Services	25%
Unions	0%

**Ethnic Groups**


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Bamar (68%), Shan (9%), Karen (7%), Rakhine (4%), Chinese (3%), other (9%)

**Languages**


---

Myanmar, minority ethnic languages

**Religions**


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Buddhist (89%), Muslim (4%), Baptist (3%), Roman Catholic (1%), animist beliefs (1%), other (2%)

# Myanmar

## Country Forecast

### Comment & Analysis

#### **Substantial Reshuffle Adds to Uncertainty**

Something is afoot in Myanmar, but no one is quite sure what it is, except for its apparent architect, the top man in the governing State Peace and Development Council (SPDC), Than Shwe. Unfortunately, he is not telling.

The first step in an apparent far-reaching process came on September 18, with the sacking of four ministers: Foreign Minister Win Aung and his deputy, Khin Maung Win; Agriculture Minister Nyunt Tin; and Transport Minister Hla Myint Swe. According to the official announcement, all four were “permitted to retire,” the junta’s euphemism for sacking. Although no reasons were given for the “retirements,” they did not take place in a vacuum.

Since May 2003, the government has held Aung San Suu Kyi, the leader of the National League for Democracy (NLD), in “protective custody” as part of a ploy to split the NLD leadership from its huge popular support base. In August 2003, Khin Nyunt, the head of the National Intelligence Bureau (NIB) and Secretary 1 of the SPDC, who had recently been installed as prime minister, put forward a “road map” for democratic governance in Myanmar. That process envisioned the phased release of NLD leaders, eventually including Suu Kyi, in preparation for the party’s involvement in the process of crafting a “democratic” constitution. Foreign Minister Win Aung, a close ally of the prime minister, became the mouthpiece for the “road map” in the international arena.

While some prisoner releases did take place, and the National Convention for creating a new constitution was reconvened in May 2004 after an eight-year hiatus, Suu Kyi remained in protective custody, and the NLD refused to participate in the Convention until she was released. Both the EU and the US, which already had sanctions in place against the regime, applied further pressure on the NLD’s behalf. In particular, the EU declared that it would impose additional sanctions on Myanmar if Suu Kyi were not released before the opening of the Asia-Europe Meeting (ASEM) in Hanoi, Vietnam, on October 8.

Win Aung’s sacking less than a month before the summit, at which he had been expected to represent Myanmar, seemed to indicate that the SPDC was challenging the EU to do its

worst. And so it proved. On October 8, the EU made good on its threat, announcing a ban on all European companies dealing with businesses controlled by, or linked to, the military dictatorship; an expansion on its existing visa ban list to include any military officers above the rank of brigadier-general; and a declaration that EU members would vote against extending any loans to Myanmar from international financial institutions, such as the World Bank and the IMF.

The EU's action could not have come as a surprise to the SPDC government, and so the only logical deduction was that the military regime had changed its mind about the democratic transition outlined in Khin Nyunt's road map. Consequently, it was not wholly unexpected when, on October 19, the SPDC announced that the architect of that transition, Prime Minister Khin Nyunt, who was widely recognized as the head of the "pragmatist" (i.e., moderate) faction within the SPDC, was himself being "permitted to retire."

Unlike his former colleagues, Khin Nyunt was not simply "retired," but was also placed under house arrest amid allegations of corruption. On October 22, the NIB, which Khin Nyunt had continued to head while prime minister and served as the chief source of his political influence, was abolished, and senior NIB officials, as well as several of Khin Nyunt's relatives, were placed under investigation.

Soe Win, a former air force chief, was named to replace Khin Nyunt as prime minister. Generally regarded as part of the SPDC's hard-line faction, Soe Win is alleged to have played a key role in the attack by a pro-SPDC mob on Suu Kyi and her supporters in May 2003, the event that provided the rationale for placing her in custody.

### **Prisoner Releases**

By the end of October, when the dust from the various personnel changes had settled, it seemed fairly clear that the government had set its face against rapprochement with the West and against any movement toward democracy that would include the participation of the NLD or the release of Suu Kyi.

But then it all changed again. On November 18, the SPDC announced the start of a process of releasing nearly 4,000 prisoners who, the regime claimed, had been "wrongly charged" by the NIB. On November 25, the number of prisoners to be released was more than doubled to 9,248.

Although most of the several hundred prisoners released in the first phase were straightforward criminals, they also included some 30 political prisoners, among them top NLD members such as Min Ko Naing, who had been held since 1989 after leading

pro-democracy student demonstrations the previous year; Sein Ohn, who was arrested in September 1996; and Thaung Lwin, a lawyer and member of the NLD Organizing Committee from Lashio Township in Shan State. According to various reports, other NLD leaders, including the party's 78-year-old former secretary, Win Tin, will also be released over the coming weeks.

## Outlook

Commentators do not seem to agree on the motivation for the releases, with some seeing the gesture as intended to appease Myanmar's partners in the Association of South East Asian Nations (ASEAN), who have privately expressed concern about the dismissal and arrest of Khin Nyunt, while others view the move as a ploy to build domestic support in the wake of the government reshuffle.

So, what is going on? Has the SPDC eradicated the "moderates" from its ranks in order to maintain absolute military control for the foreseeable future, consigning itself to increasing international isolation? Or is the regime embarking on a renewed campaign of reform, permitting the limited release of political prisoners to provide fresh impetus to the plan to create a military-dominated "democracy" that will enable it to garner some international support?

Was Khin Nyunt removed because he was too vocal in objecting to Win Aung's dismissal or the apparent change of policy within the SPDC? Or is the marginalization of Khin Nyunt, Win Aung, and the others merely the outcome of an old-fashioned power struggle that has little to do with ideology or policy preferences?

At this point, there is absolutely no way to know. However, the continued detention of Suu Kyi, who remains under "protective custody," and reportedly was informed on November 28 that her detention has been extended at least to September 2005, does not seem to bode well for further steps in the direction of democracy.

That said, the prisoner releases permitted so far make no sense except as a sop to the international community, which has made clear that Suu Kyi's release is the *sine qua non* for any easing of sanctions on the regime. As the EU, the US, and, increasingly, even ASEAN, continue to apply pressure on Yangon, the SPDC will have to discard its ambiguous policies, and take a firm stand, one way or the other.

The goal of self-preservation would seem to dictate that the SPDC ultimately will come down on the side of limited democratic reforms that permit the junta to call the shots behind a façade of civilian democracy. While the latest government shakeup may delay movement along that path, the prisoner releases indicate that SPDC leaders recognize, however much to their chagrin, that they must move in this direction.



# Myanmar

## Country Forecast

### Forecast Scenarios

#### SUMMARY OF 18-MONTH FORECAST

<b>REGIMES &amp; PROBABILITIES</b>	Hard-line SPDC 60%	Divided SPDC 35%	Transitional Reform 5%
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#### SUMMARY OF FIVE-YEAR FORECAST

<b>REGIMES &amp; PROBABILITIES</b>	Transitional Reform 40%	Hard-line SPDC 35%	Divided SPDC 25%
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#### MOST LIKELY REGIME SCENARIO

##### 18-Month Forecast Period:

Hard-line SPDC (60% Probability)

##### Five-Year Forecast Period:

Transitional Reform (40% Probability)

<b>Transitional Reform</b>	<b>Growth (%)</b>	<b>Inflation (%)</b>	<b>CACC (\$bn)</b>
<b>2004</b>	0.6	30.0	-0.10
<b>2005-2009</b>	3.1	34.0	-0.13

A significant shakeup within the hierarchy of the State Peace and Development Council (SPDC), particularly the sacking of Prime Minister Khin Nyunt, the acknowledged leader of more moderate elements of the regime, gives every appearance of a clear shift in the balance of power within the SPDC toward the hard-line stance favored by Maung Aye, the vice chairman of the SPDC and commander-in-chief of the army. Gen. Than Shwe, the chairman of the SPDC, is reported to be quite ill, and is said to have remained at the helm only in response to appeals from SPDC members who feared an open power struggle between Maung Aye and Khin Nyunt if he were to step down. With Khin Nyunt out of the picture and facing criminal corruption charges, it would seem that Than Shwe chose to eliminate that danger by siding with the hard-liners.

That said, Than Shwe's more recent decision to release hundreds of prisoners, including several long-time detainees affiliated with the opposition National League for Democracy (NLD), sends a clear signal that international sanctions are biting hard. The releases are most likely intended to see how much ground the regime really needs to concede to democracy advocates in order to win some relief from onerous foreign pressure. The EU and the US have made clear that any improvement in relations hinges upon the release of detained NLD leader Aung San Suu Kyi, and the participation of her party in any process to introduce democratic reforms.

Thus, while the hard-liners are ascendant, social pressures will grow as international sanctions continue to have a deleterious impact on economic development, and the SPDC is likely to become more flexible about reaching an accommodation with the political opposition. In any case, the SPDC will be loath to permit reforms that significantly undercut its control over political affairs. In all likelihood, the junta will continue to promote the creation of a political structure that has been characterized as “guided democracy,” featuring a weak, elected civilian Parliament that is controlled by the SPDC, which will function as an executive branch that holds veto power over legislation and appointments. The “guided democracy” model represents a compromise that might be acceptable to both the hard-liners within the SPDC and the international community (although not necessarily the NLD), but will only be pursued if doing so results in the lifting of sanctions.

### **More Pressure from the Outside**

The military regime has been resistant to the advice and immune to the threats of the IMF or other international financial institutions because the country has learned to make do without their assistance. Leaders of global institutions are perceived as dangerous enemies, but the SPDC is less wary of cooperation with regional organizations, having made overtures to the Asian Development Bank (ADB) for a renewal of lending. Such aid will not be automatic, in light of the ADB’s criticisms of the country’s economic policies and the relatively critical stance adopted by the Association of Southeast Asian Nations (ASEAN) following the detention of Suu Kyi in May 2003.

Despite a recognition that increased foreign investment is essential to the country’s economic development, investment policy will be determined in the short term by political considerations. The hard-liners fear that economic reforms, particularly those that promote increased foreign participation in the economy, pose an inherent threat to the SPDC’s political control, and so will resist moves to make the business climate more attractive to foreign investors.

New foreign investment has declined steadily since 1997 and will remain low, except perhaps in the oil and gas sector. Singapore has the largest share of investment in Myanmar and will, along with other Asian countries, continue to account for the major share of foreign investment outside the oil and gas sector.

The military’s fear of foreign influence is translated into relatively high barriers to foreign investment, most notably through attempts to impose rigid controls on business operations. There will be no reduction in the heavy state involvement in the economy through the government’s Myanmar Economic Holdings Corporation (MEHC) and the Myanmar Economic Corporation (MEC), because these organizations provide both active and retired officers with economic benefits and patronage opportunities. Foreign trading



firms are now required to have a local partner, a system that ensures that any increase in foreign investment will provide new opportunities for the political elite.

Little effort is being made to improve the inadequate state of the infrastructure, which poses a significant de facto barrier to investment.

In March 2003, the country stood on the brink of a financial crisis, after a run on private banks in February, fueled by rumors of liquidity problems, prompted the institutions to impose heavy restrictions on withdrawals. The black market value of the currency, the kyat, rose from 900 to the US dollar to about 1,100 to the dollar amid fears of shortages of local currency, while the official rate remained grossly overvalued at 6.2 kyat to the dollar. Independent observers attributed the crisis to ill-conceived government policies — notably a 10% cap imposed on interest payments while inflation was running at about 50%, a combination that encouraged heavy investment in shaky investment schemes — and a lack of bank supervision that permitted banks to make millions of dollars in business loans to well-connected individuals who had neither collateral nor any actual business venture. The government has insisted that all is well with the banking sector, and that the financial problems resulted from a baseless panic fueled by the junta's political enemies. However, the curbs on withdrawals remain in place, and there is little hope that they will be lifted as long as the new, harsher sanctions imposed by the US in July 2003 remain in place. Consequently, there is little reason to expect any easing of exchange restrictions until well into the forecast period, at the earliest.

### **Little Change in Import Restrictions**

Despite the suspicions of the outside world, Myanmar will try to live up to its trade obligations as a member of ASEAN. In addition to economic benefits, membership provides political advantages, allowing the country to remain engaged with its neighbors and limiting the isolation created by international sanctions from the US, the EU, and other industrial democracies. Supported by Vietnam, Myanmar will lobby within ASEAN for permission to take a more gradual approach in easing its trade restrictions, hoping to exploit its nominal reform process in order to obtain a relaxation of the pressures for economic and political change.

Nonetheless, depleted foreign exchange reserves will leave the government with limited flexibility to ease curbs on imports. In early April 2002, the government aroused the ire of its ASEAN partners by suspending the import licenses of foreign trading firms in an effort to conserve its dwindling foreign exchange reserves. Only if economic conditions improve will the government even slightly ease restrictions on non-essential imports (currently only 20% of all imports), and such improvement is all but ruled out as long as domestic political conditions are such that international sanctions are maintained. High nominal tariff rates are increased by the unfavorable exchange rates that are used to assess the value of imports. Although the other members of ASEAN will apply pressure

for the elimination of this practice, the state of crisis in the banking sector will make the government leery of making any revisions to exchange regulations that might be expected to facilitate access of imports to the country.

### **Friction and Flashpoints**

In November 2001, SPDC leaders touted the white elephant captured in Myanmar as its evidence, according to tradition, of a peaceful and prosperous future for the country. Tradition aside, Myanmar will need far more than a white elephant to solve its problems.

The purely superficial political reforms that the SPDC is willing to tolerate will fall far short of what is necessary to reduce the most significant threats of turmoil. While some members of the opposition may choose to cooperate with the government, many will not. Suu Kyi will remain an icon of dissent, both domestically and internationally. The military's comprehensive intelligence and surveillance system will allow the government to crush most dissent at its onset in Yangon and other key areas. The military government will deal with any demonstrations harshly, regardless of whether a transitional regime has emerged.

Border flashpoints will remain sources of concern. Confrontations with Bangladesh have subsided, but clashes with Thai troops will continue to occur periodically as the SPDC engages in battle with separatist ethnic minorities in the border region. If the junta cannot keep its incursions to a minimum and avoid Thai casualties, the situation could result in dangerous military incidents. Open conflict with such a major regional power could further undermine the country's international support and weaken its hold on the domestic opposition.

Other sources of conflict with Thailand and other neighboring states are the operations of Myanmar's major drug gangs, which enjoy the government's tacit approval, if not its involvement. Drug trafficking has been a major bone of contention in Thailand, whose relations with Myanmar have cooled considerably since the leaders of the two nations declared a "new era" following talks in December 2001. After a period of rising tensions, Myanmar closed the border in Shan State in May 2002. Although the border was subsequently reopened, the disruption of cross-border trading has persisted. In early 2003, the Thai government initiated a sweeping crackdown on drug-trafficking that the government in Bangkok will pursue with renewed vigor ahead of Thai elections in early 2005, creating the potential for a flaring of hostilities between the two countries as Thai authorities seek to stem the flow of drugs from Myanmar.

The government's failure to deliver on promises made to ethnic groups during cease-fire negotiations may eventually lead to renewed fighting. Although the SPDC has secured tenuous truces with most of the nearly 20 ethnic groups that have taken up arms against the government since the 1940s, the truces hold largely because of the threat of harsh

government retaliation and promises of additional development in minority areas. Among the major holdouts are the Karen National Union (KNU) and the Shan State Army-South (SSA-S), although the KNU initiated peace talks with the SPDC in early December 2003. The KNU's ranks were decimated by military offensives in 1995 and 1997, and for the past several years the group has engaged in low-level guerrilla fighting along the eastern border region. Even with the cease-fire agreements, fighting between government forces and smaller insurgent groups has continued along the Thai border, sometimes spreading across the border and leading to clashes between Myanmar and Thai forces.

Although not directly targeted, foreign firms are at risk from the effects of the social and economic disruptions. Especially vulnerable are businesses engaged in petroleum and other mineral extractive operations. Investors could find themselves under fire from the regime's enemies for doing business in Myanmar and, simultaneously, under rhetorical attack by the regime, which would seek to shift blame to outsiders. Verbal attacks on investors, however, will most likely be only for domestic consumption, and offset by private reassurances from the authorities urging outsiders not to withdraw.

### **Cloudy Economic Outlook**

The international sanctions imposed on Myanmar are undoubtedly holding economic development well below potential, although by exactly how much is difficult to determine because of the poor quality of available economic data. With that caveat in mind, it is estimated that real GDP slowed to 2.2% in 2003 (although the government was still forecasting double-digit growth late in the year), reflecting the impact of a crisis in the banking sector and a tightening of international sanctions, while inflation remained high at 36.6%, as monetary policies continued to be guided by the government's financing needs and the value of the currency fell sharply in the parallel market. The shortage of kyat and restrictions on bank withdrawals will continue to make it difficult for businesses to meet payroll requirements or pay suppliers, contributing to a further slowing of growth to less than 1% in 2004. International sanctions, which have already inflicted serious damage on the textile and garment industries, will remain in place and will continue to bite hard for the foreseeable future. Only after some progress toward the easing of political restrictions is in evidence will international pressures ease, allowing an acceleration of economic expansion. On balance, real GDP growth will average just 3.1% annually in the period 2005-2009. Inflation will ease only slightly in 2004, reflecting declining domestic demand as economic problems worsen. However, loose monetary policies, shortages of hard currency, and the volatility of the currency in the parallel market will create persistent upward pressure on prices, and inflation will average 34% annually over the forecast period.

A substantial improvement in domestic economic conditions is unlikely until civilians begin to play a more significant role in setting policies. The merely cosmetic political

change envisaged under this scenario, combined with inadequate economic reforms, will discourage foreign investment, regardless of the response of foreign governments. The declining trend in foreign investment is unlikely to be reversed during the forecast period. The failing educational system and the shortage of skilled labor combine with the political dangers to make Myanmar a weak regional competitor for investment funds.

The heavy burden of defense expenditures and unprofitable parastatals will act as a drag on the economy. In addition, the collapsing health care system and the spread of HIV/AIDS are destined to widen the budget deficit, but only as much as the regime cannot avoid spending. Agriculture and forestry account for 60% of GDP, most of the country's exports, and employ more than half the work force, but the government's policies since 1995 have merely aggravated the sector's decline.

US sanctions that came into effect in August 2003, which ban both imports from Myanmar and the transmission of remittances from the US to Myanmar, as well as a tightening of EU sanctions announced in October 2004, will push the current account balance into deficit in 2004. Restraints on non-essential imports are likely to remain in place, providing a buffer against a rapid expansion of the external deficits, but the decline in the agricultural sector will prevent any significant increase in the value of exports over the forecast period. Consequently, the current account balance will remain in deficit, averaging \$130 million annually through 2009.

## SECOND MOST LIKELY REGIME SCENARIO

### 18-Month Forecast Period:

Divided SPDC (35% Probability)

### Five-Year Forecast Period:

Hard-line SPDC (35% Probability)

Hard-line SPDC	Growth (%)	Inflation (%)	CACC (\$bn)
2004	1.0	28.0	-0.09
2005-2009	-0.5	42.0	-0.18

It is possible that the marginalization of Khin Nyunt and his close ally, former Foreign Minister Win Aung, does not really reflect the defeat of moderate elements within the SPDC, and that a new factional leader will emerge who is capable of challenging Maung Aye for dominance in a post-Than Shwe regime. However, no such leader has as yet emerged, and the recent Cabinet reshuffles, particularly the elevation of Soe Win to the post of prime minister, give every indication that the hard-liners are set to play a dominant role in the shaping of policy, at least in the short term. In fact, there is a fairly high probability that the hard-line elements within the SPDC might hold tight to their grip on power over the entire forecast period, remaining steadfast in the face of growing international pressure, and clamping down hard on any and all forms of domestic opposition.

The international response to a tightening of military control and violent reprisals against political opponents would propel the government into falling back even more heavily on

its own resources. In such an event, it would revert to unalloyed isolationism and an abandonment of all pretenses toward democratic reform. Harsh measures would probably be taken against Suu Kyi, the NLD, and other elements of the political opposition. Suu Kyi might even be deported.

Such a regime would try to maintain existing international relationships that have proved beneficial, such as those with China, the ASEAN countries, and other neighboring states. However, the sharp increase in repression accompanying this regime's accession of power would make relations with the ASEAN states more difficult. While ASEAN has a policy of non-interference in the affairs of its members, the outcast status of Myanmar has already created awkward diplomatic situations for other members. The EU, for example, has frequently refused to meet with ASEAN representatives for trade talks as long as Myanmar is represented on the negotiating team. A hard-line regime would be more likely to use the expanded Myanmar armed forces to pursue separatist guerrillas across national borders, escalating tensions with Thailand to the breaking point. This would spell the end of efforts by some ASEAN leaders to reconcile the differences between the SPDC and the international community.

### **Foreign Investment Draining Away**

In response to the inevitable intensifying of international sanctions, the government would abandon many efforts to attract more foreign investment. The heightened sense of insecurity could lead to retaliation against firms from countries against whose governments the regime held particular resentment. Restrictions on currency and profit repatriation would remain and possibly increase as international sanctions reduce capital flows. Investment would decline even more sharply, affecting even investments from ASEAN countries and in the oil and gas sector.

Myanmar would not try to drive away the few foreign investors already operating in the country, particularly those engaged in projects requiring substantial capital, such as the early 2002 launch of the GSM satellite and system by Sky-Link Communications, a company based in the British Virgin Islands. This regime would try especially hard to encourage additional investment in the oil and gas sector.

### **Only Vital Trade**

The tightening of foreign trade sanctions could lead to a halt of all but the most vital foreign trade. Criticism from ASEAN members and efforts to abandon the organization's policy of non-interference in domestic affairs would probably drive the government from the organization. Relations with China would probably continue to be close and trade between the countries would increase. In order to offset Chinese influence, Myanmar would try to develop closer economic, political, and military relations with India. Import and export controls would remain in place and even more non-essential goods would be excluded from importation.

**More Turmoil, More Repression**

Quelling social disturbances would be at the top of the hard-liners' agenda. Turmoil would initially escalate, as opposition supporters took to the streets to protest the military's actions, but swift military reprisals would prevent a prolonged period of substantial unrest. The comprehensive intelligence and surveillance network would enable the government to head off most demonstrations before they had a chance to get off the ground by using preemptive strikes against opposition leaders. Under hard-line command, the military would act as brutally as necessary to bolster its regime, ruling out any serious compromise with the NLD and showing little concern over international criticism and retaliation. The government would launch an intensified campaign against ethnic rebels, who would most likely have abandoned cease-fire agreements in the face of social upheaval and the government's failure to live up to its promises for more development in minority areas.

This regime would show even more benign neglect toward the organized drug producers and smuggling gangs operating in the country. Their actions would increase the chances of more confrontation with its neighbors, especially Thailand. Over the long run, the growing wealth and strength of these groups, especially the Wa Army, would contribute to instability and might eventually pose a threat to the military regime.

**Grave Economic Decline**

Except for some investment from ASEAN countries, most investors would abandon the country, and even key investment opportunities, such as the development of natural gas projects would lag. Limited investment in the oil and gas sector would continue, but increasing economic sanctions would reduce this as well. Economic growth would stall, and military spending would take an even larger portion of the national budget, leaving very little for infrastructure and social spending. The economy would go into recession as investment dried up and production languished, and would contract by an annual average of 0.5% through 2009.

Increasing deficits and shortages caused by sanctions and declining domestic production would fuel a steep increase in inflation. Inflation would average 42% annually over the five-year forecast period.

**Default on the Debt**

As investment declined and economic activity slackened, the current account deficit would expand significantly, before narrowing as diminishing economic activity reduced imports. Overall, the current account deficit would average \$180 million per year over the forecast period.

The few remaining sources of foreign loans for Myanmar would disappear. The government would have little choice but to default on its debt, as a shortage of foreign exchange would render it unable to meet its repayment obligations. Debt service payments to foreign lenders, especially from industrialized democracies, would have a low priority.

### THIRD MOST LIKELY REGIME SCENARIO

#### 18-Month Forecast Period:

Transitional Reform (5% Probability)

#### Five-Year Forecast Period:

Divided SPDC (25% Probability)

Divided SPDC	Growth (%)	Inflation (%)	CACC (\$bn)
2004	0.0	37.0	-0.14
2005-2009	2.7	30.0	-0.28

The military junta might come under pressure to speed up the process of reform due to a dire and deteriorating economic situation that encourages the SPDC to make substantial concessions to the opposition in a bid to appease the international community. The initiation of a democratic transition earlier in the forecast period would only occur under dire economic circumstances that encouraged the SPDC's leaders to make real concessions and undertake some meaningful political reforms.

There is a possibility that a renewed stalemate between pragmatic and hard-line factions of the junta might emerge, and could persist over the longer term. At some point, one faction would try to outmaneuver the other for control of the SPDC, so this regime would probably be unstable over the long run. Given the support for Maung Aye on the part of the regular army and the regional commanders, the hard-line faction would be likely to come out on top.

#### Liberalization Only as Needed

During the short-term period of transition and modest reform, the government would be more welcoming to foreign investment and would possibly be able to implement some genuine reform measures to encourage foreign investment. Myanmar would liberalize investment restrictions and, if economic conditions improved, would somewhat relax controls on currency and capital transfers. If members of the genuine political opposition were participating in the government, foreign direct investment would increase and sources of international financial aid and loans would open up. Given the military's extreme fear of foreign influences, aid from international financial institutions, which would undoubtedly be tied to requirements for deeper political and economic reform, would only be accepted if absolutely necessary. More desirable from the military's point of view would be bilateral assistance, probably from other Asian sources, such as China, that would impose few if any requirements for specific reform measures.

This regime would continue its policies of encouraging foreign investment without taking steps to institute either substantial or fundamental economic reform. As a result, foreign direct investment levels would probably continue to decline.

### **Some Trade Improvement for a Time**

During the period of transition, the government would be able to implement a somewhat more liberalized trade regime. Myanmar would remain faithful to its obligations under the ASEAN treaty for reducing trade restrictions. Some easing of import restrictions might be undertaken especially in the area of imports, and that would have a beneficial effect on the social welfare of the civilian population. During the five-year period, however, the government would revert to current policies. In any case, reform and liberalization would be slow in coming and not very extensive over the forecast period.

### **Most Sources of Turmoil Would Persist**

Some elements of the opposition would reject any cooperation with the military government that fell short of a full implementation of democracy. However, the presence of at least some opposition members in the government might tend to restrain the military's response to peaceful demonstrations, a factor that could embolden protesters. The government might tolerate this, but only up to a point. Ethnic minority and insurgent groups would probably take a wait-and-see approach as the government underwent transition, looking for evidence of substantive political reform or additional development aid for minority areas. Since the military would still control the government, any such developments would most likely not be satisfactory, and the insurgencies would probably resume. In addition, conflicts stemming from the drug trade would also continue.

### **Slight Bump for the Economy**

Domestic economic conditions would improve somewhat in the short run under this regime. Increased foreign investment and slightly more liberal trade and investment regulations would serve to spur some growth, which would nevertheless remain well below potential, averaging just 2.7% annually through 2009. Foreign investors would remain unenthusiastic about investing in Myanmar, except perhaps in projects related to the oil and gas sector. Excessive government spending, especially on the over-inflated defense budget, would make inflation difficult to control, and the rate would average about 30% per year over the five-year forecast period.

A slightly improving economic situation and some reordering of economic priorities in the short run would help to contain the size of the current account deficit. Nonetheless, over the five-year forecast period, the current account deficit would remain high, averaging \$280 million per year through 2009.



## Forecast Summary

### SUMMARY OF 18-MONTH FORECAST

REGIMES & PROBABILITIES		Hard-line SPDC 60%	Divided SPDC 35%	Transitional Reform 5%
RISK FACTORS	CURRENT			
Turmoil	Moderate	MORE	SLIGHTLY MORE	SLIGHTLY MORE
<b>Investment</b>				
Equity	High	Same	Same	Same
Operations	Very High	Same	Same	Same
Taxation	Moderate	MORE	SLIGHTLY MORE	Same
Repatriation	High	SLIGHTLY MORE	SLIGHTLY MORE	Same
Exchange	High	SLIGHTLY MORE	SLIGHTLY MORE	Same
<b>Trade</b>				
Tariffs	High	Same	Same	Same
Other Barriers	Very High	Same	SLIGHTLY LESS	SLIGHTLY LESS
Payment Delays	High	MORE	SLIGHTLY MORE	Same
<b>Economic Policy</b>				
Expansion	Moderate	SLIGHTLY MORE	SLIGHTLY MORE	SLIGHTLY LESS
Labor Costs	Low	Same	Same	Same
Foreign Debt	High	SLIGHTLY MORE	SLIGHTLY MORE	Same

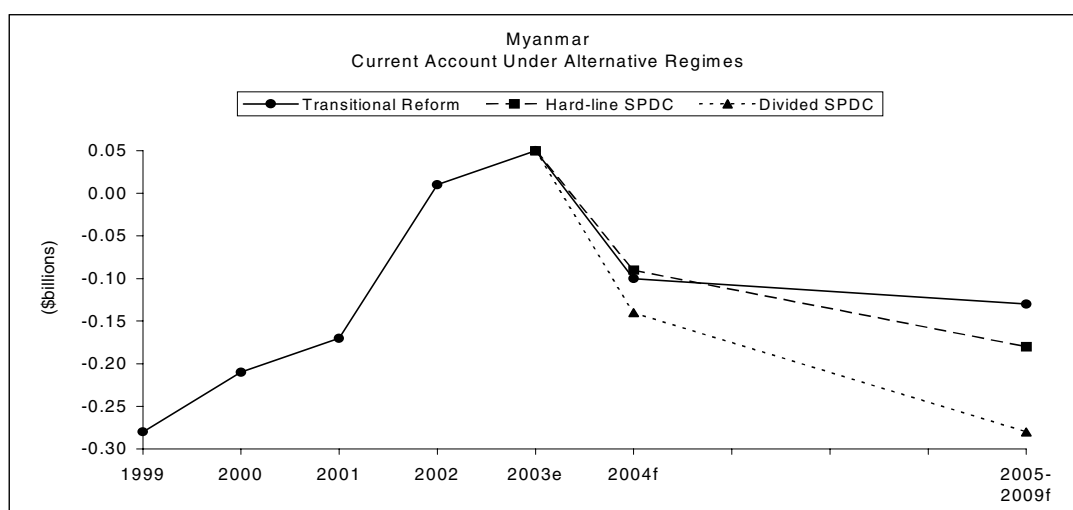
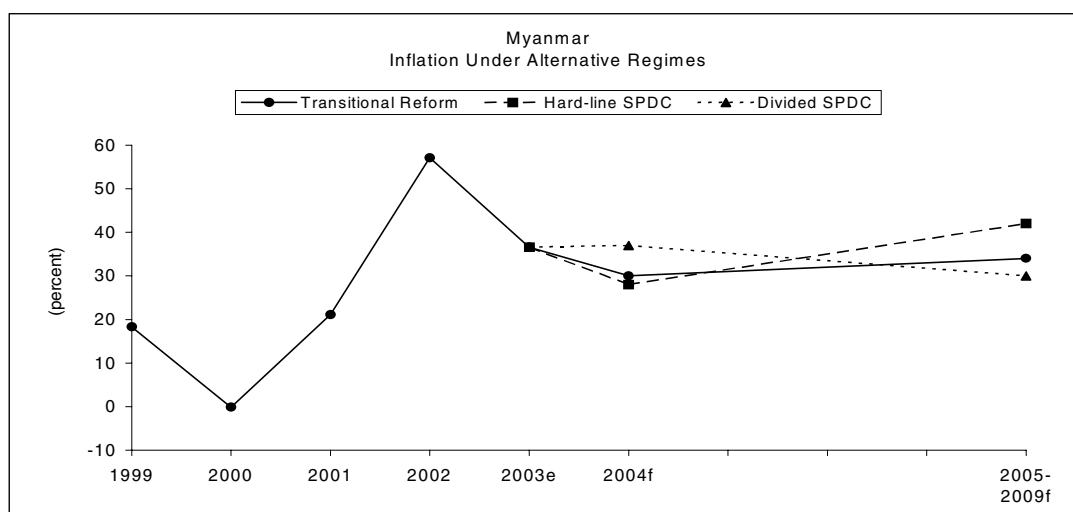
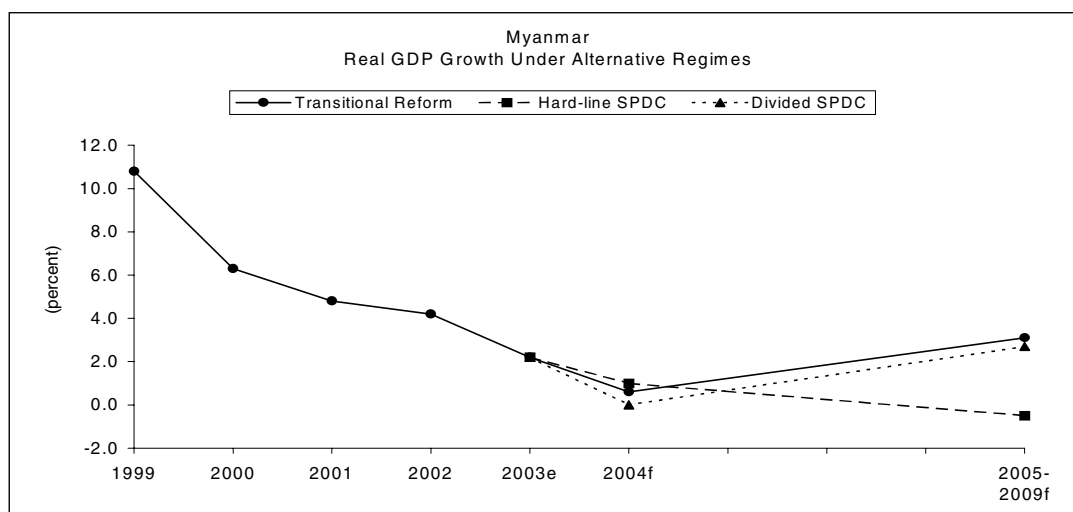
### SUMMARY OF FIVE-YEAR FORECAST

REGIMES & PROBABILITIES		*Transitional Reform 40%	Hard-line SPDC 35%	Divided SPDC 25%
RISK FACTORS	BASE			
Turmoil	High	SLIGHTLY LESS	MUCH MORE	MORE
<b>Restrictions</b>				
Investment	Very High	SLIGHTLY LESS	Same	SLIGHTLY LESS
Trade	Very High	SLIGHTLY LESS	Same	Same
<b>Economic Problems</b>				
Domestic	High	Same	MORE	SLIGHTLY MORE
International	Moderate	Same	MORE	Same

\* When present, indicates forecast of a new regime

1-Dec-2004

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# Myanmar

## Country Forecast

### Political Framework

#### *Players To Watch*

**Maung Aye:** Although changes in the military leadership may have affected his level of support, the commander of the armed forces appears to be positioned to succeed Than Shwe as head of state following the sacking of his chief rival, former Prime Minister Khin Nyunt. The leader of the hard-line faction within the junta among top members of the SPDC, Maung Aye will nevertheless confront substantial international pressure to make at least token concessions to democracy advocates...

**Than Shwe:** His age and illness may soon lead to his retirement, and the sidelining of Khin Nyunt appears to have been pursued in order to forestall a major struggle for succession. Even so, Than Shwe is generally seen as acting in the role of referee between moderate and hard-line forces within the regime, and as long as he remains on the scene, the greater will be the probability of an eventual accommodation of pressure for democratic reforms...

**Soe Win:** A member of the SPDC's hard-line faction, Soe Win has been named to replace the more moderate Khin Nyunt as prime minister. His elevation to the post signals a rejection of Khin Nyunt's plan for a gradual, and limited, transition to democratic governance, but the reversal is expected to be only temporary as long as the international community continues to maintain pressure on the regime...

**Aung San Suu Kyi:** A Nobel laureate and the leader of the NLD, Suu Kyi has suffered years of government repression, but is a powerful force in the democracy movement and is the international symbol of the military regime's human rights abuses. Repression has pushed her NLD party to the margins, but she has managed to hold the alliance together, despite internal challenges from younger members demanding aggressive confrontation...

**Regional Neighbors:** The US and the EU favor stern sanctions, while Australia, Japan, South Korea, and ASEAN prefer more engagement. Regional engagement helps the military government resist sanctions, but the junta's intransigence regarding political reforms and its indifference to regional concerns over drug trafficking may eventually jeopardize support...

*...more on these and other Players in the Political Players section*

## POLITICAL PLAYERS

### Ethnic Minorities

The importance of the ethnic minorities stems from their role as the NLD's base of support in rural areas and their potential to increase turmoil through armed insurrection. The largest ethnic minorities, the Shan and the Karen, are estimated to constitute 16% of the population. Several other minority groups—including the Wa, Lahu, Mon, and Rakhine—together make up an additional one-third of the population. For the most part, minorities reside in the seven ethnic minority states of Shan, Mon, Arakan, Karen, Kayah, Kachin, and Chin, which are for the most part located in border areas, where economic development lags and where the local population is most vulnerable to the military's arbitrary and brutal rule.

In many cases, minorities are denied the full rights of citizenship, and they are excluded from careers in the government or military services. Extreme nationalists among the Bamar (the country's dominant ethnic group) generally feel that the ethnic minorities are inferior both culturally and socially. The extremely nationalistic military leadership generally holds the same view. The military hierarchy consists entirely of ethnic Bamar, who have excluded members of minority groups from assuming positions of power.

The ethnic differences that separate these groups from the majority Bamar population also tend to separate them from each other. While the government has occasionally had to deal with a seemingly overwhelming number of insurgent organizations, these groups are often small and generally not coordinated in their actions, so the military has been able to deal with them on a piecemeal basis. At times, various ethnic groups have fought each other with at least as much ferocity as they fight the government, which has not been averse to stirring up trouble among and between them. "Buddhist monks," looking more like soldiers or policemen in disguise, helped to incite Buddhist mobs to attack Muslims in Arakan state in February 2001.

The ethnic minorities also have a political presence through a variety of parties and front organizations that generally support the mainstream political opposition and its leader, Suu Kyi. Despite their general support of the NLD, most ethnic militias and insurgents had signed cease-fire agreements by 2001. The NLD has used the disaffection of ethnic minorities as a tool for building support, trying also to garner support by advocating policies that are opposed by the military government but beneficial to minority interests. In 1998, the NLD invited ethnic minorities to send representatives to its "parliament," which planned to challenge the government's nullification of the 1990 elections.

The government had earlier invited minority groups to participate in the National Convention to draft a new basic law and even permitted debate on the issue of minority autonomy. Nevertheless, ethnic leaders criticized the process as not satisfying their concerns, and the government has done little to fulfill its pledges of economic assistance to border areas, instead directing investment funds to Yangon. Since 1998, worsening economic conditions have limited the government's ability to carry out its promises.

### **Insurgent Groups**

Since independence, the government has confronted guerrilla armies claiming to represent the interests of virtually every minority group. In general, these groups have sought greater regional autonomy. Not all of the insurgents have been seeking more rights for ethnic minorities, however. Various factions of the Communist Party of Burma (CPB) conducted a lengthy insurgent campaign in the 1950s. Nationalist groups have periodically emerged in opposition to the military regime of the day. More recently, guerrillas representing pro-democracy student groups have taken up arms against the government. Following the 1988 emergence of the regime headed by the State Law and Order Restoration Committee (SLORC, the SPDC's precursor), the military intensified its campaigns against the various guerrilla factions, facilitated by a major military build-up in troop strength and arms purchases.

Since the early 1990s, the government has succeeded in reaching cease-fire agreements with all but one of the major guerrilla groups, the Karen National Union (KNU). However, the KNU's forces were decimated by military offensives carried out in 1997 and 1998, and the group has since been capable only of waging low-level guerrilla war against the SPDC regime. In December 2003, the KNU initiated tentative peace talks with the government.

Although some groups have been brought under control by force, the government has typically pursued a policy of negotiated settlements with individual groups, promising limited autonomy and development assistance in return for a cessation of operations against government forces. Nonetheless, the government has also generally allowed insurgents to keep their weapons under these cease-fire agreements, and that could come back to haunt them.

The government seems to have intensified its campaign against smaller groups that are still fighting. An agreement with the Karenni National Progress Party proved to be short-lived, and despite the agreement with the Muang Tai Army in January 1996, smaller groups continue to engage in armed struggle with government forces in the state of Shan. Attacks on insurgent forces in Shan state spill over the border into Thailand and have provoked clashes with Thai units, threatening relations between the two countries.

In June 2002, the Myanmar military, working with the United Wa State Army (UWSA), launched an offensive against the Shan State Army-South (SSA-S) to recapture a base in the Golden Triangle region on the border with Thailand. The battle caused severe strains in Myanmar's relationship with Thailand, which was already tense owing to accusations that Thailand had given tacit support to the SSA-S and other small, armed breakaway factions operating on the Thai-Myanmar border.

After the end of the cold war, insurgent groups lost support from the opposing blocs. Just like other such groups worldwide, they had to scramble to secure alternate funding sources, including such criminal activities as bank robberies and smuggling. Their smuggling operations involve such commodities as timber and diamonds, which they sell for hard currency to finance their operations.

In addition, drugs have become such an important source of revenue for some insurgent groups that their conflicts with the government probably stem as much from their desire to protect this business as from any desire to achieve political goals. Many insurgent groups operate in the Golden Triangle border area, which has been a major source of opium and heroin in Southeast Asia for many years. More recently, these operations have added the equally lucrative business of manufacturing and distributing stimulants, which is a major source of concern in Thailand. Most of the methamphetamine in Thailand is smuggled into the country from Myanmar, and traffic volume estimates range anywhere from 70 million to 600 million tablets a year. On a single day in late March 2002, for example, Thai troops killed 13 drug-traffickers and seized 1.6 million tablets.

Among the insurgent groups reportedly engaged in drug smuggling or production are the Eastern Shan State Army, Kachin Defense Army, and the Shan United Army, but by far the most prominent is the UWSA. Formerly an ethnically based insurgent group, the UWSA reached an accommodation with the Myanmar government in 1989. Under the terms of this agreement, the central government was to leave the UWSA alone in exchange for an end to guerilla warfare against the government and for their assistance in defeating other insurgent groups operating in their area. The UWSA has since turned to drugs as a major business enterprise, including a "drug production city" near the Thai border, featuring hotels, casinos, and its own electrical power supply.

The insurgent group routinely disarms government troops before they enter the UWSA-controlled area and have, at times, penetrated into and even briefly held Thai territory before being driven back into Myanmar. The UWSA is a capable military force, and their drug production and smuggling operations threaten to undermine Thai-Myanmar relations. Furthermore, the huge cash flow of the drug trade has enabled them to move into legitimate businesses in Yangon, such as banking.

**Maung Aye (Vice Chairman, SPDC)**

Maung Aye, who is also deputy commander-in-chief of the Defense Services and army commander-in-chief, is the most prominent member of the regime's hard-line faction, and with the sidelining of former Prime Minister Khin Nyunt has become the most likely candidate to succeed Than Shwe as chairman of the governing junta. His chief sources of support are army regulars, regional commanders, and the commanders of the army's principal combat force, the light infantry divisions. The dismantling of the intelligence apparatus previously headed by Khin Nyunt has eliminated a base within the government from which a potential rival for power might emerge.

Considered to be blunt and forceful in his approach, Maung Aye is reportedly suspicious of overly close ties with China, but seven new cooperation agreements enhanced these ties in December 2001. In 1999, Maung Aye became head of the Trade Policy Council, an organization with the authority to override all ministries on business and trade matters, greatly increasing his influence on economic matters and funding. He may well be the source of the new requirement that foreign trading companies work with a domestic partner to operate in Myanmar. Maung Aye also developed a relationship with India, especially its military, leading to the purchase of military equipment.

For the most part, Maung Aye's differences with SPDC moderates are tactical. He has favored a far more aggressive approach to dealing with Suu Kyi and the NLD, brushing aside concerns about international criticism. He takes a more traditional military view on matters such as guerrilla activities among ethnic minorities and prefers force rather than negotiation to deal with internal unrest. He is also reputedly opposed to membership in ASEAN, ostensibly owing to concern of interference by the regional body in Myanmar's internal affairs.

**Military**

The dominant force in Myanmar's politics, the military has become more dominant in all aspects of society and continues to solidify its potential for future dominance. The existence of two key junta factions probably does not affect the forces in the field, but concerns only their commanders. The troops are reportedly loyal to the regional commanders, who apparently show strong support for the hard-line approach of Maung Aye. Nonetheless, as part of the fallout from the alleged Ne Win family coup attempt, three high-ranking military officers Maj. Gen. Myint Swe (commander-in-chief of the air force), Maj. Gen. Aye Kyway (Coastal Region commander), and Brig. Gen. Chit Than (commander of the drug-ridden Golden Triangle Region) were under investigation and reportedly removed from office.

While not espousing a particular political ideology, other than perhaps extreme Bamar nationalism, the army has insinuated itself into so many aspects of life that Myanmar has acquired the attributes of an ideologically based totalitarian state. The principal program of the military's leaders is one of maintaining the unity of the state, the army, and society. Most military commanders demonstrate distrust and disdain for civilian leaders.

The military has created for itself a privileged place, effectively insulating itself from the rest of Myanmar's society and creating its own culture—including a health care system that is superior to the civilian system, an educational system, subsidized housing for personnel, and a network of military stores that either are unavailable to civilians or prohibitively expensive. The military has repressed most of the usual organizations of civil society and replaced them with its own mass organizations. For example, Union Solidarity and Development Association (USDA) may have as many as 11 million members since membership is mandatory for government employees. The USDA is used to denounce the NLD and counter its public demonstrations and rallies. The few civil organizations that are allowed to operate must do so within strict parameters.

Military surveillance is pervasive. An extensive network of informants operates at every level of society, and most overseas expatriate communities have been heavily infiltrated. Military intelligence conducts electronic surveillance of communications by phone and the Internet. In addition, draconian laws regulate who can own and use communicating devices such as fax machines and modems.

The military establishment does not belong to regional defense or military pacts, but has begun expanding military contacts with neighboring countries, including close links with China and relationships with India, Singapore, and Pakistan. These relationships provide a way to overcome the arms embargoes imposed by industrialized democracies and help to reduce outside support for Myanmar's various insurgent groups.

In addition to its reputed involvement in the underground economy of drugs, the military is heavily involved in the overt economy, and both active and retired military personnel manage its extensive economic interests. Its involvement is mostly handled by two major enterprises, the Myanmar Economic Holdings Corporation, Ltd. (MEH) and the Myanmar Economic Corporation (MEC), both controlled by the Defense Ministry.

The military underwent a major build-up through most of the 1990s. The number of army troops, estimated at 186,000 in the mid-1980s, has now reached about 450,000, and further increases plan to bring the number to 500,000, making the size of Myanmar's military force second only to Vietnam in Southeast Asia. There are an additional 85,000 troops in police and government controlled militia units. Myanmar's defense budget comprises over 40% of the national budget and accounts for at least 14% of the country's



GNP. Approximately 20% of Myanmar's imports are defense-related. The armed forces have made weapons purchases of about \$1 billion–\$3 billion from China and other smaller purchases from Israel, India, and Singapore. While this has not generally been sophisticated weaponry, having the arms has greatly increased the combat capability of the armed forces, as demonstrated by its greater success in combating insurgent groups since 1990. They were previously outgunned because insurgent groups could buy weapons on the black market in Thailand. The large build-up in troop strength may also be an attempt to ensure domestic tranquility through overwhelming force.

Although improvements and a pay increase of 400% for the lowest ranks may have helped with morale, the military still suffers significant problems in this regard. Morale problems even at the Defense Services Academy (DSA) led to its closure, at least temporarily in June 2002, and protests at the Military Technology College (MTC) in Maymyo led to the expulsion of about 40% of the student body, prison sentences for others, and death sentences for a few. The disturbances at both schools reportedly stemmed from the poor quality of the food and a new mandate reducing the rank that cadets would receive upon graduation.

The larger army has meant greater costs for a government that is already struggling with a poor economy. Even with conscription, the military has had a hard time recruiting, and in spite of its build-up, training has suffered. Many units, especially in the border regions must procure their own food supplies – by growing their own rice or, in many cases, stealing it from local villages – to fend off starvation. Part of the problem is the logistical system, which is inadequate to keep troops supplied in the field, especially in remote areas. This inadequacy has reportedly also led to the use of forced or slave labor to build roads and camps, and to move supplies to front line units. The poor state of Myanmar's infrastructure complicates the logistics problem.

Some officers and soldiers have reportedly been arrested for their association with the political opposition. Political movements could gain a foothold in the expanded army, enhancing prospects for a coup or large-scale mutinies.

### **National League for Democracy (NLD)**

The future of the NLD has shown some promise since talks with the military junta began in October 2001, especially when Suu Kyi was once again released from virtual house arrest in May 2002. She immediately began testing the limits of her new situation. Although recent developments could signal the beginning of a policy shift, they could also be the government's effort to find a "surrender" formula for the movement.

The NLD formed one week after the SLORC assumed control of the government in 1988. Despite the fact that the party's leader, Suu Kyi, had been in detention since 1989, the NLD won 81% of the contested seats in the 1990 elections. Since then, however, the military regime's repressive tactics and the long delay in any progress toward the NLD's goals have eroded its strength. The party still attracts wide public support, and wide global recognition of its political legitimacy ensures that any credible attempt to appease international critics must include a significant role for the NLD. Many NLD members elected in 1990 have died, retired, fled the country, or been taken into custody. Many others have openly resigned from the party and renounced its platform. However, many resigned because of extreme pressure from the military government, which used those resignations to show declining support for the NLD. Among the prisoners released in 2001 and early 2002 were 54 party members who had been elected to Parliament in 1990.

The government has been generally successful in marginalizing the NLD. Nevertheless, the party remains an important symbol of opposition to the regime both within Myanmar and internationally. The military regime realized that international opinion prevented it from moving too strongly against Suu Kyi or the party. This would effectively end the possibility of international financial assistance and investment, which are necessary to revive the economy. Khin Nyunt began secret talks with Suu Kyi, and at the same time, both sides reduced the amount of rhetoric critical of each other, including a reduction in the vitriolic attacks on Suu Kyi in the state-controlled press. Both sides were circumspect in what they have revealed as to the substance of these talks. The talks may have been a way to establish the ground rules under which the military will allow greater political participation by Suu Kyi and the NLD.

### **Regional Commanders**

Even prior to government reshuffles in August 2003 and September–October 2004, the SPDC and the military had undergone substantial reorganizations. The SPDC formerly comprised 19 members, but the failure to fill the slots left vacant by the death of Secretary 2 Tin Oo in early 2001 and the dismissal of Secretary 3 Win Myint in November 2001, and the more recent sacking of Khin Nyunt, has made it more difficult to determine who is included in the inner circle of power, and the position of each member in the hierarchy.

Top members of the SPDC include Chairman Than Shwe, army commander Maung Aye, and the chiefs of the air force and the navy. The other 12 positions in the SPDC are held by regional military commanders. Until November 2001, they exercised a great deal of autonomy in their actions and generally had a free hand to operate in their areas as they saw fit. In November 2002, however, 10 of the regional commanders were promoted to the rank of lieutenant general, reassigned to the Defense Ministry in the capital city, and apparently lost considerable power in the process. Only two of the regional commanders

kept their positions. Then, as part of the fallout from the alleged coup-plotting by former dictator Ne Win's family, the commander-in-chief of the air force, the Coastal Region commander, and the commander of the drug-ridden Golden Triangle Region were all removed from their posts.

Regional commanders have had wide authority over military, police, intelligence, and security functions within their own regions. They must approve business contracts, resource extraction and property development, markets, and road and bridge construction. Many of them have gotten rich from their positions, which also give them military and political power. The military's abandonment of the rotation system for commanders assisted regional commanders in acquiring this power, since they have often remained in the same posts for many years, building individual power bases, at least until the recent changes.

Among these officers is the next group of Myanmar's senior military leaders, and the regime appears to have now promoted younger officers to these regional commands in order to train them for future needs. Generally, the regional commanders have been loyal to army Commander-in-Chief Gen. Maung Aye, but the recent reorganization has raised questions about loyalty to top leaders. The support of the rising new breed of leadership within the military will probably be key to determining who will become the SPDC's next chairman.

### **Regional Neighbors**

The military government has resisted foreign pressure for political and economic reform. Since the IMF and other international financial institutions suspended aid to Myanmar over its political and economic policies, they have had little leverage for further sanctions. The US and EU and other industrialized democracies have mostly taken a hard-line approach to the military government, imposing sanctions on the regime and trying to discourage their own nationals from doing business in the country. Asian neighbors have taken the approach of constructive engagement following the principles of the ASEAN treaty. Myanmar's regional neighbors have refrained from imposing sanctions or even strongly criticizing the regime, although Japan responded to Suu Kyi's detention in May 2003 by suspending all aid to the country.

The military government has skillfully played some regional powers against each other. One SPDC faction appears to favor close relations with China, encouraging Chinese investment and major purchases of arms, while the other faction appears to view that relationship as being too close, preferring India instead, where its leader is warmly received when he visits. As a result, both China and India are trying to improve relations with Myanmar. The Indian government fears growing Chinese influence on their eastern

borders and are worried by reports that the Chinese are using Myanmar bases on islands in the Bay of Bengal to monitor military activities along India's eastern coast. These policy approaches may represent genuine differences between the two SPDC factions within the regime – the pragmatic Khin Nyunt faction, favoring closer relations with China, and the hard-line Maung Aye faction, looking elsewhere because of its apprehension over growing Chinese influence.

International pressure combined with the perilous state of the economy has forced the military regime to pay at least lip service to human rights concerns. The pragmatic faction of the government is trying to encourage foreign investment and especially foreign aid to help the country out of its many economic difficulties, but this requires political stability, or at least the appearance of stability, probably the major motivation for the shift in tone toward the political opposition.

At some point, however, such maneuvering is likely to have repercussions. Myanmar can promise to enact certain policies, such as cracking down on the drug trade, without actually doing anything only so long as its neighbors do not apply pressure to back up words with deeds. The imposition of real trade and investment sanctions on Myanmar by other Asian states, and especially China, would probably have a greater effect on political change in Myanmar than sanctions imposed by industrialized democracies or international financial institutions. Without regional pressure, the government will probably be able to continue resisting other pressures for political change.

### **State Peace and Developmental Council (SPDC)**

The military dictatorship established in 1988, and headed by the State Law and Order Committee (SLORC), thought it had terrorized the people sufficiently to ensure its own victory in the 1990 elections. After learning otherwise, the SLORC annulled the elections, claiming that a new constitution was necessary before a new government could form. In 1997, the SLORC changed its name to the SPDC after making massive changes at the top and crushing most dissent. The remaining opposition comprises the remnants of armed ethnic secessionist groups, and Aung San Suu Kyi and the NLD.

Severe rice shortages in 1988 provoked several months of protests, organized by student groups. After two civilian Burma Socialist Program Party (BSPP) governments failed to ease the unrest, the SLORC, a group of senior military officers headed by military Chief of Staff Gen. Saw Maung seized power in September 1988. International criticism of rampant corruption helped set in motion the sweeping changes that led to the SLORC's 1997 transformation into the SPDC.

When it comes to government reforms, the moderate faction, until recently headed by Khin Nyunt, has generally adopted a position amounting to, "Democracy and freedom, yes, but not just now." They claim that they fully intend to relinquish power in favor of an elected government, but have not yet even suggested a firm timetable for when such changes might occur.

The National Convention (NC), the body appointed to draft a new constitution in advance of the promised elections, met for the first time in eight years in May 2004, following Khin Nyunt's unveiling of a "road map" for the democratic transition. Although that plan met with general approval in international quarters, the refusal of the NLD to participate as long as Suu Kyi remained in detention contributed to a high level of skepticism. Khin Nyunt's departure has raised serious doubts about further progress on the proposed transition, and the apparent ascendance of the hard-line faction indicates that the SPDC will, at best, maintain its longstanding policy of permitting elections only on the condition that the results do not undermine the SPDC's authority

## Students

Student groups have been an important component of the movement for democracy since 1988, when students sparked an uprising. However, the formation of the NLD in the wake of the government crackdown on the democracy movement sapped some of the potential for another student-led uprising. As long as the NLD remains under the watchful eye of the intelligence services, students will be wary of developing public alliances with the party. Moreover, the government has taken steps to divide the various opposition elements. In mid-1998, the government arrested many NLD members just before the reopening of the country's universities, which had been closed in December 1996 in retaliation for student protests that had been carefully planned to attract the attention of foreign journalists. Because of the government's willingness to detain, harass, and intimidate those who openly oppose it, students have forsaken mass protests in favor of limited nonviolent acts of defiance, although at least one insurgent group, led by a student leader of the 1988 protests, is operating on the Myanmar-Thai border. The student groups maintain informal connections with activists in other countries. Sympathetic groups in Japan, Australia, Thailand, the Philippines, and the US have offered Myanmar's students training in civil disobedience and organizational strategies.

Even though the government reopened the universities, they put so many restrictions on attendance that active political opposition is difficult to organize. Students and their parents must sign a loyalty oath and promise not to take part in any political activity. Many campuses have been relocated from urban centers to sites adjacent to military or police barracks, and the academic year lasts just four months.

The student groups lack the capabilities to produce change. Their primary role has been to gain publicity for the democratic resistance to the SPDC. Their tactics have helped to keep them from being identified and detained, leaving them free to continue their activities. Because of the limited nature of their demonstrations, they are incapable of doing much more than serving as a stimulus for a potentially larger protest movement that might form in the future.

### **Aung San Suu Kyi**

Suu Kyi is the leader of the NLD, the party that won a landslide election victory in 1990 but was denied power when the military refused to relinquish control. The SPDC has since attempted to sideline Suu Kyi and destroy her party, with only mixed success. In May 2003, slightly more than one year after she won her release from an extended period of house arrest, Suu Kyi was detained once again, and remains in custody at a secret location. It was reported in late November 2004 that officials had informed the NLD leader that she will remain in detention at least until September 2005.

Suu Kyi, born on June 19, 1945, in Yangon, is the daughter of assassinated Gen. Aung San, founder of modern Myanmar. She attended Delhi University, India and St. Hugh's College, Oxford. Suu Kyi was assistant secretary for the Advisory Committee on Administrative and Budgetary Questions, UN Secretariat, New York (1969–1971), and was the resident officer of the Ministry of Foreign Affairs, Bhutan (1972). She was married to a British academic, who died in 1999, and has two sons, who were stripped of their Myanmar passports by the military regime and live in the UK. After living overseas for 28 years, Suu Kyi returned to Myanmar in 1988 to assist her ill mother.

She was drawn into politics by student protests, culminating in a nationwide uprising that demanded a democracy. After a subsequent military crackdown killed thousands and the SLORC re-established military control, Suu Kyi helped to found the NLD, serving as the party's general secretary. Although detained under house arrest (1989–1995), she led the party to victory in the 1990 elections. After nullifying those results, the SLORC introduced a law in 1991 that forced the NLD to expel Suu Kyi and other party leaders facing state charges.

Suu Kyi attracted international attention and has won several awards—including the Sakharov Prize (1990), Human Rights Prize (1991), the Nobel Peace Prize (1991), and the Simón Bolívar Prize (1992). In 1990, the government responded to calls from UN Secretary-General Javier Perez de Cuellar for Suu Kyi's release from house arrest by offering to allow her to join her husband, a British academic, and her children in the UK. However, fearing that she would not be allowed to re-enter Myanmar, she declined the

offer. In 1999, she again declined the government's offer to allow her to travel to her dying husband's bedside, assuming that she would never be able to return.

After first extending the period of her detention by retroactively changing the law, the government officially lifted her house arrest in 1995, but placed heavy restrictions on her movements and prohibited her from reassuming her post in the NLD by a law that requires permission from the electoral commission for a change in leadership. She then attempted trips by rail and by car, but encountered authorities blocking her path, even uncoupling her rail carriage from the rest of the train. During two of her attempted car trips in 1998 she sat in her car protesting police barricades for as long as 13 days, giving up eventually because of dehydration. In August 2000, Suu Kyi tried to travel by car to an NLD meeting in Kungyangon, but faced a police barricade trying to force her group to return to Yangon; a standoff ensued, lasting for a week, until riot police ended it, driving Suu Kyi back to virtual house arrest and her colleagues to house arrest or jail. Again in September 2000, she tried to travel by rail to Mandalay with several NLD colleagues. After she and her party were prevented from boarding the train, Suu Kyi was returned to her home, and the others were arrested and detained.

In May 2002, the regime released Suu Kyi from house arrest following extended and secret talks. These face-to-face talks between junta leaders and the woman it has harassed, ostracized, and bullied for years stemmed directly from the efforts of UN Special Envoy Razali Ismail, as well as the threat of more rigorous international sanctions. After being freed, Suu Kyi persisted in the same activities that had led to her previous detention, traveling throughout the country to test the limits of her freedom and build her base of popular support.

### **Than Shwe (Chairman, SPDC)**

Than Shwe, born in 1933, is the ultimate political authority by virtue of his control of the chairmanship of the SPDC. He is also the minister of defense, and until handing the position to Khin Nyunt in August 2003, was prime minister. His primary task in recent years has been to referee the struggle for power between the reformist and hard-line SPDC factions headed by Khin Nyunt and Maung Aye, respectively. A sweeping government reorganization undertaken in September–October 2004 has left the hard-liners in a dominant position, perhaps signaling that Than Shwe is prepared to turn over the reins of power to Maung Aye.

That said, Than Shwe has on several occasions in the past shown a decided moderate streak. He created both the National Convention charged with drafting a new constitution and the USDA, and he has openly admitted that a day will come when it would be inappropriate for the SPDC to retain its political monopoly. Even after

sidelining Khin Nyunt and his top moderate ally, former Foreign Minister Win Aung, Than Shwe kept his critics guessing by announcing the release of hundreds of prisoners supposedly detained on false pretenses by Khin Nyunt's soon-to-be-disbanded National Intelligence Bureau (NIB).

Than Shwe began his military career in 1953 and served mostly in psychological warfare posts. He rose rapidly in rank and became a brigadier general and regional commander in 1983; vice chief of staff in 1985; lieutenant general in 1987; and general in 1990. Than Shwe is the SPDC's representative on all state visits, a role that has, if anything, become more important since Myanmar's entry into ASEAN.

Those close to Than Shwe, including Thailand's defense minister, Chavalit Yongchaiyudh, have reported that the SPDC chairman is considering retirement. Although Than Shwe is thought to be very ill, others in the SPDC reportedly convinced him to hold on to power in the name of maintaining internal stability. The recent personnel reshuffles that have given the hard-liners the upper hand over moderates greatly reduce the danger of a damaging power struggle, and appear to have been carried out in preparation for Than Shwe's departure from active political life.



# Myanmar

## Country Conditions

### Investment Climate

#### Overview

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##### *Openness to Foreign Investment*

With a view to attracting foreign investment, the Burmese government instituted the Foreign Investment Law (FIL) on November 30, 1988. The basic priorities of foreign investment, according to the FIL, are as follows:

- Promotion and expansion of exports;
- Exploitation of natural resources that require heavy investment;
- Acquisition of high technology;
- Support for production and services requiring large amount of capital;
- Expansion of Employment opportunities;
- Development of facilities that would reduce energy consumption; and,
- Regional development.

According to the State-owned Economic Enterprises Law, enacted in March 1989, the Government state-owned enterprises have the sole right to carry out the following economic activities:

- Extraction of teak and sale of the same in the country and abroad;
- Cultivation and conservation of forest plantations with the exception of village-owned firewood plantations cultivated by the villagers for their personal use;
- Exploration, extraction, sale, and production of petroleum and natural gas;
- Exploration, extraction, and export of pearls, jade and precious stones;
- Breeding and production of fish and prawns in fisheries which have been reserved for research by the Government;
- Postal and telecommunications services;
- Air transport and railway transport services;
- Banking and insurance services;
- Broadcasting and television services;
- Exploration, extraction, and exports of metals;
- Electricity generating services other than those permitted by law to private and cooperative electricity generating services; and,
- Manufacturing of products relating to security and defense.

However, the law provides that the Myanmar Investment Commission (MIC) may, “in the interest of the State,” make exceptions. Exceptions have been made in areas such as banks (though not for foreign investors), petroleum and natural gas extraction, and air services. This discretion, though, like most else resides in the hands of the cabinet and senior generals.

According to the FIL, the MIC must review all investment, either foreign or domestic. However, due to corruption within the MIC, the ruling State Peace and Development Council (SPDC) removed much of the MIC’s real influence at the end of 1999. Potential investors must still work through the MIC, but it has lost the authority to make a decision. Interested foreign companies still approach and submit proposals through the MIC, which in turn gets approval from either the Cabinet (chaired by SPDC Chairman and Prime Minister Senior General Than Shwe) or the Trade Policy Council (TPC, chaired by SPDC Vice Senior General Maung Aye). The Cabinet and the TPC have the same membership so the choice of decision-making body is made on a case-by-case basis. Though MIC has no power or authority to protect foreign companies, we have no evidence of overt discrimination against foreign investors.

Once the government grants permission to invest, a foreign company must get a “Permit to Trade” — essentially a business license — from the Ministry of National Planning and Economic Development’s Directorate of Investment and Companies Administration (DICA). In a typical “Catch 22” that has for all intents and purposes closed Burma to most new foreign investment, since February 2002 the government is no longer permitting DICA to issue new permits or renew existing ones for foreign firms. This decision has disrupted the business of many foreign investors, and forced closure of several foreign manufacturing firms.

In theory once a company has the “Permit to Trade” it may then use it to get residence visa status, lease cars and real estate, etc., and to get import and export licenses from the Ministry of Commerce. The Ministry of Commerce has had a policy in place since the end of 2001, though there is nothing in writing, to only issue import licenses to those firms who are export earners.

The existing foreign investment law and its procedures are positive for investors on paper. However, in practice, it is very difficult to make the system work properly due to poor transparency and corruption all along the line. The senior generals making the decisions do not seriously consider the law when they want to take action for or against investors.

The FIL allows for FDI as a wholly foreign-owned venture or a joint venture with any Burmese partner (individual, private company, or state-owned company). Sole proprietorships or partnerships are equally acceptable. Overall, the FIL requires that at least 35 percent of equity capital in all JVs and partnerships be foreign-owned. Officially, the minimum foreign investment is \$500,000 for manufacturing investments and \$300,000 for services.

The military, via the military economic enterprises, the Union of Myanmar Economic Holdings, Ltd. (UMEHL) and the Myanmar Economic Corporation (MEC), is involved in many economic activities. To set up a joint venture, foreign firms have reported that it is useful to be affiliated with MEHL or MEC in order to receive the proper business permits. Nonetheless, entering into business with MEHL or MEC does not guarantee success for the foreign partner, and some foreign investors report that their military partners are parasitic, making unreasonable demands, providing no cost-sharing, and sometimes muscling out the foreign investor after an investment is up and running.

### ***Bureaucratic Obstacles***

The bureaucracy frustrates foreign investors with both inefficiency and corruption. Many key officials reject the generally welcoming posture of the top leadership. In addition, the lack of clear and consistent rules produces delays among administrators fearful of incurring the government's displeasure. Many regional military commanders and administrators consider dealing with foreign firms as an opportunity for obtaining bribes. Negotiating with the bureaucracy is time-consuming and frustrating unless a potential investor can deal with top officials, usually either the head of a ministry or in the SPDC itself.

## **Policies**

### ***Conversion and Transfer***

According to the Foreign Investment Law, investors in Burma have a guarantee that they can repatriate profits (after taxes). The law also provides that, upon expiry of the term of the contract, the investor of foreign capital has the right to the foreign currency in which the investment was made. However, due to the shortage of foreign exchange it is in reality not easy for foreign investors to legally transfer their net profits abroad. Foreign currency can be transferred abroad only after obtaining permission from the Foreign Exchange Management Department of the Central Bank of Myanmar.

Likewise, multiple exchange rates in Burma make conversion and repatriation of foreign exchange very complex and ripe for corruption. The official rate of 6 kyat to the dollar is grossly overvalued. The government issues Foreign Exchange Certificates (FEC) that trade somewhat closer to the market rate but are still overvalued. Generally speaking, foreign companies get rid of kyat earnings as quickly as possible - usually by purchasing FEC or dollars at some variant of the market rate. The government has allowed foreign companies to use dollars or FEC to pay utility and telephone bills, and rental charges. It has also allowed foreign firms to deposit dollars in a state bank for withdrawal as FEC by the company's employees.

In Burma, only three state banks, the Myanma Economic Bank (MEB), the Myanma Investment and Commercial Bank (MICB), and the Myanma Foreign Trade Bank (MFTB) are allowed to deal with foreign exchange transactions. In practice the MFTB and MICB handle most of these transactions. The MFTB mainly handles foreign currency transactions of government organizations, businesses, and individuals, and the MICB caters primarily to companies and joint ventures. MEB handles foreign currency transactions in border trade regions.

Because most of Burma's international trade is done in U.S. dollars, the restrictions on provisions of financial services by U.S. banks will cause serious disruption to the legal foreign trading system. U.S. banks will no longer be able to offer trade facilitation or correspondent banking services, making the use of U.S. dollar letters of credit problematic.

As of July 29, 2003, the correspondent accounts of MEB, MFTB, and MICB in the United States are frozen, along with all other assets and property.

Private banks, despite assuming a large share of banking activity in the last several years, are not permitted to deal in foreign exchange. In February 2003 there was a major run on private banks, and as of now their future is uncertain. However, there is no indication that if the private banking system is revitalized it will be given the right to deal in foreign currency.

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## Legal Framework

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The judicial system is only a pale shadow of the system inherited from the British, and the courts are subservient to the military. The political domination of the judiciary makes irrelevant such legal protections as immunity from nationalization. Membership in ASEAN obligates the government to bring its protections into line with regional standards, but so far it has taken few steps to fulfill its commitment.

Labor unions are illegal in Myanmar. Workers are unable to organize, negotiate, or in any other way exercise control over their working conditions. Although regulations set a minimum employment age, a minimum wage, and maximum work hours, these are not uniformly observed, especially in private factories and other establishments. The government uses forced adult labor in construction projects and to provide a wide variety of services for the military.

### *Environmental Issues*

Myanmar is a signatory of several international treaties addressing environmental issues. Although the government signed treaties governing protection of the ozone layer and control of chlorofluorocarbons, climate change, and sea-related environmental concerns, virtually no laws or regulations have been adopted to control the environmental dangers of economic activity.

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## Infrastructure

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The SPDC takes great public pride in the effort it has made to upgrade Burma's roads, dams and bridges. Official statistics assert that the regime has built more than 18,000 miles of road, 138 dams, and 145 bridges in the past decade.

Given the junta's lack of access to international financial institution (IFI) lending, however, these infrastructure upgrades have relied on domestic resources and some bilateral assistance. This has resulted in increased public sector deficit spending, the use of uncompensated rural labor, and a general poor quality of construction. With a few exceptions, the country's overall infrastructure remains extremely poor and is a major impediment to economic expansion and distribution of goods and services.

The SPDC has contracted out to the domestic private sector to improve infrastructure. For example, Hong Pang and Asia World Corporation (both companies with alleged narco-trafficking ties) have undertaken a number of build-operate-transfer projects upgrading roads in central and northeast Burma.

There are two international airports: Rangoon and Mandalay. The government has started and stopped construction on a new airport near Bago (about 40 miles northeast of Rangoon), called the Hanthawady Airport, destined to service Rangoon.

A modern but little used container port was constructed several years ago outside Rangoon at Thilawa. The Asia World Corporation has upgraded the Rangoon port at Ahlone. A number of navigable rivers, including the Irrawaddy, gives access to upper Burma. The top generals have announced plans to make the northern river port town of Bhamo an international container port, which would offer a means to transport Chinese exports from Yunnan province to the Andaman Sea. Little action has been taken to date.

Three domestic airlines operate in Burma: joint ventures Air Mandalay and Yangon Airways, and the national carrier, Myanmar Airways. The number of passengers on Myanmar Airways, which serves 20 domestic airports, fell 3 percent (from 153,540 to 149,174). Cargo fell 26 percent (from 543 tons to 402 tons) in FY 2002-03.

Singapore's Region Air took a 49 percent stake in Burma's state-owned international carrier Myanmar Airways International (MAI), effective January 1, 2001. MAI serves Bangkok, Singapore, and Kuala Lumpur, using one Boeing 737-400. Region Air is providing management, marketing, accounting, cost control, and technical, and operational management services. A second joint-venture airline, with a Hong Kong-based investment company, is scheduled to begin operations with flights to Bangkok, Singapore, Kuala Lumpur, and Hong Kong in October or November of 2003.

Official figures indicate Burma has 3,798 miles of rail tracks, mostly laid during the British colonial era, 330 locomotives and over 3,519 wagons.

Burma's outdated communications systems are a serious impediment to modernization. The switching systems for Burma's land lines are so inadequate that it is often impossible to complete a local phone call. Official figures indicate there are 185 persons per telephone in Burma. Few telephones have international direct dial (IDD) access. GSM and CDMA cell phone service is available in Rangoon and Mandalay. Authorities regularly monitor communications. The government has only recently allowed limited Internet access, but retains tight control.

In 2000, the Ministry of Post and Telegraphs (MPT) took over all e-mail services in the country, shutting down the few private providers that had been offering this service. In October 2000, a well-connected quasi-governmental company, Bagan Cybertech Co., was established to take over IT and Internet services. Bagan Cybertech built the "Bagan IDC & Teleport" in Rangoon in January 2002. The company is now offering email and extensive, though still censored, Internet services to a select group of government officials, diplomats, and business people. In May 2003, 16 private companies were granted licenses for Internet cafés. However, the websites available at these sites are censored and Internet surfing fees are high for ordinary people.

CDMA phones were made available in limited supplies in 1996. After a long delay, largely due to corruption, the government began to sell a limited number of GSM phones in March 2001. The MPT sells the GSM phones for 500,000 kyat each, but the secondary market price of the phones has risen to about 4 million kyat per phone. Since in the end of 2002, MPT stopped selling the GSM phones to the public unless it knew the exact reason for the purchase. Effective February 1, 2003 domestic telephone call charges were raised from 3 kyat per call to 15 kyat per minute. While foreign companies were involved in the supply of telephones and the construction of the cellular network, it is unlikely that there will be any major opening of the telecommunications sector in the near future.

As the domestic mail service is very unreliable, most business people and diplomats rely on couriers. Only one international courier service, DHL Myanmar, is allowed to operate in Burma, as a joint venture with MPT. DHL delivery is routinely intercepted and opened by customs authorities causing a delay of two to three weeks.

The Myanmar Electric Power Enterprise (MEPE), a state entity, controls power generation in Burma. The majority of installed generating capacity comes from hydropower, followed by natural gas, and steam. The amount of power produced by the various plants does not come close to capacity, and the Ministry of Energy admits that nearly 40 percent of what power is produced is lost during transmission. Hydropower is most reliable during the cooler months following the monsoon season (October-January), which is the time of lowest demand.

Demand for electricity exceeds the available power supply. This situation results in rolling power cuts year round. Most of the industrial sector and homes of the wealthy rely on diesel generators to ensure a steady

power supply. The Burmese government declined to have a pipeline constructed from either of the two offshore natural gas fields currently under production, so there will be a chronic energy supply problem until (and if) the government's program of expanded hydropower shows results.

## **Labor Conditions**

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The government restricts worker rights and uses forced labor. The use of porters by the army, with attendant mistreatment, illness, and even death for those compelled to serve, remains a common practice. The military authorities are also reported to have forced ordinary citizens (including women and children) to "contribute" their labor, often under harsh working conditions, on construction projects in many parts of the country. Child labor continues to be a serious problem, and the armed forces conscript children as young as 14 to serve as porters in combat areas.

Burma's labor practices have led to widespread international condemnation and to International Labor Organization (ILO) investigation of the government's violations of ILO Articles 29 and 87, regarding forced labor, and the right of association. In June 1999 the ILO took the unprecedented step of excluding Burma from all ILO meetings and programs, except those concerning Burma. In August 1999, an ILO commission of inquiry found that compulsory labor in Burma is "systematic." The International Labor Conference in November 2000 voted to proceed with severe sanctions against Burma for the government's failure to develop a legal and administrative framework for eliminating compulsory labor.

In 1989, the United States withdrew Burma's eligibility for benefits under the generalized system of preferences (GSP) due to the absence of internationally recognized worker rights. Labor unions are illegal in Burma. Workers are unable to organize, negotiate, or in any other way exercise control over their working conditions. Although regulations set a minimum employment age and wage, and maximum work hours, these are not uniformly observed, especially in private factories and other establishments. The government uses forced adult labor in infrastructure construction and portage for the military in active combat zones. These labor practices are not consistent with Burma's obligations under ILO Conventions 29 and 87, and thus explain why the ILO imposed sanctions against Burma in 2000. The United States strongly supported this decision.

Burma's cost of labor is very low, even compared to some of its Southeast Asian neighbors. Burmese over the age of 40, and particularly those over 65, tend to be very well educated. However, a sad side effect of the repeated closing of Burmese universities over the past 15 years is that the current 15-30 year old demographic is sorely lacking in technical skills. Many Burmese, though, speak at least some level of English. Many educated Burmese studied English in mission schools during the British colonial and early independence period. After the nationalization of private and mission schools in 1964, the socialist government mandated English courses in school starting from the middle school. However, soon thereafter then-dictator General Ne Win ordered that English instruction begin in kindergarten after his daughter failed an English exam and was rejected for studies in the U.K.

The government does not publish unemployment figures. However, anecdotal evidence and the recent divestment by many foreign companies, support the assumption of a very high level of unemployed and underemployed in non-agricultural sectors. An average factory worker in Burma will make about 500-800 kyat per day.

**Sources:** BURMA COUNTRY COMMERCIAL GUIDE FY 2004, US & FOREIGN COMMERCIAL SERVICE AND US DEPARTMENT OF STATE; PRS Data files.

# Myanmar

## Country Conditions

### Climate for Trade

#### Trade Barriers

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Despite laws promulgated in the 1990s to encourage foreign trade and investment, cumbersome restrictions remain, including difficult to obtain permits required for imports, exports, and most other business activities. In addition, frequent and sometimes arbitrary, unannounced, and unwritten policy changes make business unpredictable. Procedures for issuing licenses are not transparent, providing opportunities for graft. Importers and exporters say it is extremely difficult to obtain the necessary business permits without paying for them “unofficially.”

The government has imposed a series of restrictive and ill-conceived trade policies. The GOB’s motivations for many of these restrictions appear to be aiding crony companies, protecting moribund state-owned enterprises, and capturing scarce foreign exchange. This latter concern will become more acute as the new U.S. sanctions begin to bite. The result has often been to dampen legitimate commerce. In the face of increasing restrictions and slow business climate, a number of foreign firms have closed their doors. There has also been an upsurge in smuggling and black market trading. Items deemed essential by the government along with contraband, such as narcotics, appear to leave the country rather freely, and prohibited “luxury” consumer items are imported with apparent impunity. Urban retailers stock items explicitly on the prohibited imports list, though the supply of such items is erratic.

Some examples of these restrictive policies are:

- A decision not to issue new, or renew existing, trading permits for foreign-owned trading companies.
- A restriction on imports so the value of any company’s imports may not exceed the company’s export earnings. Import licenses may only be obtained by producing evidence of export earnings, and the government will seldom authorize imports up to the full value requested.
- A flat 10 percent tax on exports.
- An import policy requiring that most imported items be classified as either “essential” or “non-essential.” At least 80 percent of imports must come off the “essential” list. In December 1998, the Ministry of Commerce stipulated that items which are not restricted but which are not specifically considered “essential” or “non-essential” will be treated as non-essential. In 2003, the SPDC’s Export and Import Coordination Committee (EICC) refined this policy further, subdividing “non-essential” items into two categories: items “not urgently needed for the state” (e.g., batteries, air conditioners, refrigerators, etc.), and items “unnecessary for the state” (e.g., shampoo, perfume, etc.) The EICC will generally approve only 30-50 percent of the amount requested for importing items “not urgently needed for the state,” and will rarely issue permits for imports “unnecessary for the state.”
- A remittance cap on earnings was reduced to \$10,000 per month effective July 1, 2000. Fortunately, the cap does not apply to export earnings.

The official exchange rate, which overvalues the currency 160 times, is a key impediment to foreign trade and investment. Burma also lacks an active private financial sector and an independent central bank. Poor infrastructure is a major impediment to distribution of goods and services. Likewise, the high cost, and irregular supply, of fuel and serious electricity shortages add tremendous expense and unpredictability to any manufacturing operation here. No government program offers any financial support to private exporters. Private companies do not enjoy the same advantages as government and military organizations, particularly in regard to use of the official exchange rate.

### ***Taxes and Fees Assessed on Imports***

Burma follows the Harmonized System of International Nomenclature. Three types of taxes can be levied on imports: import duties, commercial taxes, and license fees. After joining ASEAN in 1997, Burma took measures to comply with the ASEAN Common Effective Preferential Tariff Scheme (CEPT). Burma is in the process of meeting the CEPT tariff reduction commitments to be phased in before 2008. At present tariffs range from a low of zero to a maximum of 40 percent, with luxury items, jewelry and items produced in Burma facing the highest tariffs. Tariffs on most other items including consumer goods are moderate. Tariffs on most industrial inputs, machinery and spare parts average about 15 percent (see Customs Valuation below for information on the customs valuation exchange rate that affects the real effective tariff rates charged). The corporate taxation rate is 30 percent annually on profits of limited private companies.

### **International Agreements**

Burma is involved in the Asian Development Bank's Program of Economic Cooperation in the Greater Mekong Subregion. It participates in regional meetings and workshops supported by the ADB's regional technical assistance. Burma joined ASEAN in 1997, and has eagerly participated in that regional forum, even hosting a number of seminars, conferences, and ministerial meetings. Burma is scheduled to host the ASEAN summit in 2006. Due to difficulties in reforming its economic and trading system, Burma has requested extensions on compliance with the ASEAN Free Trade Agreement (AFTA). As one of ASEAN's least developed members, Burma also has an extra 5 years (until 2008) to comply with most of AFTA's liberalization requirements. Burma is a member of the WTO, and of the Bangladesh, India, Myanmar, Sri Lanka, and Thailand Economic Corporation (BIMSTEC).

**Source:** BURMA COUNTRY COMMERCIAL GUIDE FY 2004, US & FOREIGN COMMERCIAL SERVICE AND US DEPARTMENT OF STATE.



# Myanmar

## Country Conditions

### Background

#### Geography

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Myanmar is the largest nation on mainland Southeast Asia and lies along the eastern coast of the Bay of Bengal. Thailand and Laos border the country to the southeast, China to the northeast, and Bangladesh and India to the northwest. The central region of Myanmar consists of lowlands, ringed by steep, often rugged highlands. The country's fertile farmlands contribute to its role as a major rice exporter. Myanmar contains potentially valuable oil, natural gas, and coal reserves, forests of teak and other hardwoods, and some marble, limestone, and precious stones. Its substantial mineral reserves include tin, antimony, zinc, tungsten, copper, and lead.

Most of Myanmar is in the tropic zone. The southwestern monsoon season runs from June to September, and in the northeast from December to April. Summers are typically cloudy, rainy, hot, and humid, but winters offer lower humidity, milder temperatures, and less rainfall. In January, Yangon averages temperatures ranging from 19°C to a high of 33°C and has less than one day of significant precipitation. In July, average low and high temperatures are 26°C and 29°C, and significant precipitation occurs during 27 days.

#### History

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**11th Century:** The Burmans extended their kingdom to encompass the rival Mon kingdom and the Irrawaddy delta.

**13th-14th Centuries:** The Mongols invaded in 1287 and caused the empire to disintegrate, and later Siam (presently Thailand) invaded and conquered the area.

**16th Century:** The Burmese Toungoo dynasty reunited the region.

**1824-1886:** After a series of wars, British forces based in India overcame nationalist resistance and united Burma with India.

**1937:** The British detached Burma from India, establishing it as a separate colony.

**1942-1945:** Japan invaded and installed a puppet government, but local nationalists shifted their loyalties to the Allies, cooperating with them to liberate the country in 1945.

**1948-1951:** The leading nationalist group, the Anti-Fascist People's Freedom League (AFPFL), controlled the government in 1948 when the British granted independence to Burma. Shortly before this, a political rival killed Gen. Aung San (a national hero who first cooperated with the Japanese and then led the fight against them). U Nu, who had played an important role in student support for Burmese nationalism, became the first prime minister, but soon faced insurrections by such groups as the Communists and the Karen ethnic minority. In 1951, the government established its authority over most of the country, ushering in a brief period of stable parliamentary democracy.

**1961:** Guerrilla fighting with the Shan and Karen ethnic groups in the north escalated.

**March 1962:** Leaders of the various rebel groups held a peace conference in the capital.

**1962–1988:** Army Chief of Staff Ne Win, who in 1958 had formed a temporary military government at U Nu's request, led a coup, dissolved all democratic institutions, and arrested the leaders of guerrilla organizations. After ruling from various leadership posts, he resigned in the face of mounting opposition, touching off mass demands for democratic reforms and culminating in a brutal military crackdown and the assumption of power by the State Law and Order Restoration Council (SLORC) in August 1988.

**June 18, 1989:** The SLORC changed the country's name from Burma to Myanmar.

**May 1990:** The SLORC allowed free elections for a national legislature, but when the results showed an overwhelming victory for the National League for Democracy (NLD), the SLORC refused to allow the legislature to convene, declaring that the purpose of the vote had been merely to choose constitutional convention delegates.

**April 1992:** Poor health forced Saw Maung to yield SLORC leadership to Than Shwe.

**July 1995:** The SLORC lifted the 1989 house arrest of Aung San Suu Kyi, who had led the NLD to victory in the 1990 parliamentary elections.

**1996:** A crackdown by the SLORC against the political opposition strained foreign relations, prompting the US and other nations to impose economic sanctions.

**January 27, 1997:** PepsiCo, one of the last US companies with a significant presence in Myanmar, announced its withdrawal from the country.

**March 1997:** The government imposed martial law and a curfew in Mandalay, the country's second-largest city, after a series of attacks on Muslims by Buddhist monks. The EU stripped Myanmar of special trading privileges because of reports that it used forced labor to increase exports.

**April 22, 1997:** The US government banned new US investment in Myanmar because of political repression.

**July 1997:** The SLORC demonetized 80% of the currency without compensation as prices soared and foreign exchange reserves dropped to their lowest level since 1992. Myanmar was admitted to ASEAN, along with Laos.

**November 15, 1997:** The SLORC changed its name to the State Peace and Development Council (SPDC), abandoning the implication that it was merely a transitional regime.

**July 1998:** Opposition leader Suu Kyi began a standoff with government forces when they refused to allow her to leave Yangon to meet with supporters in Bassein, but security personnel forced her to return home, ending the protest after six days.

**August 1998:** When security forces again blocked Suu Kyi's exit from Yangon, she remained in her van for 13 days in protest, ending the confrontation because of dehydration. Eighteen foreign democracy activists arrested the previous week were convicted and sentenced to five years' hard labor, but moments after the ruling, the government announced that the sentences would be reduced and the activists deported. Khin Nyunt, secretary-1 of the SPDC, met with NLD Chairman Aung Shwe to discuss resolving the political stalemate, but a later meeting was canceled when the government refused to allow Suu Kyi to attend.

**September 16, 1998:** The NLD formed a Committee Representing the Parliament, which claimed to act on behalf of the body elected in 1990.

**October 1998:** The EU tightened sanctions, expanding visa restrictions. Khin Nyunt created a 16-member political affairs committee in an effort to reinforce his position within the ruling junta.

**November 9, 1998:** The human rights committee of the UN General Assembly passed a resolution deploring the country's "continuing extrajudicial and arbitrary executions, rape, torture, inhuman treatment, mass arrests, forced labor, and forced relocation."

**January 1999:** The government freed NLD member Ohn Myint from a lengthy prison term after he had served only one year. He was freed because of his old age and out of consideration for his family. Amnesty International had called for his release in 1998.

**May 1999:** The International Committee of the Red Cross (ICRC) made prison visits that were initially considered a breakthrough, but Suu Kyi denounced them as a tragedy because the junta made living conditions even more unbearable for the mostly political prisoners during this time.

**July 30, 1999:** After withholding payment in March, Thailand reconsidered and agreed to pay \$51 million for a gas pipeline built by a consortium of companies from the US, France, and Myanmar.

**November 24, 1999:** The border between Myanmar and Thailand reopened despite remaining conflicts, such as the illegal drugs trade and the illegal crossing of refugees.

**December 28, 1999:** Myanmar frontier guards attacked Bangladeshi border guards along the two nations' ill-defined border.

**September 20, 2000:** Suu Kyi was blocked from boarding a train to travel to the northern city of Mandalay with several NLD colleagues and was returned to her home, while the others were arrested and detained.

**October 2000:** Suu Kyi began secret talks with the government.

**February 2001:** The army clashed with Shan rebels at the Thai border, and Myanmar agreed not to build a controversial dam over the Naf River on their common border.

**August 2001:** The SPDC freed senior NLD leaders U Aung Shwe and U Tin U, but kept Suu Kyi under house arrest.

**September 2001:** Khin Nyunt visited Thailand and pledged to eliminate the problem of the drug trade in the Golden Triangle by 2005 by initiating a crop substitution plan.

**December 2001:** Thailand closed a camp that housed Myanmar dissidents, who had used it as a base for hostage-taking incidents since 1999.

**November 2001:** The International Labor Organization investigated the status of reforms related to forced labor and expressed "profound concern" over the limited number and nature of the government's reforms. Meanwhile, SPDC leaders removed two top military leaders, forced five ministers to retire, and celebrated the capture of a white elephant (naming it *Yaza Gaha Thiri Pissaya Gaza Yaza*), a symbol of future "peace, stability and prosperity," protection from "hazards and dangers" and provider of harvest bounty.

**January 2002:** The government announced that Russia would supply the reactor for a planned nuclear research facility and train the local staff.

**May 16, 2002:** Suu Kyi, leader of the NLD, was released from 19 months of house arrest, reportedly without restriction on either her movements or political activity, and she immediately began to test her freedoms.

**May 2002:** Hundreds of villagers fled to Thailand as government and UWSA forces launched a major assault on positions held by the SSA and KNU just across the border from Thailand's Chiang Mai province.

**September 26, 2002:** Family members of former leader Ne Win—Aye Zaw Win, 54, married to his daughter Sandar Win and their three sons: Aye Ne Win, 25, Kyaw Ne Win, 23, and Zwe Ne Win, 21—were found guilty of plotting a coup and sentenced to death.

**December 2002:** Ne Win died.

**May 2003:** The US extended its ban on US direct investment into Myanmar for another year. Suu Kyi was once again detained—or, according to the authorities, placed in “protective custody”—following a clash between supporters of the NLD and SPDC backers in the northern town of Yaway Oo.

**June 2003:** Following Myanmar's refusal to release Suu Kyi, Japan, Myanmar's largest aid donor, announced the suspension of all aid payments.

**July 2003:** US imposed fresh sanctions against Myanmar, including a ban on imports, a ban on financial transactions, and the extension of existing barriers to entry into the US by members of the regime. After intense international pressure, the junta released more than 90 NLD supporters who had been arrested during the crackdown that followed Suu Kyi's detention in late May, and subsequently, the junta permitted Suu Kyi to meet with officials from the International Committee of the Red Cross, who reported that she was “in good health and high spirits.”

**August 2003:** SPDC carried out a government reshuffle that introduced a new prime minister, Gen. Khin Nyunt, and brought changes in five other ministerial posts; Khin Nyunt announced that the National Convention—a constitutional review body adjourned in March 1996—would be reconvened as part of a seven-step “roadmap” for the establishment of democratic governance in Myanmar.

**September 2003:** After she underwent surgery at a Rangoon hospital, Suu Kyi was again detained in her home, effectively placed under house arrest.

**November 2003:** The government released five senior NLD members at the behest of UN officials.

## Social Conditions

**Ethnic Divisions.** A varied ethnic composition is the product of a long history of migration and the absence of well-defined borders before the British colonial period. Roughly two-thirds of the population belongs to the Bamar ethnic group, which is overly represented in both the army and the government. The largest minority groups are ethnic Shan (9% of the population), located largely in the eastern plateau region, and Karen (7% of the population), located in the south and east. National independence was granted only after Aung San had secured the consent of ethnic minorities to join the union. Although minority rights were outlined in the 1947 Panlong Agreement, violent ethnic conflict has troubled the country since independence. Ethnic guerrillas fight largely for greater regional autonomy and more influence in the national government, but some have sought full independence. Since 1988, the government has concluded

truces with most armed ethnic groups and has conducted concerted military campaigns against the others. Offensives since 1994 against ethnic Karen and Mon guerrillas, as well as against Rohingya Muslims, have prompted the flight of more than 100,000 refugees, mostly into Thailand but also into Bangladesh. The Karen have denounced the government for driving out ethnic minorities that had caused no problems.

**Regional and Class Divisions.** Military officers and a small group of SPDC officials have consumed most of the benefits of economic growth. The uneven regional distribution of economic progress deepens disparities between them and the rest of the population. Expansion has been greatest in Yangon, the capital, and in the northern state of Shan. Growth has been negligible in such peripheral regions as Mon, reflecting the diversion of trade from the Thai border to the port of Yangon and the Chinese border as a result of trade liberalization measures undertaken in the early 1990s. The partial liberalization of agricultural production and marketing in the late 1980s and early 1990s boosted real disposable farm income, but over the same period, the income of most urban residents, including government employees, declined in real terms, leading many to supplement their income by demanding bribes and engaging in other forms of corruption.

**Education.** The education system has deteriorated significantly since the onset of military rule in 1962. Funding for public education has declined markedly since 1990; spending for basic education amounts to 0.3% of GDP. Low wages and a mandatory program of political indoctrination have produced a shortage of competent teachers. In border areas, government supervision to enforce restrictions against teaching in local languages has also impeded education. Enrollment is 91% in primary education, but falls below 35% by the end of primary school and drops to 5% for secondary education. Both official and informal fees imposed by the government deter attendance in the more impoverished rural areas.

**Health.** At the beginning of the 21st Century, the World Health Organization (WHO) ranked Myanmar's health system as the world's second worst (190th out of 191). The WHO's index of healthy longevity places Myanmar in the third quartiles, with an average of 52 years for both men and women. Safe drinking water is accessible to only 38% of the urban population, and only 44% of the urban population enjoys acceptable sanitary conditions. Government spending for health care amounts to about 0.17% of GDP. Although each village has access to community health centers and larger regional hospitals, medicine is frequently in short supply. In many areas, malaria, plague, and tuberculosis are common. HIV infection is a serious problem and is spreading because of widespread intravenous drug use. The infant mortality rate remains one of the highest in world, at 72 deaths per 1,000 live births in 2003. Cease-fire agreements with the ethnic Wa and Kokang permit the cultivation and trade of opium, which in turn fosters higher rates of heroin addiction. Amputation injuries are common as a result of land mines installed during the years of regional conflict.



The following sections are extracts from the publication:

*Background Note: Burma, December 2003*

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## Government & Political Conditions

The Union of Burma (or Myanmar as it is called by the ruling junta) consists of 14 states and divisions. Administrative control is exercised from the central government at Rangoon through a system of subordinate executive bodies. Power is centered on the ruling junta--the State Peace and Development Council, or SPDC--which maintains strict authoritarian rule over the people of Burma. Control is maintained through the strict censoring of information, repression of individual rights, and suppression of ethnic minority groups. Today the SPDC continues its harsh rule and systematic human rights abuses. Any

future political transition will have to be negotiated among the SPDC, the political opposition, and representatives of Burma's many ethnic minorities. Although the SPDC changed the name of the country to "Myanmar," the democratically elected Parliament of 1990 does not recognize the name change, and the democratic opposition maintains use of the name "Burma." Due to unyielding support of the democratically elected leaders, the U.S. Government likewise uses "Burma."

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## Foreign Relations

During the Cold War, Burmese foreign policy was grounded in principles of neutrality, often tending toward xenophobia. Since 1988, however, Burma has been less xenophobic, attempting to strengthen regional ties. It now is a member of the Association of Southeast Asian Nations (ASEAN), Bangladesh, India, Myanmar, Sri Lanka, and Thailand Economic Cooperation (BIMSTEC), and several other regional organizations and initiatives.

Burmese-Thai relations have been tainted by a long history of protracted border conflicts, sporadic hostilities over narcotics trafficking, Burmese insurgents operating along the Burmese-Thai border, and the large number of Burmese who cross the border to work illegally or claim refugee status. In fact, the Burmese Government closed the Burma-Thai border for several months during the summer of 2002. However, official and unofficial economic ties between the two nations are significant, and the current Thai and Burmese Governments seem eager to reach a new, more cooperative, level in their bilateral relations. Despite their often-contentious history, Burma and China have grown closer in recent years, though most Burmese remain suspicious of China's economic influence. China is quickly becoming Burma's most important partner, offering debt relief, economic development grants, and soft loans used for the construction of infrastructure and light industry. China also is purportedly Burma's major supplier of arms and munitions.

Burma is involved in the Asian Development Bank's (ADB) Program of Economic Cooperation in the Greater Mekong Subregion. As such, it participates in regional meetings and workshops supported by the ADB's regional technical assistance. Burma joined ASEAN in 1997, and has participated in that regional forum, even hosting a number of seminars, conferences, and ministerial meetings. Due to difficulties in reforming its economic and trading system, Burma has requested extensions on compliance with the ASEAN Free Trade Agreement (AFTA). As one of ASEAN's least developed members, Burma also has an extra 5 years (until 2008) to comply with most of AFTA's liberalization requirements. Burma also is a member of the World Trade Organization.

Most Western foreign aid ceased in the wake of the suppression of the democracy movement in 1988. The World Bank reports that aid now represents only about \$2 per capita (compared with \$53 a head in Laos and \$33 per person in Cambodia). According to the United Nations, official development assistance totaled only \$76 million in 2000. Burma receives grants of technical assistance (mostly from Asia), limited humanitarian aid and debt relief from Japan and China, and concessional loans from China and India.

Burma became a member of the International Monetary Fund (IMF) and World Bank in 1952, the International Financial Corporation (IFC) in 1956, the International Development Association (IDA) in 1962, and the ADB in 1973. There have been no World Bank loans to Burma since July 1987. Since 1998 Burma has been in non-accrual status with the Bank. The IMF performs its mandated annual Article IV consultations, but there are no IMF assistance programs. The ADB has not extended loans to Burma since 1986. Technical assistance ended in 1988. Burma has not paid its loan service payments to the ADB since January 1998. Burma's total foreign debt now stands at over \$6 billion.

**U.S.-BURMESE RELATIONS:** The political relationship between the United States and Burma is strained. Official relations between the United States and Burma have been cool since the 1988 military coup and violent suppression of pro-democracy demonstrations.

The United States has imposed broad sanctions against Burma. Many of the sanctions in place are applied under several different legislative and policy vehicles. Thus the improvement of the situation in one area in Burma would not necessarily lead to a lifting of any particular sanction. Recent measures include a ban on imports from Burma, a ban on the export of financial services to Burma, a freeze on the assets of certain Burmese financial institutions and extended visa restrictions on Burmese officials. The United States has also imposed countermeasures on Burma due to its non-compliance with the recommendations of the Financial Action Task Force on Money Laundering.

The U.S. Government has an official policy to neither encourage nor discourage trade with Burma. Since May 1997, the U.S. Government has prohibited new investment by U.S. persons or entities. However, a number of U.S. companies exited the Burma market even prior to the imposition of sanctions due to a worsening business climate and mounting criticism from human rights groups, consumers, and some shareholders because of the Burmese Government's serious human rights abuses and lack of progress toward democracy.

For its particularly severe violations of religious freedom, the United States has designated Burma a Country of Particular Concern (CPC) under the International Religious Freedom Act.

The United States downgraded its level of representation in Burma from Ambassador to Chargé d'Affaires after the government's crackdown on the democratic opposition in 1988.

