



A fresh start for Myanmar's economy

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"Historical transition" is a term frequently used in Western media to describe the change in government that took place in spring 2016 in Myanmar. Indeed, the peaceful transition of political power to a non-military government has historical significance. The transition was made possible by the first largely free elections for 25 years, which saw Aung San Suu Kyi's party, the National League for Democracy (NLD), win the vote in an overwhelming victory on the 8th November 2015. The party now has a clear majority in the new parliament (International Crisis Group, "The Myanmar Elections: Results and Implications", Asia Briefing No. 147, 9th December 2015, www.crisisgroup.org). This enabled Suu Kyi to elect one of her long-time confidants, Htin Kyaw, as the President of Myanmar on 15th March 2016. There is also a historical dimension to this aspect of the election, given that Htin Kyaw is the first head of state to not come from a military background for over 50 years. Htin Kyaw took up his position in office on 1st April 2016, and at the same time, the newly appointed NLD government began their work. Suu Kyi is both Minister of Foreign Affairs and State Counsellor for Myanmar, which effectively makes her head of government.

The country's military, which formerly ruled Myanmar, nevertheless remains a strong force within the country. For example, it still holds over a quarter of all seats in parliament, as stipulated by the constitution, and appoints a deputy for the President and the Ministers of Home Affairs, Border Affairs and Defence in the new Cabinet. Aside from this, the military is an important economic player in the country with its own companies and vested interests, for example in the raw materials sector. Given these circumstances, the success of the new government is largely dependent on whether or not it will be able to make compromises with the military on important political and economic issues (N. Eschborn, "'Auf Mandela hoffen, auf Thaksin vorbereiten' - Myanmars politische Zukunft?" ["Hope for Mandela, prepare for Thaksin - Myanmar's political future?"], Country Report, Konrad-Adenauer-Stiftung, 4th March 2016, www.kas.de/myanmar).

Expectations for the NLD and its party leader are extremely high following the new majority vote; the challenges the party must overcome, however, are also great ("Testing Times: Ten challenges for the NLD government", Myanmar Times, 31st March 2016, www.mmtimes.com). As Suu Kyi has stated, the primary goal is to solve ethnic conflicts and establish peace in the country ("Aung San Suu Kyi: building peace will be NLD party's priority in government", The Guardian, 4th January 2016, www.theguardian.com). However, the other problems the party face are by no means less complex. Although the economy has gathered significant momentum since around 2011, Myanmar continues to be a "poorhouse" in Asia, facing problems such as low income, corruption and overexploitation of natural resources. Its health services and infrastructure are also in a poor state.



"Straightforward" macroeconomic analyses from the World Bank or the Asian Development bank (ADB) on the situation and the economic prospects of the country sometimes give the impression that Myanmar is a "normal" developing country with "normal" difficulties. This impression has to be put into perspective. The change of government is only the beginning; many structures still need to be established and solving the country's problems will take a great deal of time ("Analyzing the Direction of Economic Policy in a NLD-Governed Myanmar: Conversation with Dr. Sean Turnell, Associate Professor, Dept. Of Economics, Macquarie University and Economic Advisor, National League for Democracy", KWR Special Report, 23rd December 2015, <http://kwrintl.com/library/2015/>). It still remains to be seen whether the people of Myanmar, full of hopes for the fast establishment of peace and better standards of living (and rightly so), will accord Suu Kyi and the NLD this time. For the great victors of the election, the uphill struggle is over but they still have many challenges to face in the long term.

The starting conditions for the new government

In principle, the preconditions for economic development that the government are facing are not bad (ADB, "Myanmar in Transition, Ch. III: Strengths, Constraints, Opportunities and Risks", August 2012, www.adb.org). For example, the country is in an extremely advantageous location strategically speaking and is rich in natural resources such as natural gas, water, wood and mineral resources including precious stones, gold, copper and coal. It also has a young population. More than 28 per cent of the 50 million inhabitants of the country are under 15 years old and over 13 million people, or 40 per cent of the working population, are under 30.

Furthermore, the NLD government now has the opportunity to build upon a range of political and economic reforms that the former military President Thein Sein initially introduced in 2011/2012. He had two aims: Firstly, he wanted to do something about the army's bad reputation and mitigate the considerable domestic political tensions which had emerged as a result of repression and poverty and which had led to major demonstrations against military rule. Secondly, he wanted to establish better relations with the West in order to put an end to Myanmar's many years of isolation (T. Kudo, "One Year of Myanmar's Thein Sein's Government: Background and Outlook of Reforms", IDE-Jetro, 7th May 2012, www.ide.go.jp).

Although the measures put into place by Thein Sein were just the first steps, they still had considerable success. Perhaps most significantly, the sanctions imposed on the military junta by western countries in previous years were gradually lifted, suspended, or in the case of the USA, at least loosened. New laws and regulations to benefit the economy led to more and more countries investing in Myanmar. In the most important city of Yangon, new skyscraper complexes began to spring up and tourism became an important source of foreign income.

Against this background, gross domestic product (GDP) has grown on average at a rate of almost 7.5 per cent since 2011 (ADB, "Asian Development Outlook: Asia's Potential Growth", March 2016, Statistical Appendix, p. 276). This was significantly higher than in previous years, when the economy had grown by only 5 to 5.5 per cent according to estimates by international organisations (ADB, "Myanmar in Transition", loc. cit.).



It became apparent that the economy had become more robust in the fiscal year of 2015-2016 (1st April 2015 to 31st March 2016). Despite the fact that Myanmar was affected by natural catastrophes that caused a large amount of damage in the agricultural sector, and although economic slowdown in China had a negative effect on foreign trade and investments, GDP rose by 7.2 per cent in comparison to the previous year. This was the best result of all the Asian nations, although the country's relatively low starting point must also be taken into consideration. Vigorous building activity, investment in infrastructure, production of clothing and tourism were all factors in this increase (ADB, "Asian Development Outlook 2016: Asia's Potential Growth", Myanmar country report, March 2016, www.adb.org). Exports, on the other hand, did not provide a particularly big boost to the economy due to Myanmar's heavy dependency on China.

Approved foreign direct investments (FDIs) increased by 18.4 per cent to almost 9.5 billion US dollars in the fiscal year of 2015-2016, thanks to a very strong final quarter in comparison to the previous year (Directorate of Investment and Company Administration, "Yearly approved amount of foreign investment (by sector)", www.dica.gov.mm). Almost half of this came from the oil and gas sector. Other key sectors were transport and communication, as well as manufacture and real estate. In terms of investment by country, Singapore and China were the most active, though it is not known exactly how much money actually came into Myanmar by this means.

Nevertheless, these seemingly positive developments remained unnoticed by many of the country's people; Myanmar is still a poor country. Current life expectancy is one of the lowest in the region at only 66 years

(World Bank, Indicators, "Life expectancy at birth, total (years)", <http://data.worldbank.org>). Myanmar spent only 20 US dollars per capita on health in 2014, while in Cambodia, 61 dollars were spent. Per capita income only amounted to approximately 1200 dollars in 2014 despite growth in recent years; throughout the whole of South-East Asia, only Cambodia's income was less. Even though Myanmar has made some progress in the fight against poverty, approximately a quarter of the population still has to get by on 1.25 US dollars per day (figures for 2010; ADB, "Myanmar in Transition", loc. cit.). One quarter of the population is also cut off from the electricity network. In general, the quality of infrastructure is also very low: In the "Global Competitiveness Report 2015-2016" by the World Economic Forum, Myanmar was in 134th place out of the 140 countries listed in this category (www3.weforum.org). One exception is the mobile telephone network, which has been developing at a rapid pace since 2013 thanks to the market opening up to foreign suppliers ("Myanmar mobile leaps along", Myanmar Times, 1st April 2016, www.mmmtimes.com).

Another cause for concern is the mining sector: Many of the country's mineral resources are located in areas predominantly inhabited by ethnic minorities. Most of the people living in these areas are employed in the agricultural sector. According to experts, more employment in the mining sector could boost the income of farming households. In addition, the income generated by exploitation of mineral resources could be used to finance infrastructure in regions that have been largely neglected until now (E. Brennan, "Myanmar's Mineral Resources: Boon or Bane for the Peace Process?", Institute for Security & Development Policy: Focus Asia, No. 2, October 2013, www.isdp.eu).



The NLD government's plans for the economy

It is not yet known in detail which economic path Suu Kyi and the NLD government will choose to pursue. Although the National Economic Policy Plan has been announced, it has not yet been published. A general outline of the direction of the plan, however, can be drawn from the NLD's election platform from summer 2015, as well as from other documents (National League for Democracy, "2015 Election Manifesto", Authorised Translation, www.burmalibrary.org; "Revealed: NLD's economic plan", Myanmar Times, 18th August 2015).

The initial focus is placed on overhauling the tax system and making it more transparent. Furthermore, the government apparatus is to be reduced and made more efficient. Up until now, decisions have been made on a top-down basis. The NLD proposes to create a much more decentralised structure that gives ethnic minorities in particular more of a voice (Turnell interview, loc. cit.).

Thirdly, the agricultural sector is also set to receive a lot of attention. Despite its huge importance for Myanmar's economy, it has often been largely neglected in the past. Above all, the new government wants to increase the extremely low level of productivity, improve land use and ensure closer links between farmers and processing companies. An agricultural sector built on this basis would create jobs as well as increase income and exports, which could in turn reduce the levels of poverty in rural areas.

The NLD stresses that it will be impossible to achieve economic development without a fundamental reform of the finance sector. The Central Bank must become truly independent in order to achieve monetary sta-

bility. It also plays an important role in establishing a business-friendly financial system. Until now, the shortage of capital has been a "chronic problem" that affects small and medium-sized businesses in particular ("Dateline Irrawaddy: "It is Time for the Government to Clarify its Policies", The Irrawaddy, 11th June 2016, www.Irrawaddy.com).

Finally, the infrastructure needs to be brought up to a standard at which it is able to support Myanmar's economic development rather than hinder it, as it has in the past. The government also expressly welcomes help from outside the country in the form of technical advice, loans or financing through public-private partnerships (PPP).

The aim of the new government is to increase GDP on average by 7.7 per cent per year in the next five years. Given the country's limited domestic purchasing power, this will not be possible without a strong increase in foreign trade and competitiveness. The World Bank has conducted a new study on behalf of the government in Naypyidaw that identifies which conditions will be necessary to reach this goal (World Bank, "Myanmar – Diagnostic Trade Integration Study (DTIS): Opening for Business", June 2016, <http://documents.worldbank.org>).

The World Bank generally suggests that Myanmar should diversify its export structure, which has been heavily based on gas up to this point. The agricultural industry and service sectors and, above all, the textile and clothing industry will be key here. The clothing industry offers an opportunity to attract a considerable part of production from other countries thanks to low local labour costs, especially at a time where labour costs in China, where this kind of work has been carried out in the past, is becoming too expensive. However, political



reforms will have to take place in order for this plan to be a success, as foreign investors would only invest in a politically stable Myanmar. Furthermore, these companies are likely to require compliance with international standards, for example in terms of governance, labour laws and environmental sustainability. Despite some progress over the past years, Myanmar currently lags far behind other countries on most business environment indicators. This could be improved very quickly by introducing transparent regulations with regard to land use rights to facilitate market access, which requires a complicated process at present, and improve poor investor protection and contract enforcement, for example. To this end, the parliament would need to pass a series of pending legislation, including a new investment law, a new companies law as well as a law on arbitration (World Bank Myanmar, "Policies for Shared Prosperity in Myanmar", 23rd February 2016, www.worldbank.org).

Resistance, however, is inevitable. Measures to promote trade and investment could exacerbate existing tensions, according to the World Bank. Therefore, when trading and infrastructure projects are set in motion in areas where a ceasefire is in place, the government must ensure that the development strategy is implemented in parallel to the peace process.


All of these factors demonstrate how the implementation of a new economic policy is nothing short of a herculean task for the newly appointed government. A new, high-ranking finance commission that first met in mid-June 2016 will also have an important role to play. The President, both of his deputies and the Minister of Planning and Finance are all members of this commission, among others. Although State Counsellor Suu Kyi is not a member of the commission, she took part in the meeting as de-facto

head of government. As President Htin Kyaw explained, agricultural development, poverty reduction and infrastructure (including electricity) are to take top priority in terms of developing the economy. The aim, he said, will be to revise the budget drawn up by the previous government for the fiscal year 2016-17. This is because the budget was originally drawn up to take into account a total of 33 ministries, but the number has since been reduced to 22 as a result of consolidation. Spending priorities are also set to undergo changes. In this context, the provision of more resources for the chronically underfunded education sector will now be a top priority, according to the President ("Government to allocate more funding to public services", Myanmar Times, 16th June 2016).

The balancing act of foreign economic relations

Since the introduction of reforms in 2011 and 2012, there has been a noticeable increase in foreign interest in Myanmar. This is expected to increase further over the coming years following the transition to the new government, thanks to the country's great economic potential as well as its important geostrategic position. As a result, Suu Kyi and the NLD face the problem of establishing the most balanced policies possible in the face of widely varying interests.

Myanmar has traditionally held a very close relationship with China. China accounted for more than 40 per cent of all Myanmar's foreign trade in 2015 and was their biggest investor, with investment levels at a similarly high rate. Despite this, the close relationship between the two countries has grown somewhat more distant since 2011/2012. This is mainly due to the fact that construction on the Myitsone dam was brought to a halt in north-eastern Myanmar,



a decision made by former President Thein Sein in autumn 2011 following public protests. Protesters argued that China's only interest in implementing this project and other ones was to exploit Myanmar's rich resources (P. Parameswaran, "China's Influence in Myanmar Facing Growing Scrutiny", *The Diplomat*, 7th January 2015, <http://thediplomat.com>). In contrast, an oil and gas pipeline between the two countries is now in operation, despite the fact that the projects also stirred much controversy.

The plan for the Myitsone project, which is still on the table, is a subject with an explosive political nature both in terms of domestic and foreign policy, and poses a real dilemma for the government in Naypyidaw ("China woos Myanmar, tries to massage its public image", *Myanmar Times*, 19th July 2016). On the one hand, recommencing the project would put Suu Kyi and the NLD under intense pressure from within their own country. The *Irrawaddy* newspaper has gone as far as to say that the people of Myanmar will call for the current NLD government to resign, should it decide to approve the Myitsone project ("Myitsone Dam Resumption Would Prove Suu Kyi's Downfall", *The Irrawaddy*, 7th June 2016, www.irrawaddy.com). On the other hand, putting a final stop to the plans would likely cause China to demand compensation in the order of 800 million dollars.

There is also a lot at stake for Beijing. Myanmar is an important building block in China's maritime "Silk Road Strategy" (One Belt, One Road). China wants to secure its energy supply and protect itself from the potential danger of using traditional sea routes (Strait of Malacca) through a number of major projects, in particular the establishment of a special economic zone and a the construction of deep-sea port in Kyaukpyu in the Rakhine State (western Myanmar) (T. Chan, "Myanmar and China's

One Belt One Road Strategy", presentation in Hong Kong, 26th November 2015, <http://china-trade-research.hktdc.com>).

The Kyaukpyu port would also secure access to the Bay of Bengal, which is strategically very important.

Although China has repeatedly pointed out that both countries can make good money from the projects, the people of Myanmar have clearly displayed a lot of mistrust in the plans. Beijing has therefore now turned to charm and persuasion tactics. In mid-July 2016, for example, more than 100 Burmese journalists, government officials and members of parliament were invited to visit in order to "improve understanding of China's intentions in Myanmar" ("China woos Myanmar", loc. cit.). It remains to be seen whether or not this will achieve the desired outcome. China could probably improve its image in Myanmar a lot quicker if it were to voluntarily withdraw from the construction of the Myitsone dam, as some have suggested (J. Kristensen, "There is a fourth option on the Myitsone Dam", *Frontier Myanmar*, 9th July 2016, <http://frontiermyanmar.net>).

Alongside China, there are a number of other countries currently showing interest in Myanmar. Various special economic zones are a visible expression of this interest. Since September 2015, a zone in Thilawa, not far from Yangon, has been in operation under the joint Burmese-Japanese control. The main focus of the zone is on light manufacturing and assembly work. Thilawa is also open to companies from other countries. Another project in the pipeline is the construction of the largest South-East Asian industrial zone starting in Dawei in south Myanmar and spanning parts of Thailand and Japan. These projects keep getting delayed, however, due to local protests.

Although India has also significantly increased contact with Myanmar over the past few years as part of Prime Minister Modi's "Act East Policy", its involvement lags significantly behind that of China or Thailand. One reason for the comparatively low exchange of goods (2015: 1.7 billion dollars in comparison to China's 13.6 billion dollars) is a lack of sufficient infrastructure at the border crossings (T. Singh Maini, "Myanmar and the India/China Shuffle", The Globalist, 18th October 2015, www.theglobalist.com). Any improvements made here would have an immediate, positive impact. India could also take advantage of the Bangladesh-China-India-Myanmar Economic Corridor (BCIM) to benefit its economy. This initiative, formally agreed upon in December 2013 and part of the "Silk Road Strategy", would include the construction of a transport network of roads, railways, air and sea routes between Kolkata and Kunming and cost 22 billion dollars. Suu Kyi and her NLD government could take on an important role in these plans by acting as a mediator between these two major powers (T. Singh Maini, "Myanmar's Post-Election Future with India", The Diplomat, 20th November 2015, <http://thediplomat.com>).

Since 2012, the USA has reinstated an ambassador in the capital of Naypyidaw. However the country plays a very minor role in terms of the economy due to the sanctions that are still in place. Exchange of goods between the two countries amounted to only 370 million dollars in 2015, just over 1 per cent of Myanmar's total foreign trade. US companies have only made minimal investments in the country; in any case, these companies are currently in the process of winding up other projects, for example in Singapore. If the USA fully lifts its sanctions on Myanmar, as the US Chamber has advised, trade and investment could significantly increase over the coming years.

How Suu Kyi and her NLD government aims to handle the "balancing act between the great powers" will be one of the most important foreign policy issues (J. Goldberg, "Myanmar's Great Power Balancing Act", The Diplomat, 29th August 2014, <http://thediplomat.com>). It is difficult to make predictions at this stage, but the hope is that the country does not become a mere pawn in negotiations between stakeholders with different interests. This is also true for domestic politics. Only then can this change of government truly be described as "historical".

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