

Economic Report on Burma

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1. Introduction

The objective of this report is to help the policy makers with an analysis of the international sanctions effect and to try to explain the real current economic and social conditions, impact on and Burma's urgent need to combat poverty. Moreover, also try to present the relationship between macro economic situation such as economic growth, foreign trade, state budget, inflation, employment, wages and the conditions of freedom, equity, security and human dignity in Burma. In addition, to explain how the Burmese generals and their crony drug lords exploit the Burmese economy, and how the Burmese military has become the sole beneficiary of foreign direct investment by setting up its own industries separately from the state enterprises since 1988. And also would like to explain the impact on the military's confiscation of land, labor, crops and capital assets or militarization on the whole economy.

2. General situation in Burma

The Union of Burma became independent in 1948 only after extensive negotiations led by General Aung San, who convinced most ethnic minority groups to join the new union. The new state came into being as a parliamentary democracy until an army coup in 1962. A year before General Ne Win's step-down from power, Burma, once Southeast Asia's richest country was reduced to a UN-designated "least developed country" (LDC) in 1987.

Increasingly desperate economic conditions and years of repression sparked, on 8th August 1988—"8-8-88"— a massive and peaceful "people power" movement demanded an end to dictatorship. Soldiers fired on crowds of unarmed and peaceful protesters, killing thousands. On September 18th 1988, a new junta, the State Law and Order Restoration Council (SLORC), seized direct power to quell the democracy movement. It was a counterfeit coup because the same entourage of Gen. Ne Win engineered the coup in the name of restoring law and order. Crowds of peaceful protesters were machine-gunned by troops in Rangoon and other cities, the carnage was immense. While the exact number will never be known, it is estimated that as many as 10,000 people were killed and pledging ostentatious economic reforms and free elections.

The military junta formally abandoned "Burmese Way to Socialism," opened up the economy to permit modest expansion of the private sector and attracted foreign investment as well as badly needed foreign exchange. However, the junta refused to accept the 1990 election result, and has remained in power ever since. On November 15th 1997 the junta renamed itself the State Peace and Development Council (SPDC), in hopes of improving its international profile. By any name, the junta has allowed neither democracy nor a true market economy and continues to heavily control and command Burmese economy. It has failed, however, to address fundamental problems: highly centralized decision-making; significant restrictions on private commercial activity; an overvalued exchange rate; rapid monetary expansion; higher level of inflation; a timid, bloated bureaucracy; and disproportionate funding for military purpose. Army-run companies dominate much trade, gems & jades, oil & gas, transport & communication, industry, and even banking. Forced labor and extortion of money from public are common, and environmentally damaging policies are pursued for quick profits benefiting only the junta.

Now, the people of Burma are suffering under one of the world's most brutal and repressive regimes. Junta's response so far has been intensified abuse, including murder, arbitrary detention, torture, rape, political imprisonment, forced labor, confiscation of land, crops, capital assets and extortion of money and forced relocation, etc.. There is no freedom of expression or freedom of association in Burma, and the junta allows Burmese citizens no say in the shaping of their own future. To counter these sources of opposition, the junta has developed a vast network of informers in most institutions—including the civil service, schools, colleges and universities. However, to bolster support, the junta formed a "welfare" organization in 1993 known as the Union Solidarity Development Association (USDA). The junta has since tried to develop the USDA into a political support block, using pressure tactics to boost membership; these members act as the junta's eyes and ears. By 2003 the junta claimed USDA membership had reached 19 million.

The military regime allows and perhaps participates in an explosion of heroin production. Cease-fires with several ethnic opposition armies that have long traded

drugs have allowed an estimated increase of nearly 400% in Burma's heroin production since the junta took power in 1988. In recent years, the export of heroin is becoming a major security issue for the United States and other nations have been of Burmese origin. And in Burma itself, an estimated half million addicts are spreading an AIDS epidemic at a rate equaling the world's worst affected areas in Central Africa.

The inherent long-term political instability of any military dictatorship raises concerns that Burma's military regime will continue as a source of tension and conflict in the region. Tens of thousands of refugees continue their flight from military repression to neighboring countries. Another important concern is the strong Chinese influence over Burma's military junta. Large quantities of weapons, ranging from small arms to jet fighters, have been imported from China to expand and modernize Burma's military. The exact value of the arms shipments—some estimates exceed US\$ 2 billion—is difficult to determine, especially since some Chinese weaponry has reportedly been bought at "friendship prices," or acquired in barter deals. It also suggested that the cash-strapped junta's arms purchases may have been financed by proceeds from heroin sales. Moreover, an energy-rich country, Burma is now suffering the worst fuel shortage in the region and junta sells a steady stream of natural gas to Thailand, its value was \$ 130 million in 2001 and bought the MiG 29 and will construct nuclear factory from Russia. ***"Building weapons and expending them is not the basic of sustained economic growth."***

Since SLORC seized the power, needing a quick influx of hard currency, the junta officially abandoned socialism and sought foreign partners to exploit Burma's natural resources. Logging concessions were sold to Thai interests, and great swaths of Burmese rain forest were felled for fast profits and destroying the habitats of ethnic minority people as well as endangered animals. Permission for nearly unregulated commercial fishing in Burmese waters, with devastating results, was granted for upfront fees paid in hard currency. There is environmental impact of exploitation the natural gas in the Gulf of Martaban and construction of a natural gas pipeline across southeastern Burma by the U. S. Company UNOCAL and France's TOTAL.

Junta's developmental projects, such as railroad, transportation, dam construction, city and regional development, mineral exploitation, etc; are superficial developments that touch few people. For the majority of people, who are small farmers in rural areas, there is virtually no benefit. There is only a thin patina of prosperity, and little development is directed toward building long-term productive capacities. Severe inflation is driving down buying power and living standards for most people. State enterprises, especially those controlled by the military, dominate local and joint venture investments.

The Union of Myanmar Economic Holdings Limited (UMEH) and its branch of Myanmar Economic Corporation (MEC) are run by the Defense Ministry's Directorate of Procurement and engaged in almost all joint ventures with foreign companies. The U.S. Embassy in Rangoon's 1996 *Foreign Economic Trends Report* estimated that more than half of Burma's domestic economy is tied to the heroin trade, and drug profit laundering is believed to seriously influence the economy.

Local investment in hotels, transport, gems & jades, garment factories and real estate are tied to families of known major heroin traders. These narco-traffickers are allies of the junta and exercise increasing influence in Burma's economic affairs. This financial and economic mismanagement distorts the local economy, raising doubts about long-

term progress. Political instability and the absence of the rule of law are another serious concern.

In sum, gross human rights abuses, environmental devastation, massive heroin smuggling and regional military destabilization—these are Burma's realities under the junta's absolute rule. Since 1988, the junta has been using the so-called "open-door market economy of Myanmar" claiming spectacular economic achievements and other maneuvers to legitimize its illegitimate rule and stay in power; such as drawing up the unconstitutional constitution, attempting to eradicate opium/heroin production and the release from some student leaders from the jail. But these maneuvers have not elevated Burma from its status of the least-developed country and the opposition leader, Daw Aung San Suu Kyi is put house arrest again since May 2003. Moreover, the policy of "the Burmese Way to Capitalism" has been adopted and pursued by the junta since 1988 with the primary objective of enlarging the economic base of power to sustain and legitimize its rule.

Economic development is proceeding without public input, reliable economic data, or official accountability. Thousands of people have been expelled from their homes to make way for infrastructure projects. Many more have been conscripted as laborers on road and railway construction in the gas pipeline region and other projects. Democratic rule and respect for human rights will not necessarily guarantee the best path to sustainable development. But open debate over the country's priorities would assure that devastation of Burma's environment and exploitation of its peoples would not continue unchallenged.

2.1. International Pressure

Many countries and international bodies for failing to recognize the 1990 election, as well as for its poor record on human and labour rights have shunned the junta. Most donors—including Japan and the US—suspended aid after the September 1988 coup. The US has imposed an aid embargo, and in April 1997 banned new investment in Burma by US companies. The EU and other industrialized countries (such as Canada) have removed trade and aid benefits. The Association of South-East Asian Nations (ASEAN) has followed a policy of "constructive engagement" with the junta, and in July 1997 Burma was admitted as a full member of ASEAN.

In November 2000 the governing body of the International Labour Organisation (ILO) called on its members to review their relations with Burma because of its persistent and egregious use of forced labour. In September 2001, The High Level Team of ILO went to Burma for issue of forced labour and this result outcome the opening of ILO's office in Rangoon. Moreover, trade union representatives intend to bring to the Committee's attention the breaches of freedom of association in Burma, which are the subject of an official complaint by the ICFTU to the ILO submitted on 30 May 2003.

According to EIU (August 2003), the ruling military junta, SPDC, will continue to resist meaning political reforms and seek to contain the NLD. The NLD leader Aung San Suu Kyi, and other key officials are back in detention. International condemnation of the junta will intensify, but the SPDC leaders are not expected to bow to international pressure for reform. Without meaningful political and economic reform, the current economic crisis will deepen further. Real GDP growth be held back by sluggish domestic demand and severe shortages of power and imported inputs. Gas exports have expanded rapidly since new gasfields came on steam. Inflation at double-

digit rates is pushing down the market exchange rate of the kyat.

According to ICFTU, the military leaders of Burma have clearly demonstrated that they are unwilling to give up their absolute hold on power and halt the seemingly endless series of human rights violations. The global labor says that a return to democracy will not take place if the decision is left solely in the hands of the generals who rule Burma. Nor will any of the other major problems in Burma go away, such as widespread use of forced labour, violence against religious and ethnic minorities, forced relocation, beatings, child labour, rape and murder. Trade unions are not allowed in Burma and any attempted trade union activity is heavily repressed. Unions argue that external pressure is needed. The decision of the International Labour Organisation in 2000 to take special action on Burma forms part of the basis for action against the Burmese dictators and remains a source of hope for the Burmese people.

As a result of the brutal attacks on and detention of Aung San Suu Kyi, and other NLD members, and subsequent crackdown on the opposition in Burma, many countries have decided to take action. Many of the more vocal critics of the junta, such as the authorities in US, Canada and the European Union, have stepped up the action, often by expanding existing economic sanctions. The US, having already banned new investment in 1997, has taken the most far-reaching step so far by barring all imports from Burma. Many other countries and regional bodies have also raised concerns. Japan has decided to freeze new aid to the country and Malaysia, traditionally close to Burma, has suggested that the country might risk losing its membership in ASEAN, the regional economic bloc. The ICFTU is calling on the international community, governments and business to "act responsibly and decisively" and use their influence to change the desperate situation in Burma. The ICFTU has commended the decision of some companies to leave Burma until democracy is restored and is calling on others to join them "in solidarity with the people of Burma, rather than joining the Chinese regime in solidarity with their oppressors".

2.2. Human Resource Development, Social Justice and Employment

A faster and more equitable pace of development requires a strengthening of democracy, with international support for policies that respect trade union and other human rights; reduce military spending and shift resources to investment in education and health and other productive and job-creating activities. The military junta ignored the above ILO declaration and internationally recognized fundamental workers' rights. Furthermore, the junta committed persistent and extreme violations of trade union and other human rights while at the same time military spending is increasing until over 50% of national budget.

2.2.1. Trade union rights and forced labor

Labour unions are not allowed to set up and organize internally. The regime systematically denies workers' right to organize. Federation of Trade Unions-Burma (FTUB) as a result, continues to operate organizing workers along the Thai-Burma and India-Burma borders and works internationally to fight for the people of Burma. Two of the FTUB leaders, U Khin Kyaw and U Myo Aung Thant have been jailed for 17 years and life respectively for their union activities. The International Labor Organization has detailed allegations of widespread forced labor in Burma, often under dangerous conditions.

(According to General Secretary of ICFTU letter to SPDC Chairman, see box)

Death sentences against ILO witnesses

On behalf of its 150 million members in 152 countries and territories worldwide, the International Confederation of Free Trade Unions (ICFTU) hereby condemns in the strongest possible terms the conviction on charges of high treason, as well as the subsequent death sentences, that were passed by the District Court of Rangoon, on 28 November 2003, on nine persons, including Nai Min Kyi, Shwe Man and Aye Myint.

The ICFTU is outraged that contacts between some of them and the International Labour Organisation (ILO) in Geneva have been used as grounds for the charges brought against them. For one of them, for example, his crime seems to be that he was in possession of a copy of the Report of the ILO Commission of Inquiry on Forced Labour in Burma, and 'other sheets of paper', notably the visiting card of an ILO official, who is currently serving as the ILO Acting Liaison Officer in Rangoon.

Contact and cooperation with the ILO, an agency of the United Nations, cannot, under any circumstances, be considered as an offence of any nature, still less grounds for a death sentence. The very fact that anyone may be prosecuted, let alone condemned, for the possession of ILO materials in itself constitutes a grave violation of fundamental human rights. The fact that perfectly legitimate activity has been interpreted by the court as grounds for conviction on charges of high treason and imposition of the death penalty is conclusive evidence of the political nature of the judicial process and its absolute lack of credibility or legitimacy.

Moreover, the sincerity of your government's proposed engagement with the ILO in its work for the elimination of the systematic use of forced labour in Burma is completely undermined by the fact that any contact between a Burmese citizen and the ILO runs the risk of being considered treason. It also exposes for what it is your government's absurd and wilful representation of the Federation of Trade Unions of Burma (FTUB) as a terrorist organisation and of its international supporters as accomplices to terrorism.

The ILO Governing Body will be examining this matter in the coming days, and you may be sure that, in the absence of any positive reaction on the part of your government, the ICFTU will be pressing the international community to use all the tools available to it to ensure that your government puts an end to the continuous and grave abuse of Burmese workers.

I strongly urge you to order an immediate review of all the death sentences, ensure that the charges of high treason against Nai Min Kyi, Shwe Man and Aye Myint and the other defendants are dropped, and ensure that they are released immediately. In the meantime, we demand that the ILO should be authorised to visit them in prison without delay.

Forced labor and extortion are especially prevalent in regions where the Burmese army is not occupied with fighting armed oppositions, and many villagers have fled their villages mainly because of these abuses. Forced labor takes on myriad forms, such as construction and maintenance of roads, railways, dams, civil developmental projects acting as servants and sentries at army camps, standing sentry along military access roads, sweeping roads for landmines, messengers, farming for the army on confiscated land and many other forms. Villagers are usually forced to provide their own food and tools.

To porter for the military is the most feared form of forced labor. Porters are saddled with heavy loads of munitions and supplies and force-marched through the hills, sometimes into battle, in front of military columns to detonate landmines. They receive little or no food and are often beaten, killed or left behind without medical care if they become too weak to carry their loads. Women and children are sometimes deliberately taken for this purpose. At the same time as providing many forms of forced labor, villagers are also faced with demands from all the army units in their area

for extortion money, food, and building materials. Eventually as many find they can no longer pay the money, provide the forced labor and still survive, they have no option but to flee their villages. Regarding the forced labour situation in Burma, the Governing Body discussed reports prepared by and the ILO liaison officer a.i in Rangoon and a very High-Level Team (vHLT) appointed by the Director-General of the ILO which visited Burma 21-23 February 2005.

2.2.2. Refugees and Migration

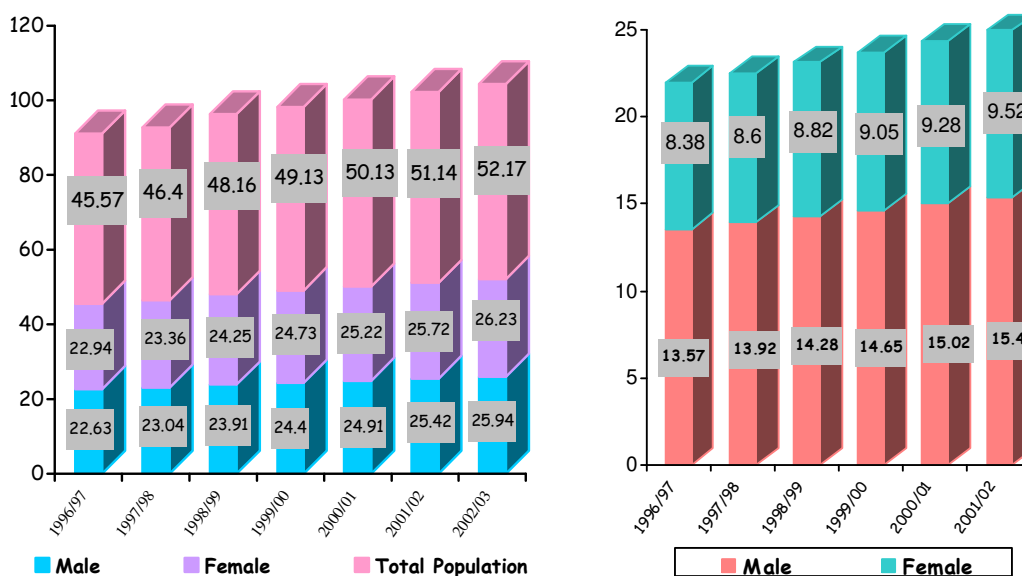
For decades, wave after wave of Burmese refugees has fled war and oppression in their native land to seek uncertain exile in neighboring countries. The toll in human suffering is incalculable, and the continual mass migrations have created serious regional disruptions and tensions. Thailand alone has an estimated nearly 2 million illegal migrant workers-the majority from Burma; around 300,000 refugees are housed in border, in 2004. In addition, around 21,000 Muslim refugees from Burma's Arakan province are located in camps in Bangladesh. Like all their fellow citizens, Burma's women face the day-to-day struggles of living under a military dictatorship. But the country's women also face special problems, and are often the target of particular abuse. Rape by soldiers is common, and the military has been implicated in the trafficking of Burmese women to prostitution in neighboring Thailand and other countries.

Burmese migrants come from various socio-economic backgrounds. Thousands of Burmese students, academics, doctors, and professionals emigrated worldwide, resulting in a massive brain drain in Burma. Other semi-professionals obtained tourist visas to work in shops, businesses or as technicians in Thailand and neighboring countries. But the majority left as low-status migrants or refugees. They take on low-paid, 3D jobs (dirty, dangerous, demeaning) in Thailand and to lesser extent, India, Bangladesh, Malaysia, and Singapore. Towns that have grown on both sides of several Thai-Burmese border crossings have served as important trading posts and transit points for migration, smuggling and trafficking. In Thailand, Burmese migrant workers, working in the informal economy are particularly vulnerable to exploitation and discrimination.

2.3. Population

The population of Burma in 2002/03 was estimated at 52.17 million [25.94 million was male and 26.23 million was female (*total population in urban area was 26.6% and rural area was 73.4% and - with 32.68% of the population in the 0-14 in the age group, 59.27% in the 15-59 age group and 8.05% in the 60 + age group*)] an increase of 1.03 million over the year 2001/02 population of 51.14 million, registering a growth rate of 2.02 %.

According to 1983 census, 70% of the population as belonging majority Burman group, followed by the Shan (8.5%), the Karen (6.2%), the Rakhine (4.5%), the Chin (2%), the Mon (2%), the Kachin (1%) and the Wa (1%). The majority of ethnic minorities live in the Border States-although there are sizeable minority populations in the Burma-majority divisions. About 89.4% of the population are Buddhist, 4.9% are Christian (including large numbers of Karen, Karenni and Kachin) another 3.9% are Muslim, most heavily concentrated in Arakan state.

Figure 1. A: Estimated Population**Figure 1. B: Labour Force by Sex****(1995/96 to 2001/02) million**

Source: Handbook on human resources development indicators, 2003, Department of labour/UNFPA, Ministry of labour, Union of Myanmar (February 2004, Yangon).

Table 1. Population Characteristics of Burma, 2002/03

Particulars	Total Population(m)	Broad Age Group			Dependency Ratio	Child Woman Ratio	Sex Ratio	Population growth rate (%)	Total labor force (m) (1997/98)
		<15 (%)	15 -59 (%)	60+ (%)					
Union	52.17	32.68	59.27	8.05	0.61	0.32	98.89	2.02	19.74
Urban	(26.6%)*	27.1	64.7	8.2	0.54	0.28	90.69	na	4.42
Rural	(73.4%)*	32.3	60.3	7.4	0.66	0.35	93.99	na	15.33

Sources: 1. National Mortality Survey 1999, and Statistical Yearbook 2002, CSO.

2.4. Labor force & Employment

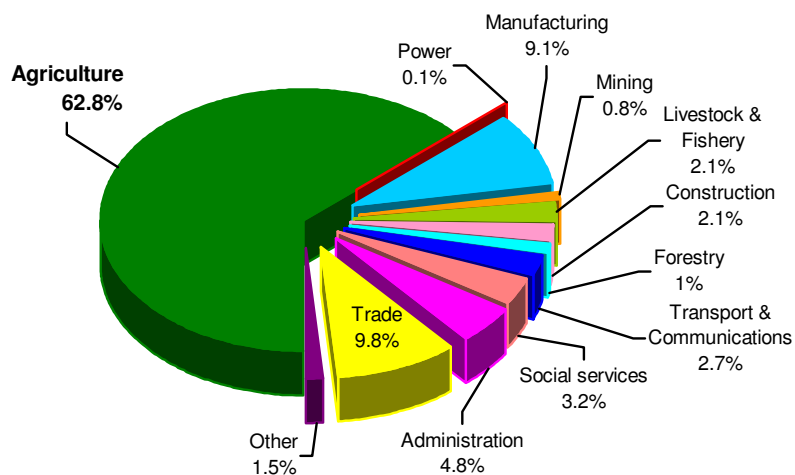
Table 2. Burma: Population and Employment, 1993/94-1997/98
(In thousands unless otherwise specified)

	1993/94	1994/95	1995/96	1996/97	1997/98
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Population	43,116	43,922	44,743	45,570	46,400
Growth rate (in percent)	1.8	1.9	1.9	1.8	1.8
Total employment	16,817	17,230	17,587	17,964	18,337
Growth rate (in percent)	2.1	2.5	2.1	2.1	2.1
Public sector	1,380	1,382	1,378	1,381	1,411
Private sector and cooperatives	15,437	15,848	16,209	16,583	16,948
percentage share of total	92	92	92	92	92
Agriculture	10,972	11,115	11,272	11,381	11,507
Livestock and fishery	390	388	388	391	397
Forestry	189	186	188	188	189
Mining and energy	87	105	116	132	147
Manufacturing and processing	1,250	1,410	1,481	1,573	1,666
Construction	292	327	354	378	400
Power	17	18	19	21	22
Transportation and communication	420	431	441	470	495
Social services	531	548	563	577	597
Administration and other services	733	739	776	835	888
Trade	1,450	1,663	1,715	1,746	1,791
Others	486	300	274	272	270
Memorandum item:					
Labor force	17,838	18,296	18,766	19,248	19,743
Urban	3,992	4,094	4,199	4,307	4,418
Rural	13,846	14,202	14,567	14,941	15,325
Unemployment rate (%)	5.7	5.8	6.3	-	-

Source: IMF Country report, Myanmar, May 22, 1998

Figure 2: Distribution of Sectoral Employment in 1997/98



In 1990/91, Labor force was 16.53 million [3.7 million (22.4%) in urban area, 12.83 million (77.65%) in rural area] and it was 23.7 million in 1999/00 and 24.93 million in 2001/02 [agriculture 70%, industry 7%, services 23% (2001 est.)]. The lack of investment in education and the prolonged closure of the universities in recent years have had a detrimental impact on the quality of the labor force. Burma's total employment was 18.337 million in 1997/98. According to 1990 labor force survey, unemployment rate appears to be rising, from 4.8% in 1990/91 to 6.3% in 1995/96, 7% in 1998/99 and 5.1% in 2001 est..

According to the 1997 household income and expenditure survey conducted by CSO with the financial support of UNICEF, average size of household for the Union was found to be 5.25 (5.22 for urban and 5.32 for rural); and average number of employed persons per household was 2.38 (2.01 for urban and 2.54 for rural). This means that

almost every household in Burma have at least two employed persons.

In 1997/98, according to the latest available data, the state accounted for 65% of the value of construction work undertaken, having fallen from around 80% in 1993/94. The state's role may be higher than these figures suggest, as the extent of government involvement is obscured by the use of uncompensated (for example, forced) labor. US embassy estimated in July 1996, that the market value of forced labor employed by the junta on public works projects was Kt* 17.5 billions in 1994/95, equivalent to 3.7% of GDP. Since then, the junta has increasingly used the armed forces to build infrastructure projects, although forced labor remains common practice in some parts of the country, especially in border areas. The International Labor Organization has sharply criticized Burma for the use of "widespread and systematic" forced labor.

2.5. Wages

According to the 1999 IMF report, Myanmar: *Recent Economic Development*, the junta's wage bill remained static at around Kt 8bn-9bn in 1995/96 to 1998/99, despite the price level almost tripling during this period. As a result, although public-sector wages are supplemented by a range of subsidies, incomes have been eroded in real terms. There is a legally prescribed 5-day, 35-hour workweek for employees in the public sector and a 6-day, 44-hour workweek for private and parastatal sector. Employees' minimum wage is insufficient to provide a decent standard of living. Wages continue to lag far behind inflation.

The minimum monthly salary in the public sector has been about Kt 1,000 since 1994, equivalent to US\$ 1.18 at current parallel exchange rate. In April 2000, the public sector minimum salary has been increased to Kt 5,000 (US\$ 5.8—equals 0.19 cent/day) though many reported resort to corruption to survive, but military personnel's minimum salary was increased to Kt 10,000 (US\$ 11.76—equals 0.39 cent/day) and the maximum wage was raised to Kt 16,000/month (US\$ 18.82—0.63 cent/day).

The current minimum wage in the private sector (joint ventures Co.) has been about Kt 4,500 (US\$ 5.3—equals 0.18 cent/day) per month (free-market exchange rate, in May 2004). The minimum wage of a Thai worker is 162 baht (roughly US\$ 4.15) per day in Bangkok and 130 - 140 baht in other major cities. It can be seen that, Joint Ventures minimum wages were much lower than the international standard. In other words, they exploit the Joint Ventures employees' wages or where Joint Ventures' foreign direct investment does exist, it is directed mainly at the exploitation of natural resources.

Children aged 12 to 15 may work 4 hours a day. The penalty for employers who disregard this regulation, 2 years in prison generally is not enforced. In cities, working children are highly visible. 1.2 million children below the age of 14 were not in school in mid-1990s, most of them from poor families. According to the World Bank, children are typically engaged in many of the same occupations as their parents. Vending and construction work were the most frequently mentioned types of activity and their earning was averaged 100-200 Kyat a day. An estimated one in four children between the ages of 10 and 14 was working in Burma in 1990s and the rapid expansion of the army was achieved in part by conscripting children (Selth 1995).

* Kt means Burmese Kyat (currency).

Table 3. Employees' wage in Burma - 2002/03

Civil service pay scale	Month		Private sector employees	Month	
	Kyat	US \$		Kyat	US \$
Daily rated labourer	100/day	0.12	Daily rated worker (unskilled)	400-500/day	0.47-0.59
Lowest salaried worker (office helper)	3,000-100-3,500	3.53-4.12	Daily rated worker (skilled)	Over 1,000/day	1.18
Office Driver	3,600-100-4,100	4.24-4.82			
Clerical officer (junior)	4,200-100-4,700	4.94-5.53	Driver (private)	Over 2,000/day	2.35
Clerical officer (senior)	4,800-100-5,300	5.65-6.24	Driver (taxi)	Over 3,000-4,000/day	3.53-4.71
Dy Administrative officer /tutor /secondary teacher	5,400-100-5,900	6.35-6.94	Minimum wage (JV)	4,500-5,000/m	5.29-5.88
Administrative officer	6,000-100-6,500	7.06-7.65			
Senior administrative officer / lecturer	7,500-200-8,500	8.82-10	Sale assistant	6,000	7.06
Dy Assistant Director	8,700-200-9,700	10.24-11.41	Administrative/ secretary	Over 15,000	17.65
Assistant Director	10,000-200-11,000	11.76-12.94	Executive/manager /technology specialist	Over 25,000-30,000	29.41-35.29
Dy Director	11,500-200-12,500	13.53-14.71			
Director / professor	13,000-200-14,000	15.29-16.47	General manager	Over 30,000-40,000	35.29-47.06
Director-general / rector	15,000-200-16,000	17.65-18.82			

Sources:

1. Lokethar Pyithu Neizin (daily), various issues.
2. Pers. comm. with private-sector individuals from Burma

Note: 1 US \$ = 850 kyat / market exchange rate in May 2004.

One would expect rates of child labor to have risen as a result of recent financial and economic crisis. Many spend their nights on the street, and they are hired at lower rates than adults for the same kinds of work, and economic pressure forces them to work not only for their survival but also to support their families. Therefore, the Burmese women and men need to obtain decent and productive work in condition of freedom, equity, security and human dignity and child labor is existing. The junta's employment policies are lack of fully engaged with human resources development and employment, social protection, social dialogue and vulnerable groups (*such as: no social safety nets to poor groups and tripartite dialogue, working children victims of the worst forms of exploitation and workers living with HIV/AIDS*).

3. The Economy

3.1. Review of Economic Condition in Burma

According to the Economist Intelligence Unit (EIU) (Country report August 2003), The SPDC appears incapable of developing a coherent set of policies to correct the severe macroeconomic imbalances that have exacerbated poverty. One possible exception, however, is the SPDC's plan to cease implementing its paddy procurement policy, which entitles the government to purchase 10% of overall paddy output at officially fixed and deflated prices. If the SPDC carries out such plans (an outcome that is by no means guaranteed), farmers will be permitted to trade all of their output at market prices and thereby increase their incomes. This would help to ease the serious economic hardship that many rural families have been suffering. There is no prospect of multilateral institutions providing technical and financial assistance in economic policy making unless the NLD is offered a strong role in the government-a scenario that is looking increasingly unlikely in 2003-04.

Regarding fiscal and monetary policy, although government revenue (including customs duties) is rising rapidly, the government's effort to increase overall revenue remain hampered by the huge untaxed grey economy. Inefficient state enterprises will continue to place a severe strain on the government's limited resources and will thereby prevent the junta from reducing its large public-sector deficit to more manageable levels. The overall public-sector deficit is forecast to remain at 4-5% of GDP during the next few years, kept at this high level by heavy military spending, the failure of the privatisation programme and the weak revenue base. In a bid to control the deficit, the SPDC has reduced even further spending on areas such as health and education. Bailing out the banking sector has also added a further burden.

Monetary policy continues to be dominated by fiscal concerns. The SPDC is not expected to revert from its policy of monetising its fiscal deficit, which will continue to impose damaging high inflationary pressures on the economy. Real interest rates are forecast to remain steeply negative owing to the junta's failure to reign in inflation and adjust official nominal interest rate. (Nominal interest rates have remained unchanged for more than two years, despite annual inflation running close to 60% in 2002.) The tight restrictions that have been imposed in the banking sector in the aftermath of the banking crisis have yet to be restore order to the system, and private banks are struggling to stabilise their positions. The Burmese economy ran into trouble last year as a result of widespread flooding which seriously damaged agriculture, the sector that accounts for over 40 per cent of GDP.

Early this year the economy took an even deeper plunge when many financial institutions went into bankruptcy as a result of mismanagement. They took deposits illegally and lent to high-risk sectors money which then turned into non-performing loans. Some non-bank financial institutions took money without limiting the annual interest rate on the deposit. Some went as high as 60 per cent per annum, which is six times higher than the ceiling set by the Central Bank of Burma.

The acceptance of illegal deposits in some non-bank institutions soon affected the whole financial system as commercial banks copied the idea as an incentive to their customers. Some 20 private commercial banks, including Asia Wealth Bank, Yoma Bank, Myanmar Oriental Bank and May Flower Bank, went into bankruptcy. Owners of these banks have close connections with leaders in the junta, including Than Shwe and Khin Nyunt. Rumors going around Rangoon about the malaise in the banking system caused panic among depositors. The problem goes out of control and quickly triggered a bank crisis in the country.

3.1.1. Economic structure

Data problems make an accurate assessment of the size and structure of the economy extremely difficult. However, by any measure, Burma counts among the world's lowest-income countries. The use of the massively overvalued official exchange rate to measure some statistics severely distorts Burma's economic data. In addition, a very large informal sector and extra-legal economy are not captured in the figures. The extra-legal economy includes illegal logging, widespread smuggling and opium exports. This introduces further distortions in trade and other data. The timelessness and quality of official statistics are also inadequate. (*The junta ceased publication of its full annual statistical review in 1997/98. Published data are patchy with frequent, unexplained revisions*).

Table 4. Major economic Indicators, 1995-2003

Indicators	1995/96	1998/99	1999/00	2000/01	2001/02	2002/03
Population (m)	44.74	46.16	49.13	50.13	51.14	52.17
GDP (at market prices, Kt/bn)	604.73	1,609.8	2,190.3	2,552.7	3,523.5	4,697.3
GDP (US \$ bn)	4.8	4.8	6.4	6.7	4.7	4.8
GDP growth (%)*	6.4	5.8	10.9	13.6	10.5	14
Per capita GDP (US\$)	111.84	106.03	118.36	-	-	na
Kyats (1985/86 prices)	1492	1650	1794	2000	19406	
Inflation (av; %)	21.8	51.5	18.4	-0.1	21.1	57.1
Trade balance (US\$/m)	-937	-1,600	-1,408	-499	-268.5	841.0
Current-account balance (US\$/m)	-416	-494.2	-281.8	-210.0	-305.5	60.3
Net international reserves (US\$/m)	381.1	314.9	265.5	223.0	400.5	470.0
Foreign debt (US\$/m)	5,479	5,915	6,470	6000	5700	6000
Debt-service ratio, paid (%)	-	5.1	4.9	3.9	2.9	3.3
Free-market exchange rate (Kt : US\$)	155.0	333.9	340.8	355.3	620	970
Government Expenditures (% of GDP)	9.3	5.8	4.2	na	na	na
Military Expenditure (% of total expenditure)	49.3	49.93	38	na	57.03**	na

* = SPDC, ** Economics & Research (FTUB) estimate, calculated based on defense budget, 2003/04, Burma

Sources: 1. Statistical Yearbook 2001 & 2002, CSO and Ministry of National Planning and Economic Development, March 2000. 2. EIU Country Report August 2003. 3. IMF country Report No. 01/18, January 2001.

The state also controls exports of many key commodities, and as a result accounted for 28% of exports in 1999/00. In 1999 private investors in land reclamation projects were granted permission to export up to half of their crops. The military and the Union Solidarity Development Association (USDA) are also involved in businesses including gems and logging. Real GDP growth has slowed further. The imminent US import ban has raised concerns in the garment manufacturing industry. Foreign direct investment levels have not improved and consumer price inflation has surged. The free-market exchange kyat has been fairly stable, but money supply has grown rapidly. Rice exports have fallen and natural gas production has levelled off. Tourism has struggled despite positive data on international arrivals.

Economic policy

The junta's economic policies remain ineffective

According to EIU country report August 2003, "The ruling military junta, the State Peace and Development Council (SPDC) has failed to develop adequate economic policy measures to tackle the numerous economic problems facing the country, ranging from widespread poverty, surging inflation and a large public-sector deficit. New US sanctions on imports are likely to bring further pressure on international reserves and hence renewed downward pressure on the exchange rate. The SPDC is unlikely to respond in a coherent fashion, instead continuing to use ad-hoc and ill-thought-out restrictions on trade and access to foreign exchange.

The junta has not introduced any new economic policies. A recent bank crisis and subsequent bailout has put further strain on the public-sector budget. Central government tax revenue collection, however, has grown rapidly. Real interest rates are steeply negative, as nominal rates have remained unchanged for more than two years despite rampant inflation.

Regarding the structural reforms, the World Bank's 1999 report recommended that "including reform of the exchange rate, the budgetary process, state enterprises, tax policy and tax administration and others are urgently needed to strengthen resource mobilization to promote broad base economic growth and human development".

Obstacles to trade and investment

*According to EIU country report August 2001, **Trade restrictions:** Additional restrictions were imposed on imports in September 2000, with traders limited to importing Kt 1 m/month. This came on top of restrictions on both exports and imports in March 1998, under the terms of which only prescribed items may be imported. Importers must purchase essential imports before permission is given to import selected non-essential items. The junta also banned private exports of key commodities. In March 2002 the licenses of all foreign trading firms were revoked.*

***US sanctions:** The Burmese Freedom and Democracy Act 2003 bans all imports from Burma into the US. In April 1997 the US banned all new investment in Burma by US companies.*

***EU restrictions:** In March 1997 the EU withdrew generalized system of preferences (GSP) benefits on agricultural goods. Burma has already lost GSP on industrial goods.*

***Canadian restrictions:** In January 2003 Burma was excluded from Canada's Least Developed Country Market Access initiative. In August 1997 Canada removed Burma's GSP benefits.*

***Consumer boycotts:** Active and well-organized consumer boycott campaigns have contributed to the decision by a number of international companies to pull out of Burma or to cease sourcing goods from there.*

According to the CIA-The World Fact Book, 2003, Burma is a resource-rich country that suffers from abject rural poverty. The military regime took steps in the early 1990s to liberalize the economy after decades of failure under the "Burmese Way to Socialism", but those efforts have since stalled. Burma has been unable to achieve monetary or fiscal stability, resulting in an economy that suffers from serious macroeconomic imbalances – including a steep inflation rate and an official exchange

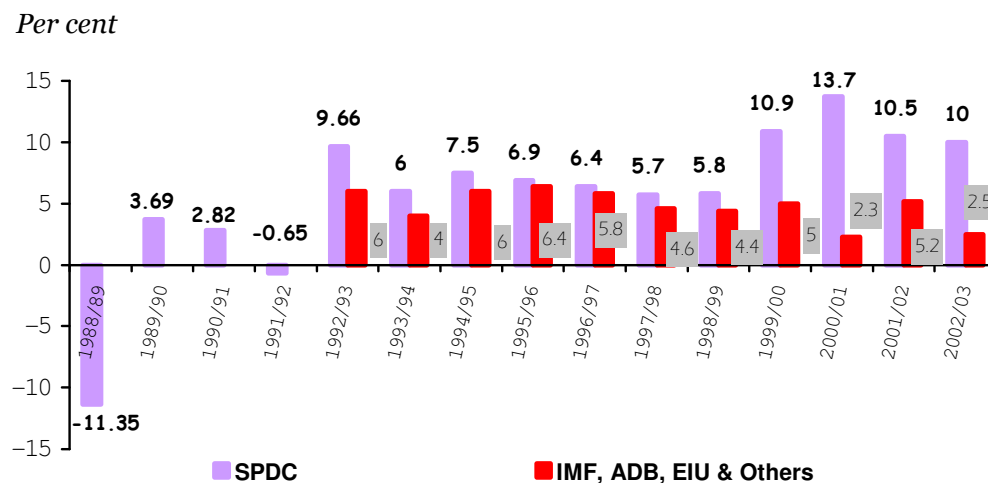
rate that overvalues the Burmese kyat by more than 100 times the market rate. In addition, most overseas development assistance ceased after the junta suppressed the democracy movement in 1988 and subsequently ignored the result of the 1990 election. Burma is data poor, and official statistics are often dated and inaccurate. Published estimates of Burma's foreign trade are greatly understated because of the size of the black market and border trade – often estimated to be one to two times the official economy.

3.2. Gross Domestic Product

Patchy data collection and a massive informal and illegal economy mean that GDP data are unreliable. Official rates of GDP growth often overstate actual growth rate. According to SPDC's sources, GDP (in constant prices), increased from Kt 47.14 billion in 1988/89 to Kt 88.16 billion in 1999/00, to Kt 100.27 billion in 2001/02 and 992.99 billion in 2001/02. In 2002/03, GDP (in current prices) was Kt 4,697.3 billion. The average annual growth rate of GDP grew from -11.3% in 1988/89 to 7.5% in 1994/95, but it gradually slowed down to 4.4% in 1998/99. However, high officials stated that GDP grew to 10.9%* in 1999/00, 13.6%² in year 2000/01, 10.5% in 2001/02 and 14% in 2002/03.

This inflated figure was disputed even by the *former Deputy Minister of National Planning and Economic Development Brig Gen. Zaw Tun* who said that it should be around 6%. Real GDP growth rate was about 5% in 1999/00[†]. Also according to the Economist, March 30, 2002, "*The secretiveness of the generals certainly does not help them the country well. Since 1997, they have refrained from publishing a formal budget, and the figures they produced are lies. A Myanmar minister attending a development conference last year claimed that his country was streaming along with a 13.6% growth rate and only 0.5% inflation*".

Figure 3: Growth Rate of Gross Domestic Product (1988/89 to 2002/03)



EIU forecast that officially reported real GDP growth will slow in 2003/04 and 2004/05 from an estimated 5.2% in 2002/03 to around 1.5% in 2004/05. Despite the

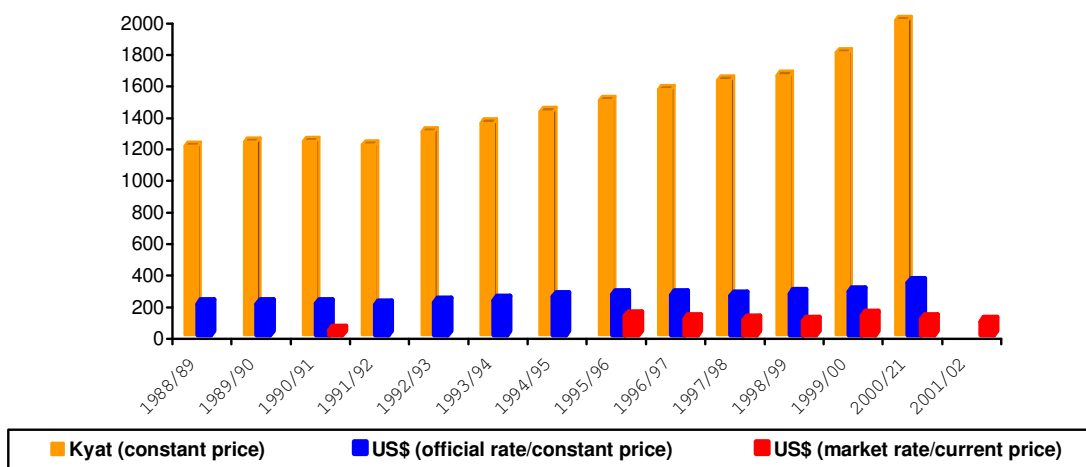
* Brig Gen. David Abel, Minister of SPDC office, (Asian meeting, BKK, Oct; 2000)

† ADB, Year 2000, Outlook.

booming energy export sector, domestic economic activity continues to be severely restrained by shortages of power and essential imported inputs. The financial crisis and subsequent limits on cash withdrawals, together with the recall of loans in early 2003, have further exacerbated the deterioration in domestic demand and will cause immediate problems for Burma's fledgling industrial sector. The imminent imposition of a ban on US import from Burma will also impact heavily on the garments and textiles sector.

3.3. Per capita income

Figure 4: Per capita GDP in Burma (1988/89 to 2001/02)



The military generals have wisely refrained from making any official estimate of the GDP and per capita GDP in terms of dollars. According to the SPDC's (*UN-LDC III*) data, probably inflated, estimates of GDP growth for fiscal year 2000/2001, GDP per head (at current prices) reached Kt 52,229--over US\$ 8,000 at the official exchange rate, but a mere US\$ 100 if exchange at the more realistic free-market exchange rate. According to the overvalued exchange rate, the per capita income growth of Burma between 1960 and 1994 hovered around 1.7 to 2.1 percent. Per capita GDP (1985/86 constant prices for official exchange rate) for 1988/89, 1995/96, 1997/98 and 1999/00 are US\$ 187.6, US\$ 111.84, US\$ 101.48 and US\$ 118.36 respectively. According to *UNICEF*, in 1994 GDP per head in Burma, based on a purchasing power parity basis, was the lowest in South-east Asia. A survey undertaken in 1997 indicated that 23% (according to CIA-the world factbook, 25%-2000 est.) of Burma's population lived below the poverty line.

3.4. Inflation

The monetisation of the fiscal deficit, together with supply-side factors such as rising food prices, have imposed strong inflationary pressures on the economy. Panic buying of essential goods in February, owing to the restrictions imposed on cash withdrawals, resulted in a sharp increase in some prices. The decision taken by the Central Bank of Myanmar to print money in order to bail out the bank in the wake of the recent banking crisis will add to inflationary pressures in 2003. The Junta is likely to make some effort to restrain consumer price rises, particularly for rice, in 2003/04 because of its concern that social stability may be endangered. However, a significant reduction from an annual average inflation rate of 57% in 2002 is not expected.

However, the inflation rate may, in fact, be higher than official data suggest. Inflation continued at double digit rates and fluctuated widely during most of the decade. The SPDC's CPI is based on an unrepresentative lower-income basket of goods chosen in 1985/86, which contains no imported goods and gives a very low weighting to the staple, including rice, oil, meat etc... Main source of inflation was budgetary deficits and other contributory factors to the inflationary process were over-bidding of agricultural products of export, over-building of certain infrastructure facilities, and depreciation of the Kyat in the parallel market for foreign exchange, which increases the prices of imported goods used as inputs in the production process.

Table 5. Change in money supply and prices

Year	Money supply				Consumer Price Index	
	M1		M2		CPI 1985/86=100	% change
	Kyat million	% of GDP	Kyat million	% of GDP		
1988/89	23614	30.97	31273	41.02	155.00	22.5
1989/90	32842	26.34	42562	34.14	191.73	23.7
1990/91	38918	25.61	51006	33.57	233.73	21.9
1991/92	52307	28.00	66791	35.76	301.80	29.1
1992/93	70428	28.24	89542	35.90	369.09	22.3
1993/94	84381	23.42	109947	30.51	492.99	33.6
1994/95	119061	25.18	156077	33.01	603.66	22.5
1995/96	152605	25.23	211540	34.98	735.51	21.8
1996/97	199845	25.23	257,666*	32.56	882.81	20.0
1997/98	231,221*	20.65	332,235*	29.68	1182.10	33.9
1998/99	302,277*	18.78	453,435*	28.17	1634.4*	49.0
1999/00	421,606**	19.25	706,321**	32.25	1935.2*	13.5#
2000/01	630,784**	24.71	1,032,063**	40.43	386.9#	45.9#
2001/02	914,999**	25.97	1,412,665**	40.09	616.5#	59.3#

Sources: 1. Selected Monthly Economic Indicators, various issues & Statistical Yearbook 2001, 2002, CSO.

2. * ADB.

Base year: 1997=100

** EIU country report 2001, 2003.

Although, according to the SPDC's official report in 3rd UN-LDCs conference (Brussels, May 2001), the inflation rate was -1.6% in 2000. But actual inflation was around 40-50 percent in that year. At the same time, the collapse in public spending has left many people reliant on expensive private health and educational services. As a result of these trends, for many people real incomes and living standards have declined in recent years. According to one scholar, whatever the rate of increase in CPI, the cause of it (unlike in the past) is more complex than it appears. On the one hand, there can be no doubt that large budget deficits financed by money creation must have led to the usual "demand-pull" inflation whereby too much money chases too few goods and services, resulting in rising prices.

On the other hand, rising prices could equally result from the supply side as the cost of doing business - of getting anything done - is being pushed up for a variety of reasons. As another one scholar has put it, "a lot of money has also to chase after valued services such as having a telephone line repaired, clearing goods from customs, enrolling a child in the kindergarten, and in getting required signatures, stamps, sanctions, approvals, and permits to satisfy a bewildering variety of bureaucratic rules and regulations, not only in the conduct of business, but in normal everyday life. All these, together with inadequacies in infrastructure and generally poor quality of services provided by the public utilities lead to high cost and contribute to "cost push" inflation.#

U Myint, "Thoughts on Development Strategy for Myanmar," mimeograph, 1997, p-22.

Apart from the above, three other "cost-push" factors merit attention. They are the price hike of electricity, the rising cost of transportation and decline in the production of some essential commodities. The rising cost of transportation across the country came about from innumerable forms of local taxes, municipal taxes, wheel taxes, toll charges and so on. For example, according to Burmese magazine (Myanmar Wealth, August 2003), the only toll charges cost of a truck load of goods for a round trip from Mandalay to Rangoon (384 miles) is 103,680 Kt in 2003 and these costs are collected by 7 private Co. Ltds. And each year some of these charges continue to rise while new innovative forms of local taxes somehow emerges out of the blue.

3.5. Foreign Direct Investment

International investment may help open societies and bring democratic change in some countries. In Burma, however, foreign investment helps perpetuate the rule of a repressive, unelected junta. Full foreign ownership of companies operating in Burma is forbidden and almost all-large investment in Burma is carried out through joint ventures with the military regime. Much is directed through companies owned and operated by Burma's Ministry of Defense, notably the Union of Myanmar Economic Holdings Ltd (UMEH) and its branch, Myanmar Economic Corporation (MEC). While very few Burmese benefits from foreign investment, the ruling military junta has imported over US\$ 2 billion in weapons since 1989.

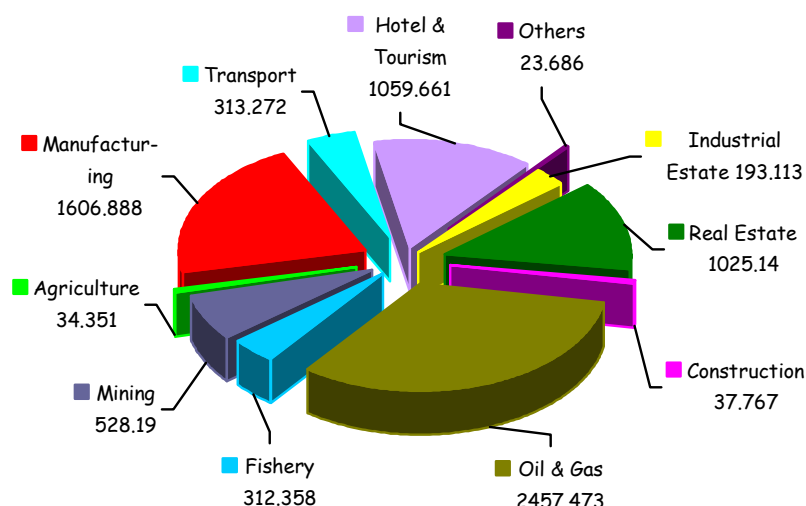
Table 6. Foreign Direct Investment (approved) in Burma - US \$ / million

Sector	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04 (Apr - Jan)	Cumulative total as of March, 2004		
									No. of Enter- prises	Total Amount	%
Oil & Gas	695.603	172.100	-	5.250	47.550	3.25	44.0	22.0	58	2,457.473	32.37
Manufacturing	923.561	319.215	43.296	18.319	77.391	15.752	13.18	-	150	1,606.888	21.17
Hotel & Tourism	114.924	274.892	1.460	15.500	5.250	-	-	-	43	1059.661	13.96
Real Estate Development	623.500	122.190	-	-	28.000	-	-	-	18	1025.140	13.50
Mining	178.299	3.331	4.885	16.000	1.112	-	3.382	1.45	53	528.19	6.96
Livestock & Fishery	17.502	5.819	4.775	3.261	-	-	26.386	2.6	24	312.358	4.11
Transport & Communication	47.865	106.300	-	-	7.885	-	-	30.00	16	313.272	4.13
Industrial Estate	181.113	-	-	-	-	-	-	-	3	193.113	2.54
Construction	17.267	-	-	-	20.500	-	-	-	2	37.767	0.50
Agriculture	5.991	5.670	-	-	20.000	-	-	-	4	34.351	0.45
Others	8.620	3.400	-	-	10.000	-	-	-	6	23.686	0.31
Total	2814.245	1012.917	54.396	58.150	217.688	19.002	86.95	56.05	377	7591.899	100

Source: Statistical Yearbook, 2001 & 2002, CSO, Ministry of National Planning and Economic Development.

After the promulgation of the FDI law in late 1988, FDI started to flow into the country and inflow of FDI approvals for 1989/90 was US\$ 56 million. It grew steadily to US\$ 1352.295 million in 1994/95 and the height amount was US\$ 2814.245 million in 1996/97. The sharp drop of foreign investment was mainly attributed to the impact of the Asian financial crisis (see table 6). FDI in the oil and gas sector accounted for about one third of total FDI.

Figure 5: Foreign Direct Investment (approved) by sector in Burma
US \$/million (as of March, 2004)



Since the country switched to a market economy in late 1988, it has drawn over \$ 7591.899 million in foreign investment as of March 2004, of which ASEAN took up 3,935.88 million or 51.84 percent. Out of 27 countries and regions investing in Burma, major investors were line up as Singapore (1,572.726 million), the United Kingdom (1,431.011 million), Thailand (1,312.203 million) and Malaysia (660.747 million), taking up 20.72 percent, 18.85 percent, 17.28 percent and 8.7 percent of the total foreign investment respectively. Singapore, UK and Thailand (56.85 % of FDI in March, 2004) are the largest investors in Burma.

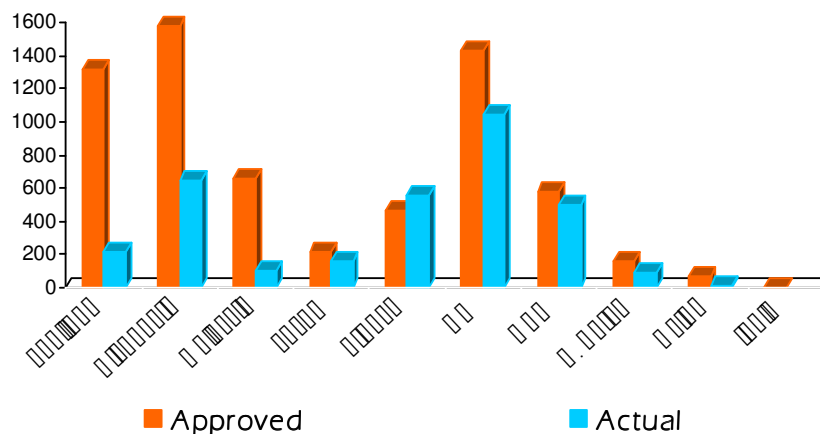
Table 7. FDI (Approved) in Burma by selected countries - 1997/98 to 2003/04

	1997/ 98	1998/ 99	1999/ 00	2000/ 01	2001/ 02	2002/ 03	2003/ 04	1990/01 to 2003/04
China	0.500	2.662	-	28.980	3.250	-	2.820	66.97
Hong Kong	56.880	8.028	5.742	13.229	1.516	12.880	3.000	165.72
India	-	4.500	-	-	-	-	-	4.500
Japan	26.850	8.914	5.095	-	4.690	-	-	212.57
S. Korea	29.700	0.239	4.320	47.220	5.000	0.300	34.900	191.31
Singapore	270.613	14.210	4.736	36.915	-	6.100	-	1572.73
Thailand	210.360	10.785	16.500	25.750	-	-	22.000	1312.2
Malaysia	124.800	-	-	9.832	1.500	62.246	-	660.75
Indonesia	25.420	1.050	1.377	1.200	1.500	-	-	241.50
Philippines	140.000	-	-	-	-	-	-	146.67
U.S.A	-	-	-	-	-	-	-	582.07
France	-	-	-	-	-	-	-	470.37
UK	47.549	4.443	15.130	30.612	1.546	-	27.000	1431.01
Canada	5.300	-	-	21.950	-	-	1.450	61.23
Others								472.299
ASEAN								3935.89
EU							2277.25	2305.70
Total								7591.899

Sources: 1. Selected Monthly Economic Indicators, March 2004, CSO, Yangon, Myanmar
2. Ministry of National Planning and Economic Development, Myanmar, March 2003.

As of March 2004 five ASEAN countries (Singapore, Thailand, Malaysia, Indonesia & Philippines) are investing in Burma, and have committed US\$ 3933.84 million in 170 projects, realizing 51.08% of the total permitted amount of FDI. In developing infrastructure for both the tourist and oil and gas industry, the junta has extensively used forced labor under extremely harsh conditions. Fees and profits from tapping Burma's natural gas resources go straight to the generals. Some hotel projects are also in partnership with the generals, and front companies reportedly run others for major heroin dealers who are collaborating with the generals. (For example: Asia World Hotel, Kanbawza Hotel, military owned UMEH Hotels, War Veterans Organization owned Hotels etc. in Ngwe Saung beach.)

Figure 6. Foreign Direct Investment (Approved & Actual) by Selected Countries in Burma, US \$ million (1990 to January 2004)



Since 1990, Western countries *disbursed* more than 80% of investments that they committed, accounting for about 65% of actual FDI. ASEAN countries only about 31% of committed investment, accounting for less than 35% of over the decade. Such figures dispels the myth perpetuated by the SPDC, certain ASEAN governments and others opposed to sanctions that investment from Western countries does not have an important role. Given that Western countries are responsible for the most significant share of investment, their withdrawal will have the most significant impact on the regime.

India's investment was US\$ 4.5 million since 1998/99 and in November, a consortium of South Korean and Indian companies including Daewoo International Corp (60%), Korea Gas Corp (10%) and Indian public-sector firms Oil and Natural Gas Commission (ONGC) Videsh Ltd and Gas Authority of India Ltd (GAIL) (together owned 30%) started exploring the waters off the Arakan coast of northwestern Burma. But Myanmar Oil and Gas Enterprise (MOGE), 100 percent owned by the junta, will have the rights to take the proportionate share of the benefits. Daewoo predicted at least 100 billion won (US\$ 86.2 million) in net profit annually for 20 years from 2010 through its natural gas production at the zone. Production is to start in 2009 and the SPDC is poised to reap at least \$800 million a year from the project, and could see up to 3 billion annually. As part of the negotiations to buy natural gas, the Burmese junta has been demanding political concessions from Thailand and India in the form of the expulsion of refugees and crackdowns on opposition groups staying in these

countries[‡].

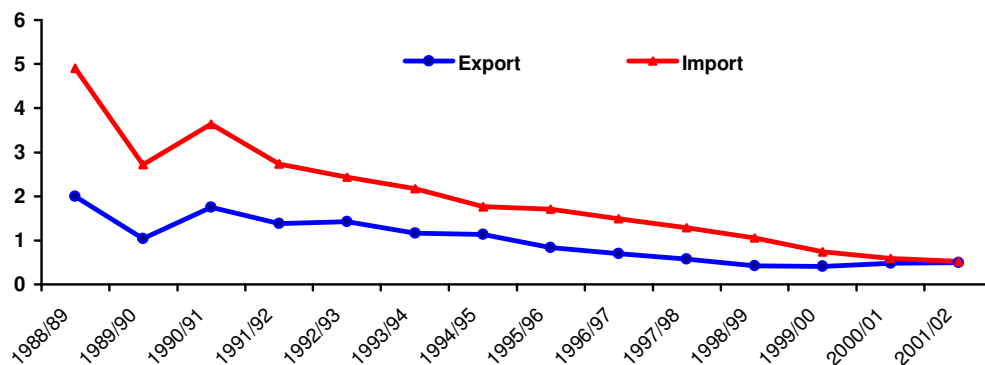
According to Joseph L H. Tan (*The Role of Foreign Direct Investment in the Development of Asian Transitional Economies*), in the case of Myanmar (Burma), some problems have arisen from ambiguities in the law, which are open to arbitrariness and perceived as impediments to investors. For instance, some potential investors have complained that although the law provides for 100 per cent foreign ownership, in effect business is not possible without the government involvement in the (joint) venture as a necessary partner. More serious, however, are the main factors of political conditions and the management of the exchange rate p-81).

3.6. Foreign trade

Burma's trade data are particularly problematic. The trade data are distorted by: widespread smuggling; over-reporting of exports for money-laundering reasons and extensive illegal drug exports; under-reporting of imports to avoid customs duties; the use an-unrealistic official exchange rate in measuring data; and the exclusion of many military imports. Foreign trade was heavily controlled by quantitative restrictions on imports and exports and foreign exchange controls. Weak export performance continued to substantially widen the current account deficit and put pressure on the balance of payments.

Figure 7: Foreign Trade in Burma (1988/89 to 2001/02)

As percent of GDP

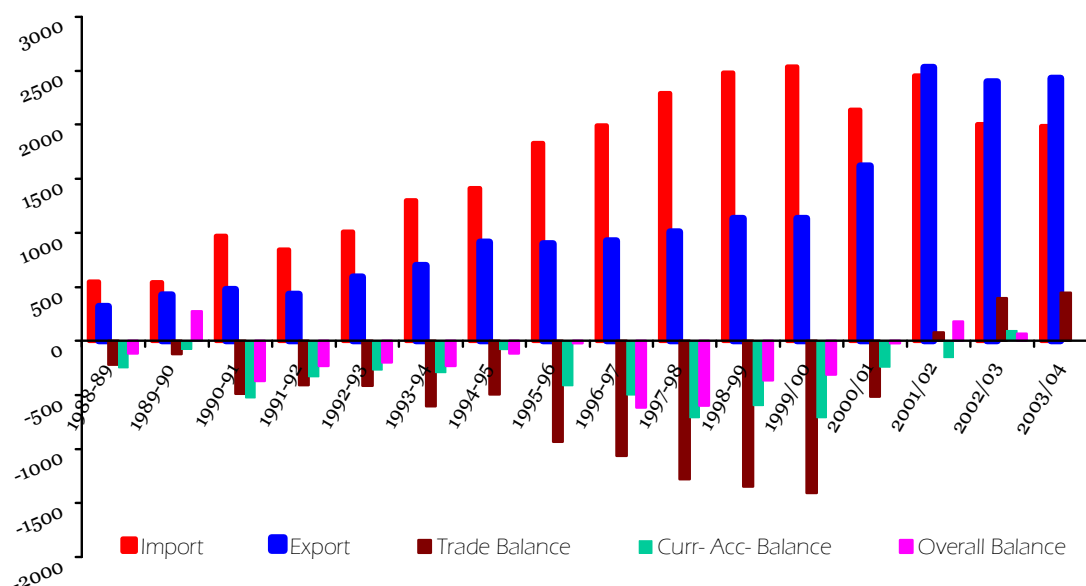


In 2001/02, total export was Kt 17.13 billion, border trade with neighboring countries accounted for nearly 30% of total exports and total imports amounted to Kt 18.38 billion, of which 50% were capital goods (trade deficit grew from US\$ 370 million in 1988/89 to US\$ 1407 million in 1999/00-an increase of nearly four times). Strong exports and falling imports enable Burma to record a rare merchandise trade surplus of Kt 4.6bn (US\$ 730/m at the official rate, around US\$ 4.6/m at the free market rate) in 2002. Exports rose by 25.4% year on year to around Kt 20bn, while imports fell by 20.1% to Kt 15.4bn. A similar trend continued into the first two months of 2003. The drop imports also appear believable, given weak domestic demand, the depreciating exchange rate and restrictions on access to import permits and foreign exchange imposed by the SPDC. Despite the stronger trade position, Burma remains close to a balance of payments crisis, as access to international capital and foreign aid has all but dried up, while foreign direct investment (FDI) inflows have deteriorated. Burma's foreign trade heavily depends on black market and border trade which estimated

[‡] Asia Times, Feb 14, 2004.

about two times of the official economy.

Figure 8: Balance of payments in Burma – US\$ million (1988/89 to 2002/03)



In 2003/04, the total normal trade volume reached 4.4 billion US\$ and it is composed of total export value 2.4 billion US\$ and the total import value over 1.9 billion US\$. Among the trading partners, Thailand ranked first with the total trade value of 1.1 billion and Singapore stood second position with the total trade volume of 811.5 million US\$. Export to Thailand let-a-lone reached over 1 billion US\$ which is highest among trade partners of Burma, India ranked second with the export value 355 million and Singapore ranked third with the export value of 134 US\$ million. Burma's main export commodities were mine products, which is the highest with US\$ 969 million, agricultural products with 400 million US\$, timber & forest products with 376.7 million US\$, textile and garment with 334.759 million US\$, marine products with 162 million US\$ and precious and semiprecious with 61 million US\$ accordingly in 2003/04. Burma imported over 677 million US\$ from Singapore, which is highest among the import partners. China ranked second with the import value of 300 million US\$ and Japan ranked third with the import value of 265 million US\$. In terms of import categories, textile import is the highest with 279.1695 million US\$, lubricant, oil & diesel with 260.4 million US\$, car & cycle with 142.4 million US\$ and machine parts with 140 million US\$ respectively.

In the past few years trade between India and Burma has begun to expand rapidly, increasing in value nearly eight-fold in the last decade alone. Officially, India is now Burma's fourth most important export market, with beans, pulses and wood products being the major export items. Burma's main imports from India are pharmaceuticals, iron and steel. After beginning about seven years ago in Moreh in the northeastern state of Manipur, bilateral trade India and Burma had jumped from 84.7 \$/m to 435 \$/m in the past decade. It is estimated that daily transactions at the Moreh border market are worth about three million rupees (62,500 USD).

Table.8: Burma Foreign Trade by country in 2003/04 – US\$/m

Country	Total Export		Total Import	
	value	% of total	value	% of total
Thailand	1,057.402	43.487	98.844	4.984
India	355.616	14.623	107.387	5.415
Singapore	134.136	5.516	677.400	34.160
Japan	115.282	4.741	265.614	13.394
USA	97.179	3.996	24.936	1.257
Hong Kong	79.510	3.270	36.890	1.860
Malaysia	69.889	2.874	149.250	7.526
United Kingdom	64.776	2.664		
China	62.698	2.578	300.119	15.134
Greece	53.167	2.186		
S Korea			109.938	5.544
Indonesia			58.616	2.955
The Philippines	13.209	0.543	5.152	0.277
Vietnam	11.955	0.491	9.92	0.500
Brunei	0.942	0.038	0.002	
Laos	0.2295	0.009		
ASEAN	1287.763	52.96	999.184	50.39
Grand Total	2431.490	100	1982.965	100

Figure. 9: Burma foreign trade by country in 2003/04

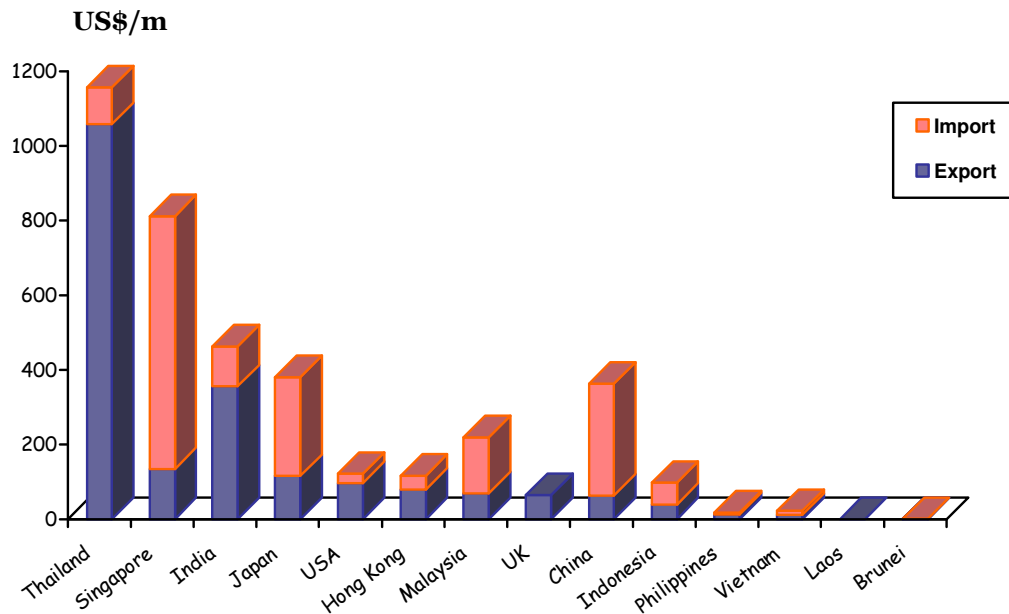
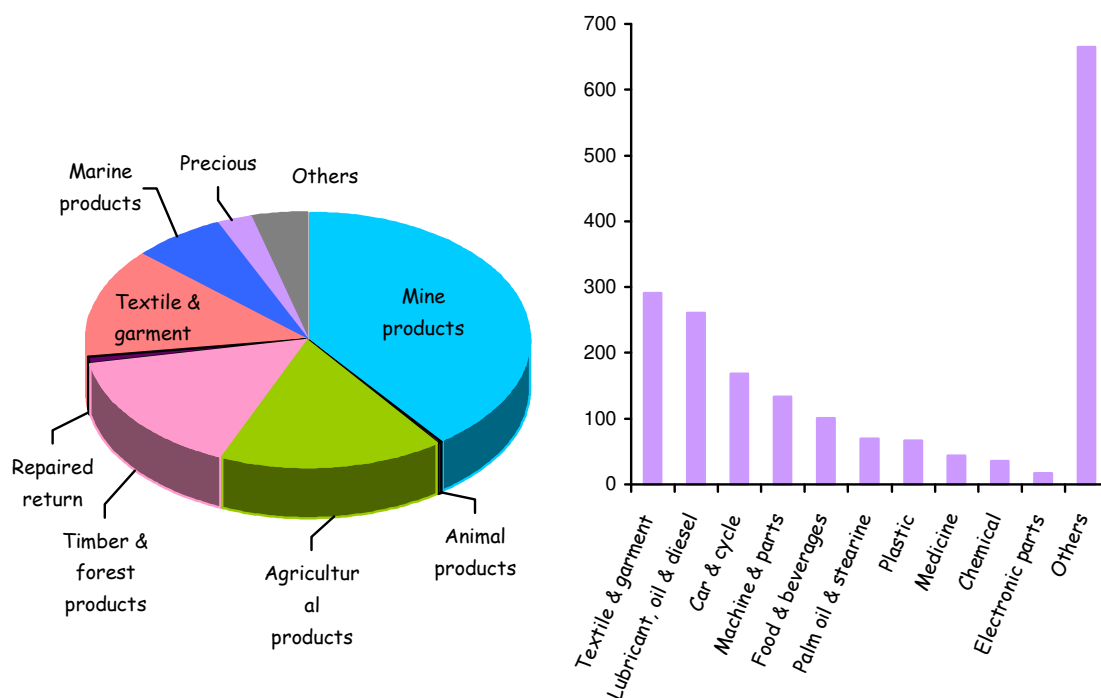


Table. 9: Burma's foreign trade by category in FY 2003/04 – US\$/m

Export			Import		
Category	value	% of total	Category	value	% of total
Marine products	969.20	39.86	Textile	279.17	14.07
Agricultural products	400.56	16.43	Lubricant, oil & diesel	260.44	13.13
Timber and forest products	376.68	15.49	Car & cycle	142.44	7.18
Textile and garment	334.76	13.76	Machine parts	140.06	7.06
Marine products	162.00	6.66	Steel, iron, tin & deformed bar	133.90	6.75
Precious & semiprecious	61.14	2.51	Food & beverages	100.25	5.05
Repaired return & others	21.49	0.88	Palm oil & palm stearine	69.33	3.49
Animal products	2.54	0.10	Plastic	67.02	3.37
Other commodities	103.14	4.24	Medicine	43.75	2.20
			Chemical	35.26	1.77
			Tyre	26.36	1.32
			CMP – garment	12.13	0.61
			Aircon	7.84	0.39
			Refrigerator	5.11	0.25
			TV	3.66	0.18
			VCR, VCP & VCD	0.57	0.03
			Radio & cassette	0.42	0.02
			Other commodities	655.26	33.04
Grand total	2431.49		Grand total	1982.97	

Source: : http://www.myanmar.com/Business_Tank/Ntrade.html

Figure.10: Burma: Export by category & Import by category in 2003/04 - US\$/m



3.6.1. Current trade with China and Thailand

According to CSO, in April-February Thailand's imports from Burma (mostly gas) reached Kt 6.7bn, or 36% of Burma's total exports. Exports to China during the same period increased rapidly, reaching Kt 3bn, up from Kt 1.5bn in the whole of 2001/02. China now accounts for around 16% of total exports, ahead of the US and India, which both imported Kt 1.9bn (around 11% each) from Burma in April-February. The US purchased mostly garments and exports (but US imposed import ban from Burma in July 2003); India imported mostly pulses and timber. Imports of most key items, including crude oil, machinery, metals, edible oils, cement and pharmaceuticals, all declined.

China has offered Burma a US\$ 200 million preferential loan for economic development, a grant of Rmb 50 million (US\$ 6.04/m) for technological cooperation, and as unspecified amount of debt relief in January 2003 (http://burmanet.org/bnn_today.shtml). China and Burma signed a package of 21 economic and technical agreements on 24 March 2004. The two countries signed an array of agreements ranging from concessional loans for telecommunication infrastructure projects to deals for agricultural production equipment. The agreements also include plans for hydropower projects, geological surveys and mineral exploration projects in Burma. Plans for construction of a railway connecting the Chinese border town of Muse to Lashio, in Burma's northern Shan State, were also agreed. In 2003, bilateral trade between Burma and China exceeded US\$ 1 billion, according to official figures, with Burma importing about \$ 900 million worth of goods and exporting \$ 170 million. Burmese traders on the border trade think that illegal trade between the two countries is much higher than legal trade. For example, 1,000 Chinese-made mortorbikes are smuggled illegally into Burma everyday, amounting to import worth more than 2,300,000 yuan (US\$ 277,878) daily in illegal mortorbikes alone, double the figures from last year. And also Chinese police confiscated 9.35 tons of heroin worth more than US\$ 40 million at prices along the border, and three times that amount at its final destination in Kunming, the capital of Yunnan Province in 2003. (<http://www.irrawaddy.org/news/index.html?>)

Thailand's FDI ranks third, with 49 projects totaling \$ 1.29 billion and focused mainly on food processing and agricultural goods, gems and jewellery, wooden furniture, garments, power plants, basic infrastructure, fisheries, mining, hotels and tour agents. Thailand has a trade deficit with Burma because the government has had to purchase natural gas from its neighbour since 2001. The Kingdom's trade deficit with Burma reached Bt 16.34 billion in the first 11 months of last year (2003). Thailand's main exports are cement, rubber products, chemicals, fabrics, machinery, batteries, ceramics, and electrical appliances, while buying logs, gems, silver, gold, frozen shrimp, yarn and lather from Burma[§]. Thailand is reported to have agreed to provide Burma with a 4 billion baht (about US\$100 million) preferential loan as part of a four-economic cooperation strategy launched in 2003. Thailand is to provide assistance for 58 economic and infrastructure development projects in Burma as part of the strategy, which provides for cooperation in five strategic sectors, including industry and agriculture.

[§] The Nation, 18 February 2004.

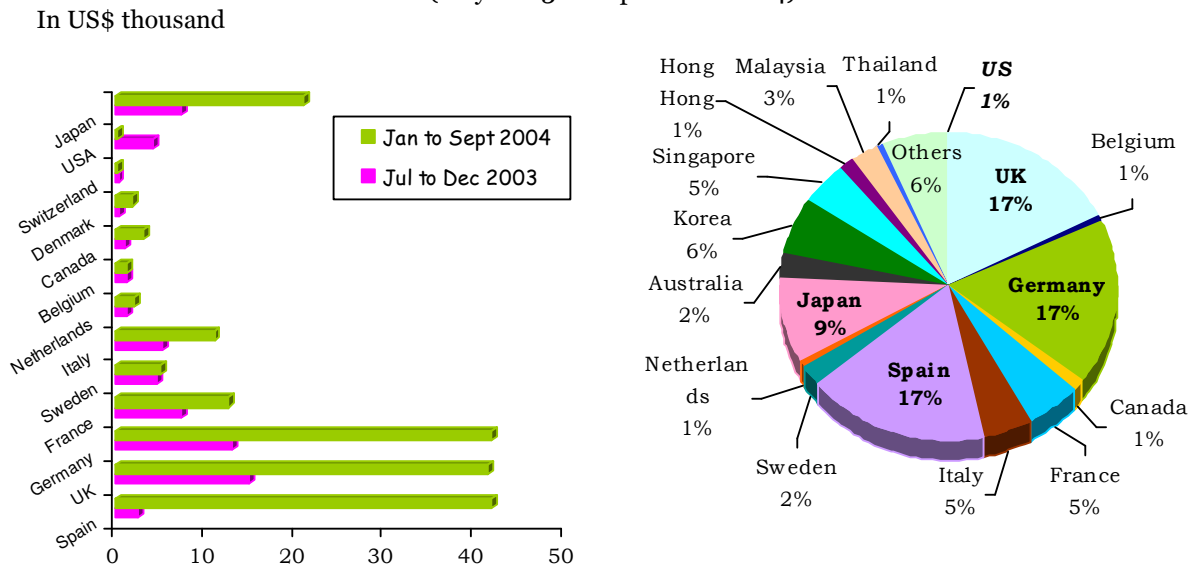
3.6.2. Trade with other ASEAN

According to Burma Customs data source, during the 2003/04 fiscal year, total trade value was 4.4 billion, among them trade value with ASEAN was 2.3 billion US\$ (57% of total trade). In 2003/04, Burma export to ASEAN was 1.3 billion (55% of total normal export), among them, exports to Thailand is the highest followed by the Singapore, Malaysia, Indonesia, the Philippines, Vietnam, Brunei and Laos accordingly. The volume of Burma's export to Thailand reaches 1.06 billion US\$, 134 million to Singapore, 69.9 million to Malaysia and 44 million to Indonesia. Export value of minding and timber products are the highest among the product categories that export to Thailand from Burma. Among the exported categories to Singapore, timber products are the highest in term of export value. Agricultural products are the major items to Malaysia and Indonesia.

In 2003/04, import from ASEAN was 0.96 billion (51% of total normal import), Singapore was highest with 677 million US\$, 149 million from Malaysia, 98.8 million from Thailand and 58.6 million from Indonesia accordingly. Textile, lubricant, oil and diesel are the major import products from Singapore and palm oil is the major import from Malaysia and Indonesia.

3.6.3. US import ban concerns garment manufacturers

Figure.11: Garment Export by country from Burma
(July 2003 to September 2004)



Source: Daily Sectionwise Export / Import List, Customs Department, Ministry of Revenue & Finance, Union of Myanmar.
Compiled and calculated by Economics & Research Department, FTUB, 28 March 2005.

According to EIU 2003, the small garment manufacturing industry, which employs as estimated 350,000 workers (**around 200,000 in July 2003, FTUB garment sector inside sources**), will be severely hit by an imminent US ban on import from Burma. The US accounts for the majority (around 65% based on data from varied sources) of Burma's exports of textiles and garments. According to the latest local official data, in fiscal year 2000/01 (April-March) garment exports totaled Kt 3.8bn (US\$ 600/m at the official rate). According to US Census Bureau data, US imports of textiles and

garments products from Burma reached around US\$ 400/m a year in 2000 and 2001 before falling to US\$ 305/m in 2002. Foreign investment, particularly from north Asia, has helped to build up the export-oriented garment sector in recent year. Ready-made garment production rose from 29.8m items in 1992/93 to 57.2m items in 1997/98 (the latest available data). Output, however, has remained below potential, as a successful consumer boycott movement in the US and elsewhere has persuaded many garment manufacturers and retailers, including Levi Strauss, Reebok and British Home Stores, to cease sourcing in Burma.

3.7. External Debt

The importance of external debt as an indicator of a country's economic well-being depends much on the general macroeconomic condition of the country. For a high-growth country with a reasonable degree of macroeconomic stability, changes in the level of external debt would be a poor indicator of that country's economic well being. On the other hand, for a low growth country with a economic instability and particularly persistent current account deficit, the status of external debt becomes yet another indicator of that country's ill being.

The Burma Socialist Programme Party's (BSPP) economic plan left a heavy external debt of Burma amounting to US\$ 4.432 billion in 1988 and it increased up to US\$ 6.47 billion in 1999/00 and 6.1 billion in 2002. In the last few years an expending merchandise trade deficit has resulted in a steady widening in the current-account deficit, which reached US\$ 710 million in 1999/00. The deficit would be much wider if not for smuggling and money laundering from the drug trade, by the generals and their cronies. *(Burma has produced between half and two-thirds of the world's opium and heroin, as well as the largest producer of amphetamines. According to US government estimates, Burma receives between US\$ 700 million and \$1 billion in foreign currency from heroin exports annually, or about the same as the total of all other exports).*⁵ International reserves have risen strongly in recent year, it reached US\$ 552.7/m in 2003 from US\$ 211.1/m in 2001, but reserves cover imports of little more than two months. Although trade data are unreliable-they are distorted by extensive smuggling and the multiple exchange rate regime-and are often revised extensively, there has been a credible trend towards a strong rise in exports and contraction in imports.

3.8. Exchange rates

The Kyat has already lost value against the US\$ and baht since last year. The foreign exchange market remained highly distorted, with the free-market exchange rate at around Kt 450 per dollar in Jan; 2001, Kt 800 per dollar in May 2002, Kt 1050 per dollar in August 2003 and Kt 850 per dollar in May 2004, compared with the fixed official rate of around Kt 6.2-6.4 : 1US\$ and Kt 8.51 : 1 SDR. Because of quantitative restrictions and controls on foreign exchange transactions, private traders normally cannot export items such as rice, sugar, rubber, minerals, and gems & jades. State-owned Economic Enterprises and military owned, Union of Myanmar Economic Holdings Ltd (UMEHL) and Myanmar Economic Corporation (MEC) are the major players in trading activities.

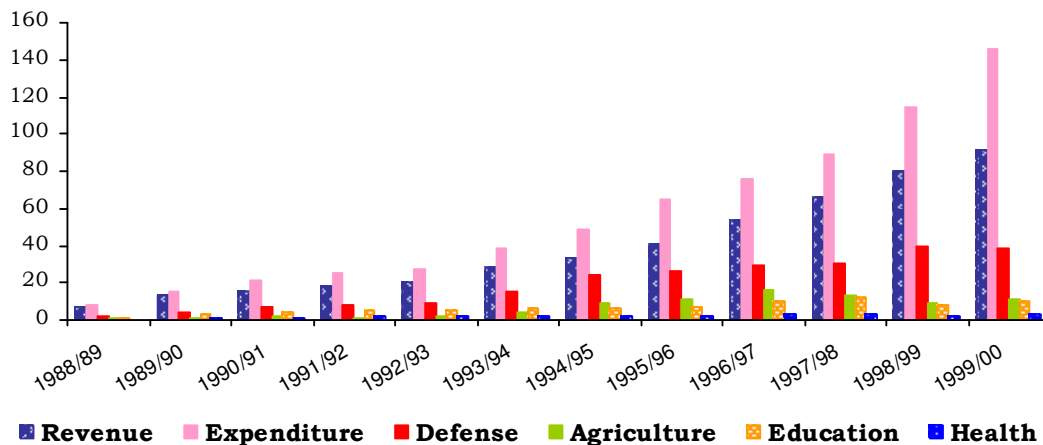
The current official exchange rate is heavily biased toward import using SEEs overvalued exchange rate and sells domestically at market prices. Foreign exchange transactions among non-financial firms in the private sector appear to have no

restrictions. But the Joint Ventures custom duty rate was Kt 150 - 200: per 1 US\$ and they need to change for the employees' salary rate was Kt 450: 1 US\$. Since February 1993, by introducing foreign exchange certificate (FEC), the exchange rate became more complicated and it created instability of the country's monetary system. Although government official rate was 1 FEC: 1 US\$ and the market-determined FEC rate was Kt 410 in November 2000, it decreased to Kt 240 in Jan; 2001, Kt 600 in May 2001 and Kt 580 in August 2003 (*according to the World Bank report, the introduction of the FEC legitimized the parallel market and resulted in a de facto devaluation, even as the official rate remained at its pegged rate and recommended the official rate should be unified with the market exchange rate*). Exchange rate distortions favor a small number of industries at the expense of consumers and most other industries. Unifying the exchange rate would have to go hand in hand with removing price controls and easing restrictions on exports, imports, and foreign exchange transactions.

4. State Budget

The state budget has remained unbalanced with substantial deficits during much of the 1990s. Fiscal deficits are financed automatically by credit from the Central Bank, a source of domestic inflation and instability in the economy. Total revenue average 8 % of GDP for the 1990s, well below total expenditures (capital and current) of about 13 % of GDP (the World Bank, 1999). A range of factors including poor tax compliance and a large informal economy mean that government revenue is very low, at around 3% of GDP. Total revenues, including transfers made by SEEs, reached around 19% of GDP in 1999/00, according to official data.

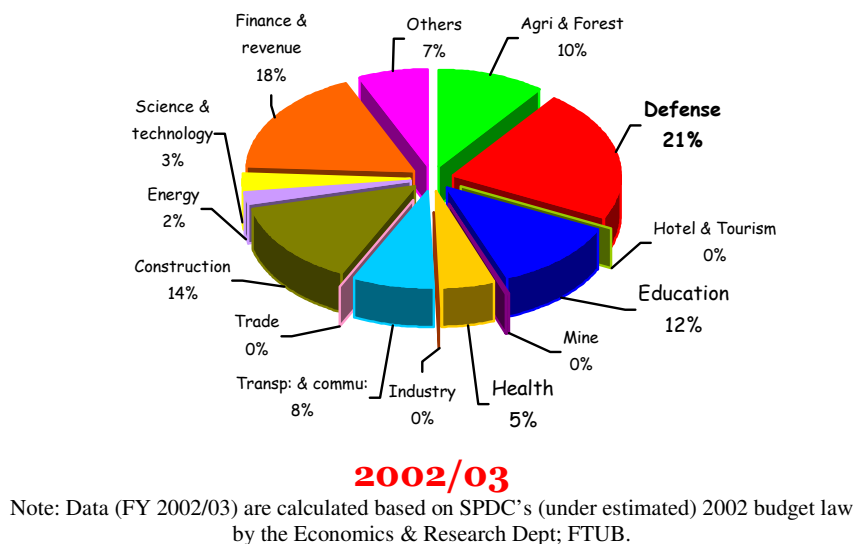
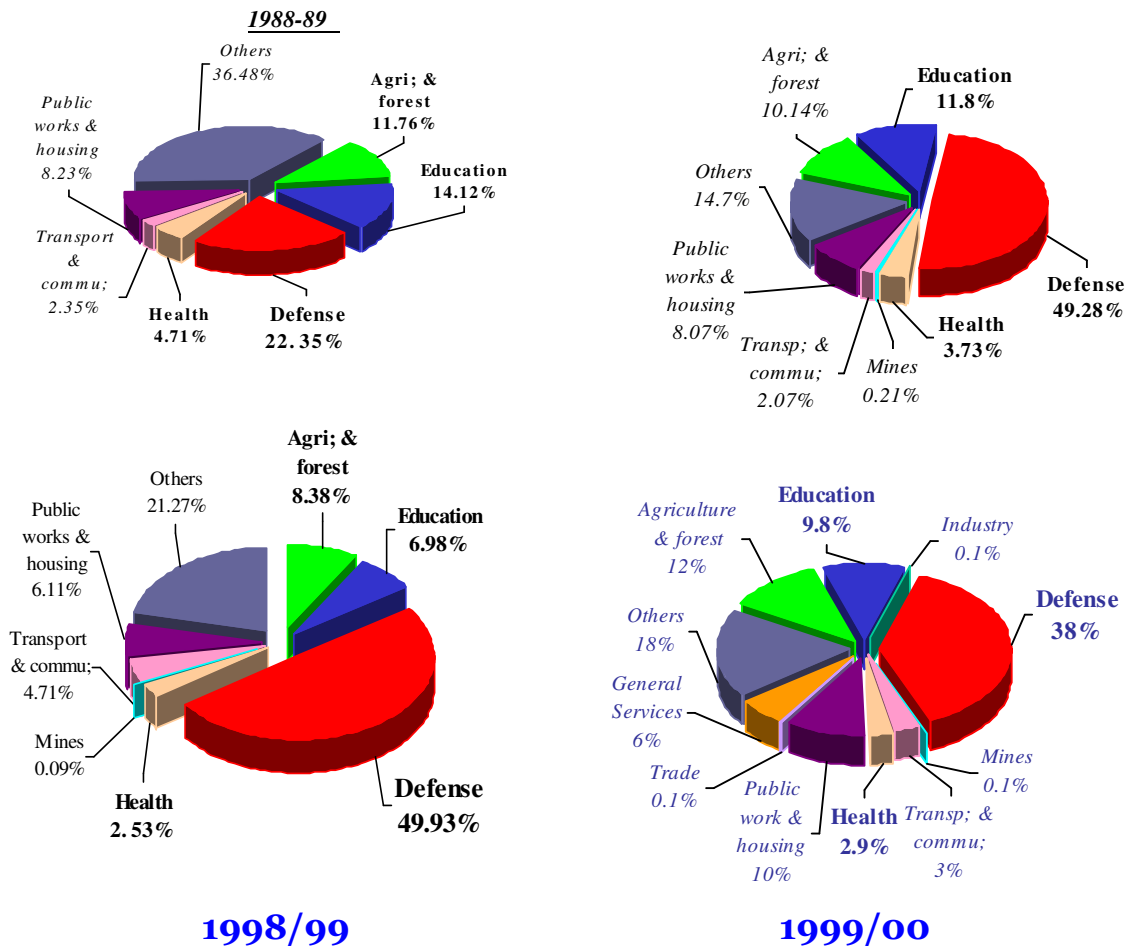
Figure 12: State Revenue & Expenditure in Burma (Kyat/billion)



Junta's state expenditures disproportionately allocated on items that do not contribute directly to current production, such as defense, ceremonies and rituals, festivals inspection tours, meetings and seminars, building physical infrastructure-roads, railways, bridges, dams, monuments, museums, shiny office complexes and fancy airports-expenditure items that represent wasteful consumption or that constitute expensive capital outlays, undertaken without proper feasibility studies and environmental impact assessments and hence with unclear, uncertain and dubious returns on investment. Chronic state budget deficits have contributed to rapid monetary growth and spiraling inflation. The state expenditures increased by 18.97 times from 1988/89 to 1998/99. During 1997/98, revenues made up for 48% of the

state expenditure. Experts cite unnecessary government expenditure on public works projects like bridges, roads and buildings as the cause of a widening budget deficit and unbalanced growth. Many infrastructure projects are for political and security purposes, not for enhancing business.

Figure 13: State expenditure by sector in Burma
1994/95



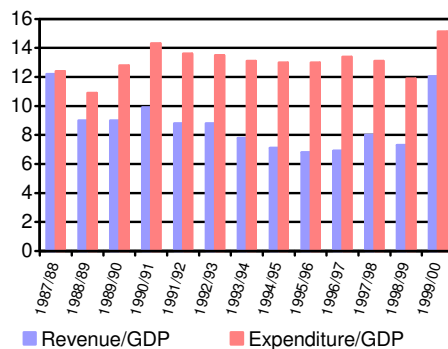
Note: Data (FY 2002/03) are calculated based on SPDC's (under estimated) 2002 budget law by the Economics & Research Dept; FTUB.

The junta has financed the budget deficit through bank borrowing, the issuance of treasury bills and bonds, and the accrual of arrears on external debt. The junta's need to finance large fiscal deficits has been the main cause of monetary expansion. Both the supply of narrow money (M1) and broad money (M2) continued to show rapid growth in 2002. M1 expanded by 44% year on year in the fourth quarter, while M2 rose by 34.6%. Growth in both broad and narrow money supply is likely to have accelerated in the first half of 2003 as the SPDC resorted to printing money to fund both its large budget deficit and the bailout of the private sector banks, further adding to inflationary pressures.

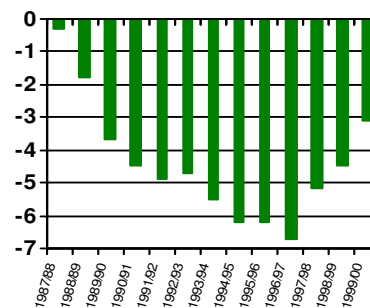
In order to recover the budget deficit, the junta-increased taxes and collected money and free labor from the people for the nation's developmental projects such as construction of roads, dams, bridges and so on just for show. The junta continues to heavily control, command and centralize Burma's economy. Exchange rate distortions continue to favor a few importing industries at the expense of consumers. While fiscal deficit has been reduced, mainly attributed to reduced public spending particularly of social spending, to unsustainable low levels. At the same time, financing the fiscal deficit through central bank credit is one underlying factor of persistent high inflation.

Figure 14: Total Revenue, Total Expenditures and Budget Deficits

Revenue and Expenditure as Share of GDP (%)



Fiscal Balance (% of GDP)



4.1. Defense Expenditure

In relation to other economic sectors, the defense expenditure exceeded far greater. According to SPDC figures, the defense expenditure has been increasing steadily from Kt 1.8 billion since 1988/89, reaching Kt 30.9 billion (39 \$ million- in FY 97/98)⁶ in 1997/98, Kt 36 billion in 1998/99. It was 21.18% of state expenditure and 2.36% of GDP in 1988/89, 49.28% of state expenditure and 5.03% of GDP in 1994/95 and 49.9% of state expenditure, 2.24% (7.6%)[#] of GDP in 1998/99 and 38% of state expenditure in 1999/00. According to a US embassy report in 1997, the regime uses at least half of the state budget on the military. Also, Burmese economist, Mya Maung, estimated that if all expenses related to defense and security functions were included, defense expenditures in the 1990s may have been as high as 60% of the budget^{**}. The per capita defense expenditures of Burma are higher than those of Vietnam and Thailand. Burma has increased its per capita defense expenditure about US\$ 30 to US\$ 50, whereas Vietnam has reduced it from US\$ 53 to US\$ 12. Thailand's defense

⁶ US (CIA)

[#] FTUB estimate

expenditure declined to 2.5% of GDP whereas Burma's increased to 5.35% of GDP in 1994/95. Every US\$ expended on Burma's military expansion brings untold misery and hardships not only to the present generation but also extinguishes the confidence competence of future generations who will have to live and coexist with its neighbors, some threatening and some friendly. The defense force's manpower strength has increased continuously from a figure of 132,000 in 1964, to 170,000 in 1987, to 320,000 in 1996 and to 470,667 (0.96 % of total population) in the year 2000⁷.

Table. 10: Military Budget-Summary (2001/02 to 2003/04) Kyat

2001/02 (Actual)	2002/2003		Items (Account Headings)	2003/04 (Estimate)
	Estimate	Revised Estimate		
9,346,047,592	1,893,178,000	5,000,000,000	Revenues 2.1.2. Defense revenues	4,514,464,000
20,834,370,141	22,015,100,000	22,015,200,000	Current Expenditures 2.2-2.1. Salary & Costs	22,017,534,000
7,710,678,224	8,410,256,000	10,009,958,000	2.2-2.2. Materials	13,691,425,000
493,533,537	567,671,000	582,871,000	2.2-2.3. Transportation	1,711,764,000
2,216,120,307	1,353,770,000	1,640,695,000	2.2-2.4. Engineering	1,684,898,000
976,623,992	1,047,105,000	1,137,789,000	2.2-2.5. Miscellaneous	1,448,636,000
218,985,459	249,501,000	278,769,000	2.2-2.6. Military Operation Functioning	489,501,000
5,422,663,504	5,833,416,000	7,700,217,000	2.2-2.7. Military factories	8,717,397,000
37,872,975,164	39,476,819,000	43,365,499,000	Sub Total	49,761,155,000
24,735,667,952	11,312,050,000	30,983,008,000	Capital Expenditures 42-2-1. Military Functions	30,493,248,00
1,230,428,559	1,296,488,000	2,625,530,000	42-2-2. Materials & Animals	6,506,752,000
(-) 33,530,156			42-2-3. Materials – temporary	
25,932,566,355	12,608,538,000	33,608,538,000	Sub Total	37,000,000,000
63,805,541,519	52,085,357,000	76,974,037,000	Grand total	86,761,155,000
- 54,459,493,972	- 50,192,279,000	- 71,974,037,000	Deficit	- 82,246,691,000

Source: Defense Budget 2003-2004, Union of Myanmar, Printing & Publication Enterprise, Yangon, 2003 April.

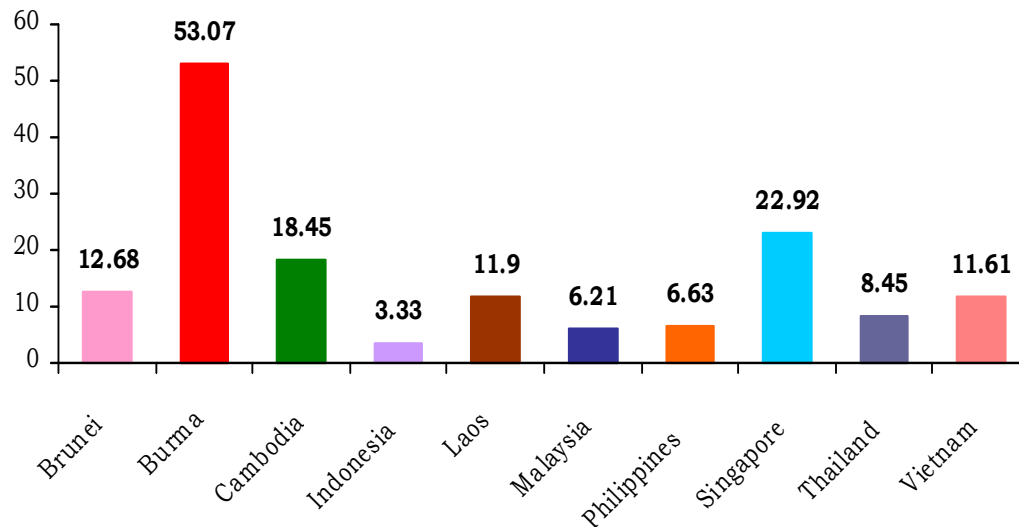
⁷ US (CIA)

** Win Min, "Burmese Military Government: Crony Capitalists in Uniform"

According to Burmese anonymous economists and FTUB sources, military expenditure is around 60% of total state expenditure in Burma. Because, there are two things, one thing is that the junta always spends under the heading of Ministry of defense and other headings such as Ministry of home affairs and Ministry of progress of border area and national races and development affairs etc. And another thing is the difference of official foreign exchange rate and market exchange rate.

Figure 15. Military Expenditure in ASIAN Countries - 2002

As % of Total Expenditure



Sources: 1. The World Fact Book, 1 August 2003, CIA (US).

2. Burma sources: Defense Budget 2003-2004, Union of Myanmar, Printing & Publication Enterprise, Yangon, 2003 April.

[Note: Calculated estimation based on Statistical yearbook 2002-(state administrative organizations), CSO, Burma & Defense budget 2003/04, Burma by Economics & Research Dept, FTUB]

4.2. Education Expenditure

For more than ten years the higher education system has been severely disrupted by regular closures aimed at curbing student dissent. The college and universities were reopened in 2000, but courses are being significantly shortened in order to push the huge backlog of students—many of whom have been waiting years to start college—through the system. During the closure of universities and schools for the general population (December 1996 to July 2000) the military set up medical and engineering universities, technical training schools and the nationalities development university exclusively for the military children using funds from the state education budget. While the children of the public are still struggling to attend the normal schools and universities, the military has been able to turn out six batches of doctors, engineers and technicians for the military from military universities and schools. For the same age group, these graduates have become the role models, having jobs right away and then being sent abroad for further studies. Foreign governments grant scholarships to graduates from these military-run institutes unaware that they helping the junta breed an elite class for its own interest. By doing so, the discrimination by the military against the students, many of whom were active in the democratic movements or those whose parents are politically active, is helped by the well-meaning but uninformed governments.

According to The World Bank 1999 report, the people of Myanmar place a great value on education. But education outcomes are unsatisfactory. According to official estimate, three and ten five-year olds do not enroll in kindergartens. In other words, of an estimated 1.3 million students who are eligible to enroll in kindergarten each year, about 390,000 never begin school. Another 750,000 children drop out of primary school each year; and only 40 % of those who begin kindergarten finish the primary cycle although with significant regional variation. Myanmar is clearly some distance from achieving internationally-declared development goal of education for all.

It is impossible to provide good quality education services with the substantial erosion in education spending that has occurred over the past decade. Current government spending in education as a share of national income is among the lowest in the world. Official shows that real public spending per child has fallen from about 1200 Kyats per child (5-9 years) in 1990/91 to a dismal 100 Kyats in 1999/2000. Education financing is further confounded by the lack of affordability at the household level. The extensive poverty throughout the country means that many families cannot afford even the minimal costs to send their children to school much less the additional costs of uniforms, books, and so on. In poor families, older children need to work to contribute to household income. The cost barrier is compounded by the poor quality of infrastructure and little adaptability of schooling (including schedules and curricula) to local conditions.

A number of long-standing , and well-known, basic issues need to be address to improve education outcomes in Myanmar: i) reversing the trend of declining public resource allocations for primary education; ii) exempting the poorest children from school fees and other substantial contributions while providing additional support to help cover such direct costs of schooling, as textbooks and uniforms ;iii) developing flexible school hours to enable participation by children who need to contribute to family incomes; iv) increasing teacher salaries in real terms, and (v) reviewing transfer and departmental policies that encourage teachers to move out of rural areas.

Furthermore, the junta's disdain for education is reflected in low spending—equivalent to around 1% of GDP throughout the 1990s, compare with around 3% of GDP in other low-income Asian economies. The education expenditure was 12.94% of state expenditure and 1.44% of GDP in 1988/89, 11.8% of state expenditure and 1.21% of GDP in 1994/95, and 6.98 % of state expenditure and 0.49% of GDP in 1998/99 and 9.8 % of state expenditure in 1999/00. The education expenditure was 61.11% of defense expenditure in 1988/89, 36.43% in 1993/94, and 22.22% in 1998/99.

Burmese law required children to attend school through the fourth grade, usually reached between the age of 12 and 15. According to the UNICEF reports 38% of the children aged 5 to 9 never enroll in school. Of those who do less than 30% complete the forth grades. Two thirds of primary school children, primarily in rural areas, leave school for economic reasons. Many children are taken out of school either because their parents cannot afford ever-increasing unofficial fees (charged to offset weak state spending), or because falling family incomes mean that children start work early. Teachers in state-funded schools are very poorly paid, and the quality of teaching is low. There is a growing informal school system—including private classes. In the higher grades, the dropout rates for girls are double that of boys. As a result of these problems, the overall standard of education in Burma, particularly in rural areas declined sharply after 1988.

Table 11. Changes in Public Expenditure on Education and Health: 1995/96 to 1998/99

Year	Education Expenditure(K/m)	as % of Total Expenditure	as % of GDP	Health Expenditure(K/M)	as % of Total Expenditure	as % of GDP
1995/96	6948.8	4.65	1.15	2411.6	1.61	0.40
1996/97	11123.2	5.85	1.41	2789.7	1.47	0.35
1997/98	10357.7	3.53	0.93	3095.6	1.05	0.28
1998/99	9991.9	2.52	0.64	2799.9	0.71	0.18

Source: Ministry of National Planning and Economic Development.

Table 12. Reasons for Dropping out of School, among Drop outs Ages 5-12 & 13-19, 1997

	Age 5-12			Age 13-19		
	Poor	Non-poor	Total	Poor	Non-poor	Total
Lack of funds	35.8	29.7	31.7	32.1	22.8	24.9
Child care	18.1	20.0	19.4	13.7	16.6	16.0
Work	23.2	28.7	26.9	40.2	43.3	42.6
Lack of interest	6.7	6.9	6.8	4.7	7.4	6.8
Other	16.2	14.6	15.2	9.3	9.9	9.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: The World Bank, "An Economic and Social Assessment", August 18, 1999

Table 13. Prevalence of Work and Education among Children by Age, Mandalay, 1998

Age	School/ no work	Work/ no school	No school and no work	No school and some work	No school and work always
5-8	22	0	49	17	12
9-11	22	13	40	14	11
12-14	16	19	27	14	24
15-16	14	12	28	16	30

Source: The World Bank, "An Economic and Social Assessment", August 18, 1999

4.3. Health Expenditure

A UNICEF report has described a "dramatic decline" in spending on healthcare through the 1990's. The health expenditure was 4.71% of state expenditure and 0.52% of GDP in 1988/89, 3.73% of state expenditure and 0.38% of GDP in 1994-95 and 2.01% of state expenditure, 0.14% of GDP in 1998/99 and 2.9% of state expenditure in 1999/00. The health expenditure was 22.22% of defense expenditure in 1988/89, 11.26% in 1993/94 and 6.39% in 1998/99. However, private clinics have sprung up, but they are relatively expensive and located mainly in urban areas.

As a result, much of the population has access to little or no basic healthcare. The results can be seen in poor health and nutrition standards; according to World Bank estimates, in 1997, 39% of children under the age of five in Burma were moderately malnourished. Border areas suffer the worst healthcare provision, with a higher incidence of diseases such as HIV/AIDS and malaria. According to World Bank estimates, life expectancy in Burma averaged 60 years in 1997, compared with an East Asian average of 69 years. A serious concern is that over the last 10 years, usage of public hospitals and dispensaries has fallen by 80%. This streams principally from low budgetary outlays (at about 0.2% public expenditure in Myanmar, is far below regional and developing country average). According to a 1995 survey, 56.5% of Burma's injecting drug users were infected with HIV. Two years later, around half a million people in the country were estimated to be HIV-positive. Rate of infection are high and increasing among intravenous drug users and sex workers (*amid high levels of poverty, there is a flourishing trade in women and children sold into prostitution in Burma*).

Migrant workers are also a factor in spreading the disease to other groups. For several years the junta was reluctant to recognize the problem, and remains unwilling to permit outside assistance. The low expenditure of health sector indicates that people are suffering from the effect of poor health care such as high mortality rates, high infant mortality rates, and shorter life expectancy. Accesses to health services are at a precarious level and embedded still in a deteriorating situation. The World Health Organization ranks the efficacy of the health system in Burma at 190 out of 191 nations. [*Life expectancy-55.79 years (2003 est.) & HIV/AIDS deaths-65,000 (2001 est.)*, CIA-the world fact book].

4.4. Agriculture Expenditure

Agriculture plays an important role in Burma's economy and the largest contributor to its GDP growth. Rural population constitutes 73.4% of the total population and mostly engages in agriculture sector. Agricultural is also important for its overall contribution to the economy; it generate foreign exchange and many agricultural products are inputs for processing industries. Rural poverty and agricultural are closely linked in Burma: for over half of poor rural households, agricultural production is primary economic activity. And yet, agricultural growth has stagnated since the mid 1990s. The rate of growth has fallen to 2.5%. The agriculture output was 48.5% of GDP in 1988/89, 54.12% of GDP in 1993/94, and 48.49% of GDP in 1998/99. The agriculture expenditure was 11.76% of state expenditure and 1.31% of GDP in 1988/89, 10.14% of state expenditure and 1.04% of GDP in 1994/95 and 11.78% of state expenditure, 0.596% of GDP in 1998/99 and 12% of state expenditure in 1999/00.

Table 14: Agriculture Growth and Output Per Capita, 1993/94 – 1998/99

	1985/86	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
<i>Real Agric. GDP (million Kyats)</i>	22,200	22,009	23,483	24,765	25,698	26,480	27,154
<i>Agric. Output Per Capita (Kyats)</i>	589	511	535	554	564	571	574
<i>Real Agric. Output Per Capita*</i>	1.00	0.85	0.89	0.93	0.94	0.95	0.96
<i>Agric. Growth %</i>			6.7	5.5	3.8	3.0	2.5
<i>Per capita agric. Growth %</i>			4.8	3.6	1.7	1.3	0.6

Source: The World Bank Report September 1, 1999 (Myanmar an Economic and Social Assessment) * 1985=1.00 Base Year

4.5. Other Social Sector Expenditure

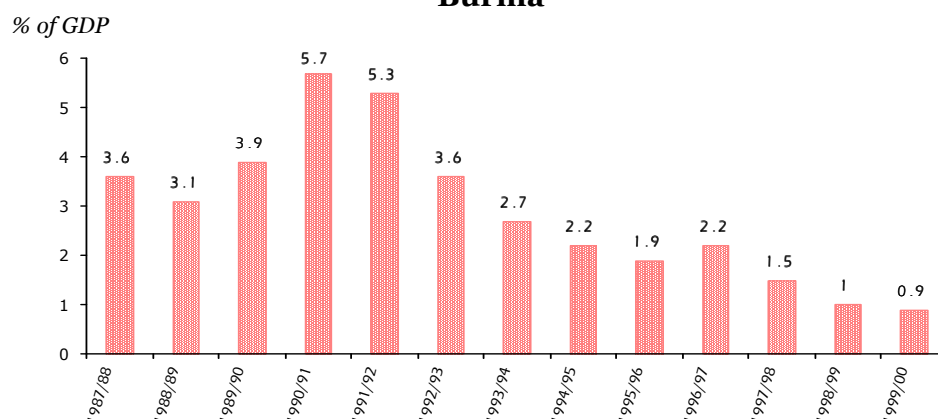
The drop in social spending in the early 1990s reflected a shift in the composition of expenditure away from social services and particularly toward defense. The junta is spending more than 50% of its budget on defense and arm procurement. Since Burma has no external enemies, most of these weapons are for use against internal ones. In contrast, less than 1% of GDP is devoted to health and education combined. No data are produced on private consumption (the junta publishes total consumption data, which group public and private consumption). However, real incomes have been eroded in recent years and consumer confidence remains poor. As a result, private consumption is likely to have stagnated; total consumption growth slowed to only 1.9% in 1997/98. The junta has claimed that fixed investment rose by 16.3% in 1998/99, slowing to 9.2% in 1999/2000. Such a strong rise seems unlikely given the collapse in foreign investment, and effects to reign in public investment spending.

Table 15. Other Selected Social Indicators (1997/98)

Indicators	Burma	Thailand	All Developing Countries
Life expectancy index	0.59	0.73	na
HDI value	0.58	0.753	na
HDI - rank	128	67	
Infant mortality rate (per 1,00 births)	80	30	64
Infants with low birth weight (%)	24	6	na
Main telephone line (per 1,000 people)	2	84	21
Televisions	3	236	95
Personal computers	<1	22	na
Internet hosts	<0.01	0.34	0.26
Armed forces (,000s)	350	306	na
Writing/Printing paper consumed	0.6	13.5	6.1
Electricity consumption (per cap/kwh)	96	1644	na
Poverty (headcount; in per cent)	22.9	n a	28.5*
Access to safe water (per cent of population)	60	n a	77*
Fertility rate (birth per woman)	2.4	n a	2.1*
Population per physician (persons)	5000	n a	1834*

Source: Burma Economic Watch, Issue No. 1, June 2001, Economics Department, Macquarie University, Australia.

* East Asia and Pacific

Figure 16: Government Expenditure Allocations to Social Sectors in Burma

The growth of infrastructure and other sectors are slow and unreliable. For example, there were only 222,082 telephones in the whole of Burma in 1997/98, the equivalent of about 0.5 phones per 100 people. Almost half of all telephones are in Rangoon. In 1999, international direct calls were permitted from all telephones, but the cost was raised sharply. The use of telecom equipment is strictly monitored. E-mail is available only in companies and some organizations, and is monitored. Internet access is not available. Transport in Burma is slow and inadequate; there were 29,370 km of roads in 1998/99. However, all but the major roads are unpaved, and during the rainy season some of the network becomes impassable. The railway network is underutilized; the network is in very poor repair and trains are slow and unreliable.

It is obvious from the above data that defense expenditure in 1988/89 was 1.64 times greater than education expenditure, 4.5 times greater than health expenditure and 1.8 times greater than agriculture expenditure. In 1994/95 it was 4.18 times greater than education expenditure, 13.22 times greater than health expenditure and 4.86 times greater than agriculture expenditure. In 1998/99 it was 4.5 times greater than education expenditure, 12.41 times greater than health expenditure and 3.75 times greater than agriculture expenditure.

According to the above official data, it is found that defense expenditure exceeds far greater than agriculture, public social and other sectors' expenditures. In 1999/00, out of the country's population of 49.13 million, the defenseman power strength was round about 470,667 (0.96% of total population) only. Hence, it is evident that junta ignores the economic, social and infrastructure development for the country's majority. In other words, the cost of achieving internal security and peace is a drain on hard earned public funds and manpower, which could have been directed, to nation building development activities or improving institutional and social capital.

Furthermore, its effect pushed the country to poverty and low living standard of the people. So, we can conclude that both defense expenditure increase and ever increasing number of armed forces personnel have totally excluded by repression the rest of the people from benefiting in the opportunities the Burmese society and economy bestows on them as rights of citizenship. The Burmese people since 1962 have been relegated to slaves and subjects of the military junta. This is the life and reality of the people now living in Burma.

5. Keeping it Together: Agriculture, Economy and Rural Livelihoods*

Burma is an agrarian society and farming, more than simply an occupation, is a way of life. While the agricultural sector continues to dominate the Burmese economy, an estimated 68% of the work-force are employed in agriculture, the agricultural share of the economy has declined from 49.5 per cent in 1970 to 42 per cent in 1999 (little difference from 48% in 1938). Agriculture, important for its overall contribution to the Burmese economy can generate foreign exchange and many agricultural products become inputs for processing industries. Yet, there has been a steep decline in rice exports from nearly 2 million tons in 1962 to only 35,000 tons in 1996 (Khin Maung Kyi et al., 2000). Growth of the agricultural sector, could stimulate rural demand for manufactured products, providing a firm demand base to expand manufacturing and exports. In Burma, the problem is that agricultural development schemes and policies are formulated by the military rulers who seek to recruit, feed and equip a huge army. The demands of the army severely strain the rural economy and impose hardships on the people.

Rural poverty and agriculture are closely linked in Burma. Three quarters of the population of Burma lives in rural areas: the majority of whom depend on agriculture for their livelihoods. 70 percent of Burma's poor live in rural households engaged in some form of agricultural production. For most farmers, the methods and structures of production have remained largely unchanged over the years. However, the numbers of people who are landless and who cultivate marginal, non-viable farms of less than two acres are increasing. Rural and agricultural incomes must be raised and become more stable if progress is to be made in reducing poverty.

The largest concentrations of poor households live in Sagaing, Bago, Magwe, Irrawaddy, and Mandalay Divisions, comprising the country's more populous rice-growing region, and the Dry Zone region. Each of these states or divisions contains

* Dr. Nancy Hudson Rodd, Dr. Myo Nyunt & Sein Htay "Impact on confiscation of land, labor, crops and capital assets in Burma" (paper - submitted to ILO via ICFTU, June 2003)

more than 10 percent of the country's total rural poor. Chin State has the highest rural poverty rate with 47 percent of the state's rural households in poverty, more than double the national average.

The lack of assets such as land or livestock is a strong indicator of rural poverty. The 1997 Human Development Index Baseline Survey (HDIBS) of 20,000 rural households found that one-third of rural households owned no land, 40 percent owned no livestock and 25% owned neither land nor livestock. Many families who do have land are also poor. Over 60 percent, or over 2.8 million of land-holding households have less than five acres, roughly the minimum sized holding needed for subsistence farming, at current levels of technology and input use. The size of a plot needed for subsistence farming varies, depends upon agro-climatic conditions. In the upper dry zone, a farm of three acres, with multi-cropping, can be sufficient. A farm of three acres is inadequate in the single-crop rice-growing areas.

Analysis of the findings of the Human Development Index Baseline Survey (HDIBS) suggests that 77 percent of rural household heads are engaged in primary production as their predominant economic activity. The share drops to 56 percent for poor rural households. The 1993 Agricultural Census found that larger farms (average 8 acres in size) tend to employ wage labor. Agricultural wages are low (between 100-150 Kyats a day in 1998, 400 Kyats a day in 2002, 450-500 Kyats (0.46-0.51 US\$) a day in 2003), and farm employment is available only a few months during the year. Many landless rural poor must therefore supplement their income with a variety of off-farm activities. For almost 40 percent of poor rural households, the predominant economic activity is in non-primary production (e.g. service activities).

5.1. Militarization of Rural Economy

5.1.1. Confiscation of land and crops

The SLORC/SPDC military regime has retained central planning and control of food production. Farmers are required to sell a percentage of their rice to the government at discount prices. The paddy procurement system is implemented by Myanmar Agricultural Produce Trading (MAPT), a state agency which, along with other arms of the bureaucracy, inherited the duty from its socialist predecessor. MAPT's national structure reaches down to the village, where it designates paddy land and collects a fixed quota based on land area. This quota rose steadily from 1988 until 1995, when it was fixed at 12 baskets per acre.

An inherent flaw in this system is the government quota calculation based on arable land area rather than amount of rice actually planted or harvested. Farmers who worked poor land, or for other reasons produce an imperfect crop, are not exempt from the quota. They fulfill their obligation by supplying paddy bought on the market. In these cases, the difference between the relatively high market price and the low government purchase rate results a net loss for farmers.

Households that fail to fill the quota face a variety of consequences. For households unable to sell the earmarked quota to the government, the local authorities, with the help of the armed forces and police, often forcefully confiscate the household's entire supply of paddy including that used for consumption and seed paddy. If even after such confiscation the quota is still not achieved, the defaulting cultivators are arrested

and their rights to cultivate prohibited. While arrests and beatings have been reported, more common is the confiscation of paddy land, for redistribution to other farmers more likely to produce.

Farmers have also been sent to labor camps to work off their debt. Majority of local military authorities are said to have ordered the rice mills to close, preventing the milling of harvested rice for consumption or trade until entire villages filled their quotas. Lastly, farmers have been threatened, scolded and publicly abused by government rice procurers dissatisfied with their quota. The authorities also force cultivators to leave their work unfinished and use them in army projects such as road building, railway track laying, and digging canals. In addition, farm workers are forced to guard railway tracks day and night for so-called security reasons. Another shameful and despicable act is the use of agricultural workers and their families as "porters" by the armed forces during their operations. Many lives have been lost as a result of exhaustion, torture, being hit by landmines, lack of proper nutrition and medical care.

The unfortunate cultivators are also required to attend so-called political rallies organized by the authorities whatever their feelings and whether their daily routine is adversely affected or not. Those who are unable to join these rallies due to sickness are compelled to give bribes to village authorities. The cultivators also are forced to provide dry provisions to the army unit posted near them and when one unit moves out and another takes place the poor farmers are called upon to pay moving expenses. This is another factor causing them a lot of difficulties and financial distress. If a cultivator is unable to perform forced labor he has to pay whatever charges are required, however harsh such charges may be. When performing the labor requirements of the troops, the farmer does not receive any payment, and on top of that is often required to shoulder numerous expenses relating to such things as porter duties. During the period of forced labor the cultivator does not get any medical attention, food, accommodation, or welfare. Because of lack of adequate food and safe living environment cultivators suffer from malnutrition, diseases, wounds from accidents, loss of limbs and in several instances, death. Without abiding by the provisions of the Tenancy Act 1963, farm lands confiscated from cultivators and newly developed land plots are re-allocated by land survey clerks and village officials to those who bribe them.

In the Irrawaddy Delta area, of southern Burma, the environment is deteriorating. Sources of freshwater are becoming scarce and there is an increasing scarcity of crabs, fish, firewood, and even vegetables for the landless and land-poor households (UNDP, 1998). Households cope with income shortfalls by migrating in search of new sources of fuel wood, crabs, and fish. In the townships of Laputta, Bogalay and Mawlamyaingyun, in the Delta, more than half of the population is estimated to be landless. One study conducted at the village level in the Delta area in 1998 estimated that agricultural labourers, with no land to cultivate and no prospects of inheriting land constituted 33% of those employed a doubling of the number of people working as labourers in 1974-75 (Myat Thein & Maung Maung Soe, 1998). Many marginal farmers engage in fishing or crabbing. Those who fish, usually do not own their fishing gear or boats depending on fish traders for such resources. Some households raise pigs, chickens, or ducks. Others cope during the slack farming season by borrowing from better-off farmers: loans being paid back in kind through labour, or through a portion of the paddy crop. The effective interest rate charged by fish traders, rice traders and others in these loan arrangements typically amounts to 10 percent a month.

Moreover, taxes are collected in unconventional ways in Burma, as evidenced by the procurement system in agriculture, which mimics a land tax. As a result, the ratio of tax to GDP understates the actual extent of taxation. At the same time, generous tax exemptions were offered to investors in large-scale agricultural projects. Efforts to improve agricultural performance could concentrate on improving productivity on land already cultivated, or developing new lands for cultivation. The junta has adopted a policy that stresses the second option.

Under a land reclamation program that began in late 1998, the junta has decided to develop large tracts of land to be farmed by private entrepreneurs. A large portion of the country's 22 million acres of currently vacant cultivable land is considered potentially eligible. The land includes wetlands, coastal land, and dry zone land not under cultivation. To date, around 1.1 million acres have been allocated to some 80 business groups. Most holdings are around 3,000 to 5,000 acres, though a few are much larger. The socialist-era reassignment of arable land to productive farmers has taken a new twist in the late 1990s: corporate rice farming. In January 1999, the SPDC announced that 200,000 acres of paddy land in Irrawaddy, Rangoon, and Magwe Divisions had been transferred to nine unnamed entrepreneurs licensed by the SPDC to reclaim "wetlands and vacant, fallow and virgin lands."

Photo: Confiscated lands form villagers of Myingyan Township, Mandalay Division



Source: FTUB

According to the World Bank report September 1, 1999, in recent years, growth has not benefited the poor, an acute currency shortage has emerged, and private capital flows have collapsed. This is not just because of the East Asian crisis whose impact is contained by the fact that Burma is weakly integrated in the regional economy. A more important reason is that second generation economic reforms addressing structural rigidities in the macro-economic framework, in agriculture, in private sector development and in shifting the government's role in the economy, have not been implemented. Instead, the authorities are responding to the economic difficulties with ad hoc measures that are further distorting incentives and impeding poverty reduction and human development.

5.2. Military Agricultural Projects

In 1997 over 1,000 acres of land between Kayon Taung and Kaw Bwee Taung villages, Kyeikmaraw Township, Mon State were confiscated by the South-eastern military Commander. The land was allocated to the military Battalions under the command of government departments, the Navy and the police force for self-reliant agricultural projects and the villagers of these areas to cultivate for them. As the civilians also have their own land to work for their survival, the village headmen collected money and hired people who were able to work on the military run projects; therefore, each village tract spends approximately 300,000 Kyats every year for hiring people and other

expenses^{**}. And in early 1999, SPDC troops of IB 245 confiscated 60 acres of rice fields from the Shan villagers of Wan Pawm, Tin Thaat and Waeng Sun villages in Kaeng Taung, Shan State. After that, the troops forced the villagers in the area to lease the land to grow rice at the rate of 2,000 Kyats per acre per year or for one harvest. (Source: SHRF)

Photo: Brick farm of No. 545 battlefield military weapon stockade, Ngantay village, Moulmein Township, Mon



Source: FTUB, Mon Region

Photo: Military owned UMEH's Padonmar soap factory, near Thelphyugone village, Paung Township, Mon State



Photo: Gas pipeline crossing on private farm, Nyaungbinseik & Kyawechangone village, Kyeikmaraw Township, Mon State



Photo: Confiscated lands by Unocal Co Ltd from villagers, Kanbouk, Tennarisam Division



^{**} Source: HRDU

Photo: Confiscated palm gardens for Ngwe Saung tourism sector by private Co. Ltd from villagers, Ngwe Saung village, Irrawaddy Division



Source: FTUB

5.3. Procurement

Two types of implicit taxes are levied on rice production, both of which reduce incentives to produce rice. The first is an implicit tax on land used for rice cultivation, which arises from the difference between market prices and procurement price at which Myanmar Agricultural Procurement Trading (MAPT) compulsorily acquires rice from farmers. The second is an implicit rice export tax, which arises from the difference between domestic rice prices and f.o.b. export prices. MAPT procures paddy from farmers according to compulsory procurement quotas that are fixed per acre and reflect land quality.

The government's procurement system practiced since 1973 will be abolished by the end of 2003 when the harvest season starts, according to the government announcement^{††}. However, it is not clear whether farmers will benefit from its measure due to its ambiguity and complexity. These rice procurements are used for export and to supply civil servants and other fixed-income groups with rice at subsidized prices [*Approximate disbursement of the 1.2 million metric tons of milled rice equivalent (2 million tons of paddy) procured in 1998/99 was: subsidized distribution, 0.7 million tons; export; 0.1 million tons; additional to stocks. 0.2 million tons, and commercial domestic sales, 0.2 million tons*].

The procurement price in 1998/99 averaged 320 Kyats per basket of paddy - the same as the previous year. It will be retained for the following crop year as well [*Performing the above calculation for delivery to the port, this rice costs MAPT around US \$ 88 delivered at the port. At f.o.b. US \$ 200, the implicit rate of export tax on this rice is 56 percent*].

At farmgate prices of 500 Kyats per basket, the procurement price is equivalent to a 36 percent tax on the market farmgate price [*At a farmgate price of 600 Kyats the implicit tax is 47 percent*]. Since the procurement quotas at these below-market prices are fixed per unit of paddy land, the system is also equivalent to/ a land tax. *Farmers required to deliver 12 baskets per acre, the equivalent tax is 2,160 Kyats per acre, assuming a market price of 500 Kyats and a market price of 600 Kyats the equivalent tax is 3,360 Kyats per acre.* [At the moment-current year 2003, a market price of 3,000 Kyats the equivalent tax is 32,160 Kyats (5,360 US \$ per acre at official rate & 35.73 US \$ per acre at market rate)].

^{††} SPDC banned paddy export on 1 January 2004.

Table 16: Burma's Implicit Rice Export Tax

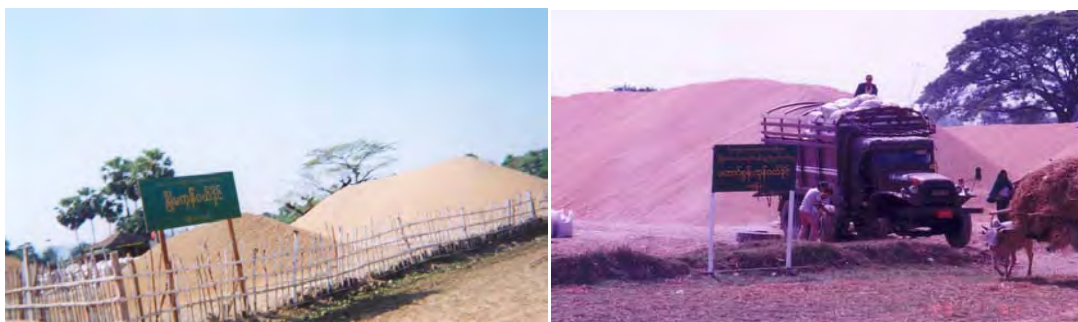
	Kyat/Basket of Paddy	Kyat/Metric Ton of Milled Rice	US\$/Metric Ton of Milled Rice
Farmgate price	500	40,000	
Transport, milling and handling		4,400	
Total cost at port		44,400	136.60
FOB export rice			210
Implicit export tax			$(210-130.60)/210=38\%$
Farmgate price (for 2001/02)*	1,000	100,000	
Transport, milling and handling		4,400	
Total cost at port		104,400	130.5
FOB export rice			210
Implicit export tax			$(210-130.5)/210=37.86\%$

Note: *for 2001/02, calculated by authors

Source: Myanmar: An Economic and Social Assessment, September 1, 1999, The World Bank

The impact of this tax on farm incomes depends on the quantities procured at these prices. Overall, around 10 percent of the total crop is procured in this manner, ranging to a high of 20 percent of output in highly fertile areas. Implicit transfers are being made from low income agricultural producers to civil servants and the military. The system has a perverse effect on the quality of rice available for export and for distribution to civil servants. Because the procurement price is so low, farmers have an obvious incentive to supply their worst rice to the procurement agency, subject to meeting minimum quality requirements. Because MAPT is the sole exporter, this rice becomes the stock available for export, with obvious consequences for the prices subsequently received from foreign purchasers and the international reputation of Burma's rice.

Photo: Paddy procurement centers, Myoma, Moulmein Township & Taungzun, Thaton Township, Mon State



Source: FTUB

The degree of taxation of rice exports implicit in the rice export monopoly can be calculated by comparing f.o.b. prices with domestic prices of rice of similar quality. In 1998/99, domestic farmgate prices of export-quality rice currently average around 500 Kyats per basket of paddy. Around 80 baskets of paddy produce 1 metric ton of milled rice, so this farmgate price is equivalent to 40,000 Kyats per metric ton. MAPT reports that transport, milling, and handling costs for delivery to port of 4,400 Kyats per metric ton, bringing the domestic price, landed at the port and comparable to the f.o.b. prices cited above, of 44,400 Kyats per metric ton. At the current market exchange

rate, this converts to f.o.b. prices of US\$ 130.60 per metric ton. The implicit export tax is thus 35 percent for a US\$ 200 a ton, [Recalling that MAPT procures rice at Kyats per basket, the above calculations imply a cost, delivered to the port, of US\$ 88] 38 percent at US\$ 210, and 41 percent at US\$ 220.

5.3.1. Farmers tortured in Mon State

It is reported that a 78-year-old farmer of Kawthut village, Kyeikmaraw Township in Mon State was arrested and tortured on March 7, 2003 for not able to sell rice quota to the government. He had to be hospitalized for a week at Kyeikmaraw hospital. [U Lar possesses 14 acres of wetland paddy fields and he was accused of failing to sell the allotted 168 tins (bags) of rice to the government. He was taken to Nyaungpin Seik police Station and beaten up by station administrator, Maung Toe. Other three farmers were also arrested with him and released after they promised to sell the full quota to the government. Another police administrator from the near by police station and local authorities including U Maung Shin, Township Manager of MAPT were said to be involved in the arrests. The chairman of the local authority told U Lar that if the farmer gives them 550,000 kyats, he would be released but he was arrested because he gave them 250,000 kyats and 100 tins (bags) of rice. The farmer was beaten and kicked the whole night by the police and he had to be treated in Kyeikmaraw hospital the next day and after a week he was discharged from the hospital on the 15th of March. The wounds and pains from beatings and kicking are so severe that he is said to be still suffering. (Source: FTUB, Mon region)

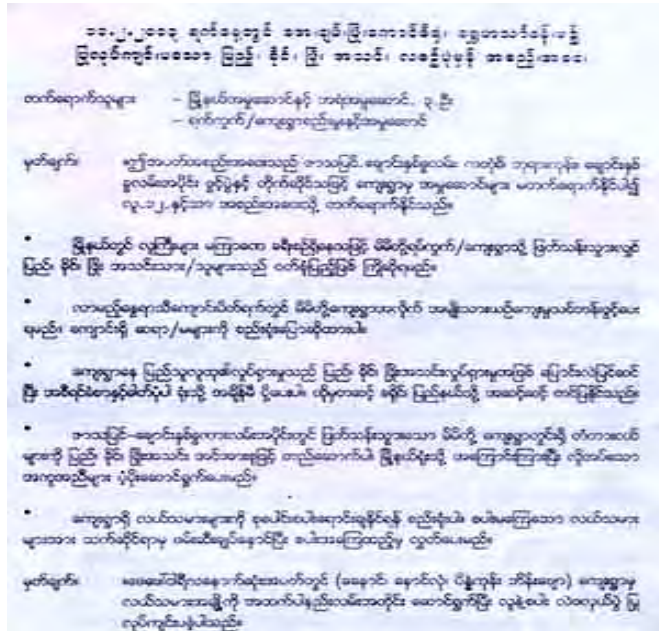
Photo: U Lar at the Kyeikmaraw hospital, Mon State on 10/3/2003



Source: FTUB (Mon region)

5.3.2. Paddy procurement program in 2003

Rice exports fell by 13.7% year on year in volume terms in the first 11 months of 2002/03 to 692,500 tons. Exports for the full year will therefore fall far short of the previous year's total-in 2001/02, after years of stagnation, rice exports emerged once again as an important export commodity, with shipments reaching 939,100 tons. Flooding in mid-2002 may be one factor behind the slowdown in 2002/03. The SPDC may also have decided to slow the pace of rice exports in a bid to ensure adequate domestic demand, fearing that a spike in prices could result in social unrest. Anecdotal evidence in early 2003 suggested that some regions were experiencing drought and rice shortages. Even if growing conditions improve, rice exports may slow further if the SPDC uses its rice stocks to reduce domestic price increases. The SPDC has indicated that it plans to cease implementing its paddy procurement policy, which entitles the government to purchase 10% of overall paddy output at officially fixed and deflated prices in 2003. But, SPDC banned the rice export on 1 January 2004.



Note; In this meeting, one of the main issue was that

"Farmers in the village must be persuaded to sell the rice to the state. If failed to sell their quota, farmers would be arrested. Only when they sell their quota, they will be released".

5.3.3. Other crops: Government agencies also have a monopoly on exports of cotton, rubber, jute, and sugar. The effect is to depress domestic prices relative to export prices. For several other commodities, domestic prices are controlled through intermittent export bans. Oil seed exports, including sesame, groundnuts and Niger beans are frequently banned without prior notice, sometimes even after shipments have already been loaded.

6. Forced Relocation and Disparity of Income and wealth

The SLORC declared the year 1996 as “The Visit Myanmar Year” to capture foreign exchange from the tourists. Since 1989, the military junta has been launching the beautification program of Rangoon and other cities across Burma by forcefully relocating and inducing voluntary relocation to new satellite towns. There are ten satellite towns around Rangoon alone to which almost half a million population has been relocated. Similarly, satellite towns were created around the famous ancient city of Mandalay in Upper Burma, forcefully relocating the residents to attract and accommodate Chinese and other foreign investors as well as tourists. The junta claimed that most of the evicted were squatters and fire victims who were not allowed to re-acquire their old plots of land. However, the Burmese nationals reported that among the forcefully evicted were regular homeowners. The forcefully their homes were well below their market values. They were also asked to pay for the new plots of land in satellite towns. If they could not pay, they were moved further away and forced to settle in shabbier satellite towns outside Rangoon division.

Also, the villagers and residents living at ancient tourist sites, such as Mandalay, Pagan, and Amarapura in Upper Burma, were forcefully relocated for the purpose of renovating these sites for tourist attraction. The central feature of the satellite towns created across Burma is that modern homes of military commanders and high ranking government officials are built along the main highways and railway tracks with access to electricity, telephone, and water supply. On the other hand, the homes of forcefully

relocated people are built with traditional bamboo and thatches that are located far away from the main roads with no electricity and water supply. Military elites and high ranking officials secured low-interest mortgage loans from state banks and building materials at subsidized prices to build two to three homes in the best sections of these satellite towns. They would either sell these homes to make abnormal profit or maintain absentee ownership of unoccupied homes and rent them out to foreign businessmen and diplomats to earn foreign exchange.

The policy of SLORC/SPDC, confronted with any form of armed resistance, has amounted to "drain the ocean so the fish cannot swim"; in other words, to undermine the opposition and attack the civilian population until it can no longer support any opposition (especially, Karen, Karenni and many Shan areas). In the early 1970s the SPDC's predecessors implemented the "Four Cuts" policy which is still in effect today. The Four Cuts aim to cut the supplies of food, funds, recruits and information to resistance groups by systematically terrorizing, controlling, and impoverishing the civilian population in resistance areas so that they have neither the opportunity nor the means to provide any form of support to the opposition. The main pillars of the Four Cuts policy are; detention, torture and execution of villagers and village elders perceived as having any contact whatsoever with the resistance; systematic extortion and pillage of the villagers' crops, food supplies, livestock, cash and valuables; forced labor to get the civilians working for the army and deprive them of time to do anything else; and, increasingly, forced relocation to sites and villages directly under the control of the SPDC military troops.

The SPDC's plan for relocation over areas where there is resistance appears to consist of the following steps; (a) mounting a military offensive against the areas; (b) forcibly relocating villages to sites under direct army control and destroying the original villages; (c) using the relocated villagers and others as forced laborers for portering and building military access roads into their home areas; (d) moving in more army units and using the villagers for forced labor to build bases along the access roads; (e) allowing the villagers back to their villages, where they are under complete military consolidating control through "development" projects like forced labor farming for the army, etc. If resistance attacks still persist at this last stage, retaliation is carried out against villages by executing village elders, burning houses and other means.

Photo: The village was burnt by the SPDC soldier in Karen area



These relocations have often been accompanied with other forms of human rights abuses. After relocation orders have been issued and people have been expelled from their homes, SPDC has declared expansive areas as "free-fire zones"— anyone who tried to remain in their homes can be shot on sight. Relocated persons are not compensated for their homes nor are they given enough time to collect all of their belongings. Nearly all of the villagers must leave behind the majority of their

belongings, including their livestock. Often people must also leave behind elderly and sick relatives. Once they leave their village, SPDC troops pillage the villages' homes and burn them to the ground.

Forced labor is commonplace in and around the relocation camps. The SPDC troops force the villagers in the relocation sites to work on a daily or weekly basis; generally one person from each family must go. This forced labor includes clearing bushes and trees from the roadsides both inside and outside the relocation sites, cleaning military buildings, cultivating land for the military bases, hauling water for the troops, building fences around the military camps, digging bunkers, road construction, pottering for the military and other general servant work. The villagers are also being used to work in the infrastructure projects in the area. The villagers at the relocation sites have no land there and paid day labor is difficult to find, so most of them try to return to their home fields to farm. This requires a pass, which must be bought for varying amounts from the local SPDC military. When available, these passes are only valid for three days to a week, and they do not allow the villagers to spend the night; people are only allowed to leave the relocation site after 6 a.m. and must return by 6 p.m.

In March 1996, the military of SPDC delineated a huge area of central Shan State and order the forced relocation and destruction of every village in the region, whether or not these villages had had any contact with SURA. Over 700 villages were relocated and destroyed, with well over 100,000 people displaced. Throughout 1997 and 1998 the SPDC, expanded the target area and also forced people who had already been moved to relocate again into larger sites under more direct military control. By mid-1998, over 1,400 villages in eight Townships had been forcibly relocated and destroyed, displacing a population of at least 300,000 people. Tens of thousands of people were struggling to survive in relocation sites throughout the region, foraging for food and begging from cars passing on the roads. The SPDC provided them nothing. Those who tried to hide in the forests around their villages were shot on sight by SPDC patrols, and in some cases there were systematic massacres of as many as 40 people at a time. AT least 100,000 people fled across the border into Thailand; the SPDC troops allowed them to go, happy to see the Shan people leaving Burma.

While the SPDC's tactic of destroying civilian villages to root out the Shan State Army (SSA) South has been to continue the relocation of villages within the specified relocation zones, and to intimidate or terrorize villagers into not returning to their homes. The village forced relocation region spans roughly 7,000 square miles (1,800 square kilometers) in the heart of Shan State. Since 1998 the region has not expanded significantly in size, but more and more villages within the relocation zone have been cleared, and relocation sites have been consolidated from smaller sites containing one or two villages to larger sites in main towns or near military bases. SPDC patrols roam the region, burning whatever is left in villages and shooting villagers they find on sight. Most of villagers in this are have been homeless since the operation began, and the displacement is taking a fatal toll.

The effect of these strategies on rural subsistence farmers is devastating. Anywhere from 1 to 4 million people are internally displaced within the country, over 100,000 are in refugee camps outside the country, while at least a million more (many of whom fit the definition of refugees) are working illegally in neighboring countries. These people have not fled their villages because of fighting; if there is fighting around their village they just run to the forest for a day or two and then return. They flee because they can no longer survive. Those who are order to move to military sites find that

nothing is provided, that they are used for forced labor almost daily and that they eventually have to flee or starve to death. Knowing this from experience, most villagers flee into the hills when ordered to relocate and live in hiding, while SPDC patrols come through to burn their villages and food supplies, uproot their crops and shoot villagers on sight if they find them. This is currently happening to the people of an estimated 1,500 villages in Shan State, 200 villages in Karenni (Kayah) State, 200 villages in northern Karen State and eastern Pegu Division, 50-100 villages in central Karen State, and 100 or more villages in Tenasserim Division.

People in villages which are under complete SPDC control and are not forced to move are also fleeing, even from areas where there is no fighting whatsoever. They flee because they are ordered to do so many forms forced labor for all of the different military camps in the area that they can no longer grow their own crops or earn their own living. They also have to pay miscellaneous fees of 500 - 1000 Kyats per family each month to the military and must regularly supply building materials and food to each nearby military camp. At the same time they must hand over crop quotas to the military and the authorities each year either for nothing or for 20-25 percent of market price; if the crop fails they must buy the food in the market to pay the quota or face arrest and confiscation of their land.

Photo: Mae Hla refugee camp and their livelihood, Thai-Burma Border



Source: Economics & Research Dept; FTUB

7. Poverty in Burma

Burma does not have any statistics on poverty. This means it has no official poverty line in terms of estimates based on the World Bank's US 1 \$ per day in purchasing power parity (PPP) prices. However, UNDP surveys estimated poverty level of Burma using indicators such as head count index (percentage of household in poverty), share of households with below average expenditures, share of households with expenditures less than 10% above minimum subsistence, and share of households below food poverty line (See Table 17 and 18).

According to these tables, about 23 million people, or almost one quarter of the total households in Burma, live below subsistence minimum. If the subsistence minimum line is used as poverty line, about 45% of total population could be considered as poor. If those whose levels of spending are not significantly above (10 percent) minimum subsistence are included, the estimated poverty incidence jumps to about one in three households (World Bank Report on Myanmar, August 1999).

Table 14 also suggests that one in five households reported spending less than official estimates of nutritional subsistence levels. However, based on UNDP-financed Human Development Baseline Survey (HDBS) and other proxy indicators, The World Bank reported that an estimated one in four could be considered as poor in Burma. Another way of looking at the extent of poverty is to assess the basic need indicators such as life expectancy at birth, infant mortality rate, and economic growth rate. These indicators for Burma and neighboring countries are shown in Table 15. The table suggests that even though Burma's basic needs indicators have improved during the last decade, the improvements have been much less impressive than in many of its neighboring countries.

Table 17. Estimated cost of food and Subsistence Minimum Requirements, 1997 (Kyats)

	Total	Rural	Urban
Daily minimum food subsistence	42.95	40.71	48.47
Subsistence minimum (food + 25%)	53.69	50.89	60.59
Monthly subsistence (family of 5.25)	8456.18	8015.18	9542.93
Average monthly expenditure	13,784.50	13091.00	15266.00

Source: The World Bank, "An Economic and Social Assessment", August 18, 1999

Table 18. Poverty Headcount Index and Sensitivity Estimates, 1997

Indicators	Percent
Headcount index (percentage of households in poverty)	22.9
Share of households with below average expenditures	58.2
Share of households with expenditures less than 10% above minimum subsistence	33.9
Share of households below food poverty line	19.6

Table 19. Poverty and Human Development in Burma and East Asia, 1970-98

	Life expectancy at birth rate(year)		Infant mortality (per/1000-lives/births)		HDI value	HDI rank	Rate of economic growth (period-average-%)		
	1970	1993	1970	1993	1997	1997	1970-80	1981-90	1991-98
Burma	50	60	122	79	0.580	128	4.7	1.8	5.8
East Asia	59	68	76	34	na	na	4.8	4.7	2.6
China	62	69	69	31	na	na	7.0	9.2	10.8
Indonesia	48	63	118	56	0.681	105	7.9	6.4	4.3
Lao PDR	40	51	146	95	0.491	140	-	10.5	6.2
Malaysia	62	71	45	13	0.773	56	7.7	6.0	6.6
Philippines	57	67	71	42	0.740	77	5.7	1.8	2.7
Thailand	58	69	73	36	0.753	67	7.5	7.9	4.9
Vietnam	49	65	111	41	0.664	110	-	4.6	8.1

Sources: 1. The World Bank, "An Economic and Social Assessment", August 18, 1999. 2. UNDP, 1999

Table 20. Education Level of Household Head, by Poverty Status, 1997

	Poor	Non-poor	Total
Literate	1.1	1.3	1.2
Grade			
1-4	73.1	69.4	70.2
5-8	13.0	15.4	14.7
9-10	9.7	10.8	10.6
University	2.9	3.2	3.1
Total	100.0	100.0	100.0

Source: The World Bank, "An Economic and Social Assessment", August 18, 1999.

Another source (UNDP: Human Resource Development, 1992) gave the Human Poverty Index (HPI-I) as 27.5 percent and 40 percent of total population was under poverty line. The problem of poverty in Burma, like in most of Asian countries, is largely a rural problem since 75 percent of the population lives in rural areas and only one third of that population work on farm of 3 acres or more. According to the 1993 Agricultural Census, 37 percent of the rural poor about one-third of the landless has neither land nor livestock. They could be considered as rural population under poverty line. And out of these landless families, about one third often find very difficult to get full time employment. Even one third of the farm families with less than 3 acres of land have almost no access to credit, new varieties of seeds (HYVs), chemical fertilizers, or pesticides. Moreover, about 68 per cent of people are without access to safe water and about 65 per cent of the people have no access to sanitation.

How to combat this poverty problem in Burma? It is a complex problem involving economic, social, cultural, psychological, and political dimensions. Experience of East Asian countries suggested that those countries, which achieved sustained growth, were successful in reducing poverty. In Burma, overall economic growth in rural sector is the key to poverty alleviation in Burma. Secondly, experience of East Asia showed that some type of social safety net program is very helpful to contain rural chronic poverty. Thirdly, various types of social investment programs for improving education, health, nutrition, and family planning can contribute poverty alleviation. Moreover, urban poverty issue should also be tackled with employment enhancement "pro-poor" policies are also needed. As regards to macroeconomic issues, issues such as high military expenditure, budget deficits, increasing money supply, low revenue collections, corruption, etc., should be addressed. To handle these issues, Burma needs democracy and peace. And to attain democracy and peace, military regime should pave way for the democratically elected government.

8. Conclusion

The junta's grip on the border regions remains tenuous, as ethnic tensions and strife continue. In the border areas, agricultural land tends to be less productive, investment has been very low, infrastructure is extremely poor and the tourism sector remains undeveloped. The opening of several trading posts along the borders with China, Thailand and India has allowed pockets of prosperous activity to spring up. However, security problems have resulted in the frequent closure of these border crossings. Some border regions do, however, have quite large informal and also illegal economies (the latter based around the smuggling of timber, gems & jades and opium). The junta has not tackled economic reform, according to the EIU country profile 2000, the following policy problems remain unresolved:

- * The junta has failed to improve its budgetary management, resulting in wide budget deficits and continued strong money supply growth.
- * Health and education spending remains very low.
- * Although the private sector now accounts for around two-thirds of GDP, junta interference in many sectors continues.
- * Poor data hamper decision-making; data availability deteriorated during 1999/2000.

It is found that although FDI decreases, the GDP and foreign trades are increasing. This shows that decrease in FDI does not effect the current economic condition of the country's majority of the people, especially in the rural population. In other words, the economic sanctions would only effect the military, the military owned Union of Myanmar Economic Holdings Limited (UMEH) and Myanmar Economic Corporation (MEC), the generals and their drug lord cronies.

On the sharp reduction in the FDI inflows and increasing poor economic condition, the State Peace and Development Council (SPDC) one sidedly puts the blame on the democracy leader Daw Aung San Suu Kyi who has been calling for the imposition of economic sanctions on the country. The accusation is wrongly placed because the reduction in FDI is caused by the military's wrong economic policy, huge corruption between military junta, mismanagement of economy and red-tape control by the junta. The so-called open market economy turns out to be a closed-door economic policy, in practice. This error in judgement can clearly be seen in the lack of IMF and WB cooperation / loans due to the junta failing to reform its economic policy.

At the same time, the majority of the FDI goes directly to the military set up UMEH, MEC which keeps the military strong, directly encouraging the violations of human rights and workers rights in Burma by the military. Burma's deplorable human right situation did not otherwise measurably improve. Politically motivated arrests continued throughout the year. Torture, arbitrary detentions and execution, and forced and compulsory labor persisted. Junta routinely employs corvee labor on its myriad building projects and officials at time accept bribes to excuse people from work.

Whom does sanctions hurt? Sanctions bring blows to the foreign companies who entered into joint ventures directly with the military regime, businessmen close to the junta and the drug lords who collaborate with the generals. It is earnestly requested here that individual governments, employers and worker organizations of ILO

member states adopt severe economic sanctions against the illegitimate junta as this is the only way to stop the flow of income to the military machinery and will enhance dialogue between the stakeholders and on the urgent need to combat poverty and respect trade union rights. The preliminary but relevant conclusions we can draw from the first stage analysis of the data and information is

- through predatory rent seeking systematic acts of subordinating the public interest for their own private military organization gains
- the SPDC military status class and their parasitic bureaucracy and welfare organizations by the
 - (1) Confiscation of land, agricultural produces and farm-household assets
 - (2) Use of forced labour, suppression of workers' rights and acts of human indignities such as torture and rape
 - (3) Pervasive corruption, resorting to administrative secrecy for control
 - (4) Imagined -false military national security objectives

The social cost and unnecessary continuing human suffering and economic hardships, the increasing national burden has to be borne by the most vulnerable group, the farmer and worker-labourer living in the rural and border areas of Burma's society and polity. The un-stately SPDC military regime if not removed would further undermine the emergence of a civil society and mis-govern through central control and command, confiscation and corruption, denying systematically the formation of social capital and the rule of law. Only a democratic political space can bring about the wellbeing and flourishing of the common people of Burma, the majority that are still suffering under the military regime.

The process of militarisation by the use of force and deception since 1962 continues. The human rights and civil liberties is continuously suppressed, and the basic freedoms of speech, assembly, association, population and labor mobility, and violation of workers has prevented the emergence of civil society and humane governance in Burma. The people of Burma are not yet free citizens but slaves of the masters - still under the rule of the military regime based on the its creed of exclusion of others threat they desire to discipline.

The continuing and present acts of resistance and opposition, against the SPDC military regime by the democratic forces led by Daw Aung San Su Kyi to bring about democracy and human rights in Burma will succeed.

"Democracy is within our reach, we will get there at any rate."

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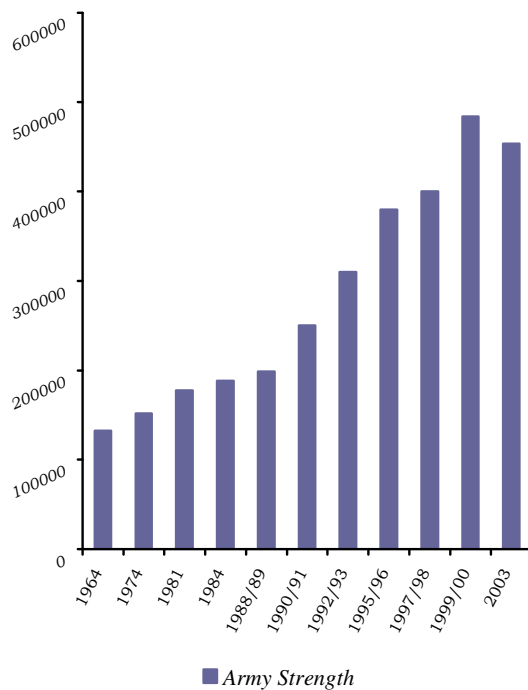
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Appendix:1 Heroin production in Burma

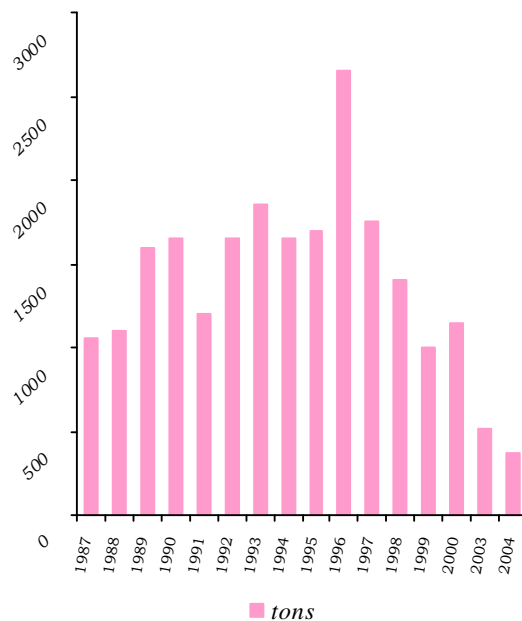
Under the rule of the military junta, Burma has become the world's heroin capital. Heroin production has leaped nearly 400% since the SLORC declared itself Burma's government after massacring thousands of pro-democracy demonstrators in August and September of 1988. This unprecedented surge in Burmese drug production is fueling an alarming global increase in heroin use. Burma's drug lords are now major investors in the country's economy, and Burma's army rulers are clearly abetting and benefiting from the heroin trade.

The "Golden Triangle" has long been an important heroin producing area. Local farmers rely on the poppy crop for a small income but most of the immense profits from heroin trafficking have always gone to some ethnic opposition armies and to military or government officials who promote or tolerate the trade. The area is now also becoming a major illicit manufacturer of methamphetamine, or "speed."

Military strength in Burma (1964-2000)



Opium production in Burma (1987-2004)



In 1989, the regime negotiated cease-fire agreements with several ethnic groups. The pacts allowed the United Wa State Army (UWSA), the Myanmar National Democratic Alliance Army of Kokang (MNDAA), and others to trade freely within Burma without governmental interference. The agreements also allowed opium cultivation--to continue for at least ten years. In many cease-fire areas, opium production has risen sharply, promoting a massive expansion of Burma's heroin production. The pure and cheap drug is available in greater quantities in Burma and around the world. Burma's Asian neighbors, including Bangladesh, India, China, Thailand, Malaysia, Singapore, Cambodia and Vietnam are all increasingly affected by the rising tide of heroin exports, addiction, AIDS, and corruption linked to the drug trade.



Hard evidence to back persistent allegations that the junta takes huge profits from heroin exports is not publicly available and earnings from drug smuggling may now exceed those from all of Burma's legal exports, and are in effect criminalizing much of Burmese economy. Immense heroin profits are allegedly laundered through Burma's weak and ill-regulated banking system. Since cease-fires with Wa and Kokang armies came into effect, Lo Hsing Han and other reputed drug lords with close ties to the Burmese generals have invested heavily in hotels, transportation, jade and gems, garments, local petrol distribution, even agriculture and other businesses.

A long-time leading heroin trafficker, Khun Sa or Chang Chi Fu or Som Changtrakul, surrendered to the junta in January 1996. Khun Sa had long been denounced by SLORC (SPDC) and is under indictment in the United States for conspiracy to smuggle heroin. American demands for Khun Sa's extradition have been dismissed, and he has embarked on a comfortable new life as a businessman in Rangoon while enjoying the fruits of his long involvement in the drug trade. And despite Khun Sa's surrender, there is no reduction in heroin production in southern Shan State, now mostly controlled by the Burmese Army.



In addition, another drug lord, Wei Hsueh-Kang—born in China, U S which is offering \$2 million for information leading to his arrest and he was allied for a time with Khun Sa in the 1980s. Wei was arrested in 1988 for the seizure of 680kg of heroin in Thai, but jumped bail and fled in Burma, joined UWSA as a commander and powerful businessman in Burma now. Fugitive Wei owns joint venture—Hong Pang, doing much business with junta and often traveled freely between Thailand and Burma, had close links with power businessmen. At the moment, Thai police have mounted a series of raids to seize the assets of Wei and his allies, cash, shares, land and jewellery worth more than 340 million baht (around US\$8 million) have been captured.

Appendix: 2 Economic Institutions set up by the Military:

Union of Myanmar Economic Holdings (UMEH) Ltd & Myanmar Economic Corporation (MEC)

The UMEH Ltd was formed on 27 April 1990 as a commercial arm of the Burmese military by shares, such as the directorate of defense procurement (40%), ministry of defense regimental institutes or any member of the defense services and war veterans [(organization or individually) (60%)]. The aim of UMEH was to provide extra-budget income to finance army expansion, UMEH controls the lucrative gem & jade trade in Burma, and all major foreign investors enter the Burmese market via a joint venture with this company. Since there is no public reporting of UMEH finances, it represents an immense extra-budget slush fund controlled by the military leadership, which no doubt has helped to ensure the continued loyalty of officers.

The objectives of UMEH are (1) to support the 4 economic objectives laid down by the State (2) to support the military personnel and their families. (3) to try to become main logistics and support organization for the military by gradually establishing industries.

The authorized capital of Kt 4 billion out of Kt 10 billion (US\$1.6 bn at the official exchange rate) is reserved for the ministry of defense. The UMEH posted net profit of Kt 107.9 million and distributed 30% dividend in 1995/96. The cabinet meeting No. 14/95 held on (7-4-1995) decided to exempt Commercial Tax and Income Tax to UMEH since 1995/96 fiscal year. The UMEH Ltd is monopolizing the state economy in 3 types such as 100% owned companies, subsidiary companies and affiliated companies. It has a bank, a trading company, a travel and Tours Company, and a PVC pipe company. It has a right to extract gems and jades from various gem lands in Kachin and Shan State.

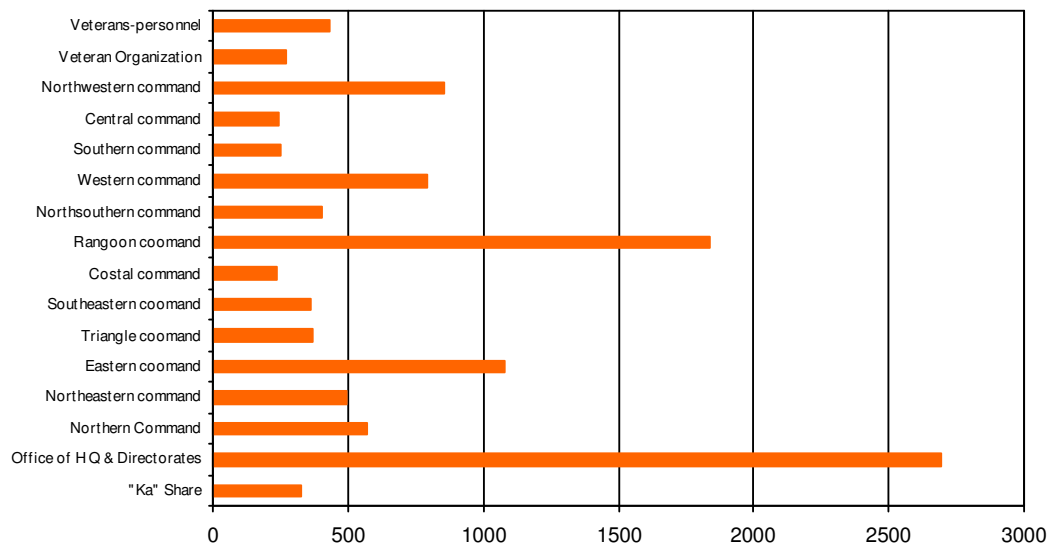
In 1995/96, the UMEH's total investment was US\$ 58.78 million and Kt 44.5 million and the profit was US\$ 9.6 million and Kt 7.2 million. The company for travel and tours began the first helicopter passenger service in Burma. Its affiliated companies manufacture various types of garment and exported to USA, Canada and Europe. In 1995/96 it received US\$ 2.8 million from cut/ make/ pack/ - CMP of garments alone. It has also set up joint ventures to produce Rothmans cigarettes and Tiger, Anchor and ABC Stout beers. It has about eight on-going projects and has signed Memorandum of Understanding (MOU) with thirty companies. UMEH has engaged in small industries so far under various joint ventures arrangements. It is planned that it will build medium industries and later heavy industries like cement, GI-sheets, fertilizer plants, iron and steel mills, rock crushing machines, car industry and packing industry, thereby to become the main logistics and support organization for the Burmese military in the future.

In order to prepare for a soon to be emerged stock exchange, a publicly listed company



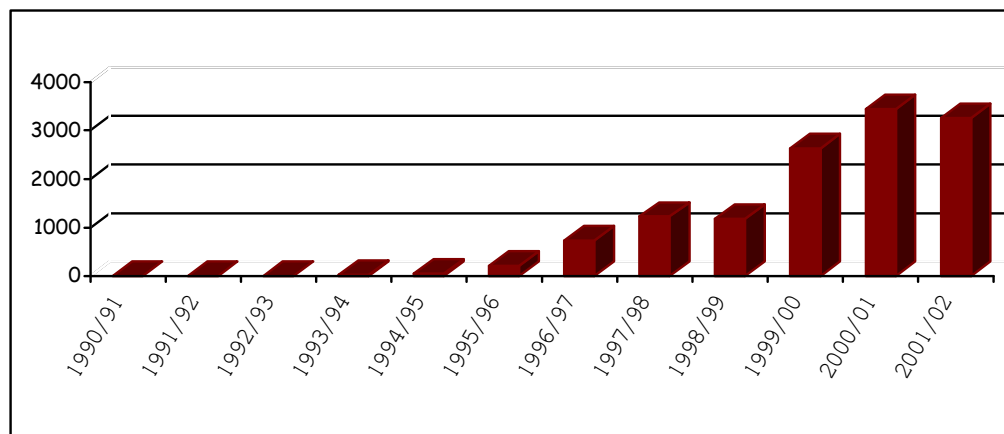
will be set up under UMEH. It will try to get sole agent rights from companies from countries like PRC, Poland, Czech, etc. At present, Skoda Co has agreed to give sole agent right for generator pump. Komatsu of Japan has agreed to invest in Burma and UMEH is to assist the company in 1996¹. Military regime, in order to monopolize state economy, created MEC as a branch of UMEH in 1997. In 2000, UMEH and MEC owned 16 Co. Ltds and 31 joint ventures Co. Ltds. It has 3 banks, a television station, 6 beer Co. Ltds, a petroleum distribution Co. Ltd, 2 Car Co.Ltds, 3 gems & jades Co. Ltds, 2 travel & tours Co. Ltds, a sugar factory, 2 steel factories, 2 communication Co. Ltds (including mobile phone), a insurance Co. Ltd, 3 cement factories, 3 garment Co. Ltds, a cigarette Co. Ltd and other 16 Co. Ltds².

**Organizations & commands of defense ministry's share buying from UMEH
27.4.1990 to 31.3.2002 (kyat/million)**



Source: : UMEH 12th annual report, 2001/02, Yangon, Union of Myanmar, 3 June 2002.

**Burma: Military Owned - UMEH's Annual Total Profit
(1990/91 to 2001/02) Kyat million**



Source: UMEH, 2001/02, 12th Annual Report (June 3, 2002, Yangon, Union of Myanmar)

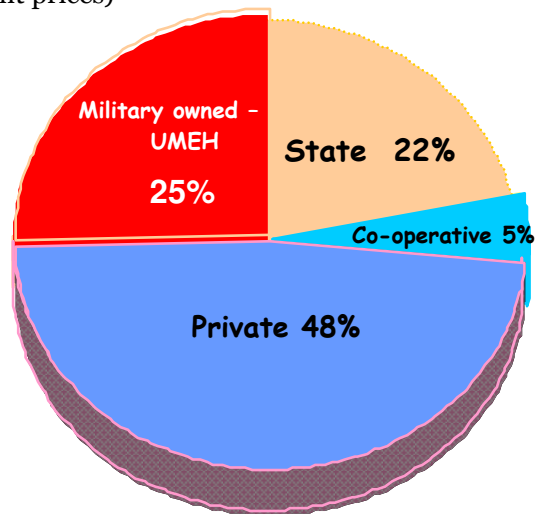
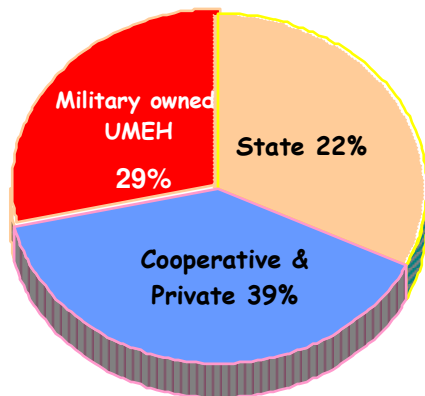
¹ Excerpts from report of directors of the Union of Myanmar Economic Holdings Ltd, 1995-96 (27th August 1996).

² Asian Development Outlook 2000.

Burma: Investment by Ownership - 2001/02

Burma: Structural Changes of GDP by Ownership - 2001/02

(At current prices)



Sources: 1. UMEH, 2001/02, 12th Annual Report (June 3, 2002, Yangon, Union of Myanmar)
2. Myanmar Data CD Rom, CSO, 2001/02

Military owned ventures foreign trade activities are the highest in current Burmese economy. For example, The Union of Myanmar Economic Holdings Ltd's import value of US\$ 7.10 million (*Sr No. 1 of 10 maximum import companies*) and another military owned Myawaddy Trading venture's import value of US\$ 2.26 million (*Sr No. 5 of 10 maximum import companies*) and its export value of US\$ 2.77 million (*Sr No. 7 of 10 maximum export companies*) in February 2002. These import value US\$ 9.9.36 million was 0.16 % of FY 1999/00's GDP.



Photo: Pynmabin industrial zone, Palsco steel factory and British American Tobacco Co. Ltd, Joint ventures with UMEH (These lands were owned by the village farmers)



Myanmar Hwa fuh, Myanmar Daewoo and Myanmar Segye garment factories in Rangoon (JV with UMEH)



Source: Rangoon Steering Committee, FTUB (27. 8. 2003)

Appendix: 3

UNION OF MYANMAR ECONOMIC HOLDING LIMITED
12th annual report of the year 2001-2002
RANGOON
(3, June 2002)

**Report of the UMEH's Board of Directors submitted to 12th annual meeting for
the year 2001-2002**

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4.	Capital		6
5.	Calling on the shares		7
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16.	The Auditor General		20

**Report of the UMEH's Board of Directors submitted to 12th annual meeting for
the year 2001-2002**

INTRODUCTION

1. This report is submitted by UMEH, which was established with shares of public under the 1950 special act for companies, regarding the investment, production, trade and services conditions, joint venture with foreign companies' yearly loss and profit and future plans.

OBJECTIVES

2. The followings are the objectives of the establishing of the UMEH:
- (a) Welfare of the soldiers, their dependants and families.
 - (b) Welfare of the veterans, their dependants and families.
 - (c) To support the public's welfare.
 - (d) To support the national economic development.

THE BOARD OF DIRECTORS

The Board of Directors was selected on 9th June, 2000 at the 10th annual meeting of UMEH with the following members.

(a) Lt General Win Myint	Chairman
(b) Brigadier Win Hlaing	Managing Director
(d) Brigadier Maung Nyo	Member
(f) Brigadier Kyaw Win	Member
(g) Brigadier Kyi Win	Member

(h) Brigadier Aung Thein	Member
(i) Brigadier Khin Aung Myint	Member
(j) Lt Colonel Maung Oo Lwin (Navy)	Member
(k) Colonel Khin Maung Tint (air force)	Member
(l) Colonel Ba Tun (Retired)	Member
(m) U Myo Nyunt	Member

4. On 9th November, 2001, Major General Tin Aye was assigned as a chairman to replace Lt General Win Myint.

5. The board of director had 4 meetings in the reporting period.

CAPITAL

6. The UMEH's capital was 20,000 million Kyats. One share was 1000 Kyats and the defense ministry's share was 20 million Kyats, as a "Ka", **(means A)** level share, via the office of the directorate of military procurement. And then, "Kha" **(means B)** level share was brought by soldiers, the defense ministry's institutions & organizations, individual veteran and organizations of veteran.

Invitation of shares

7. The following figures indicated allocation of share, call for share and etc. on 31.3.2002.

(1) (Authorized capital)	20,000 million
(2) (Allocated capital)	12,000 million
(3) (Issued capital)	12,000 million
(4) (Call)	12,000 million
(5) (Buying)	11,235.497 million

Detail buying situation from 20.4.1990 to 31.3.2002

Name of battalion	Number	No. of battalion	share	Amount (Kyats/million)
"Ka" share	1	1	330,000	330.000
Ka Ka buying (defense ministry's military procurement office)				
Total			333,000	330.000
'Kha' share				
(1) Defense ministry				
(aa) Offices of chief camp and Director	-	32	1800755	1800.755
(bb) military personnel	-	100	359845	359.845
-Officers	2609	-	159582	159.582
-Other ranks	5645	-	376888	376.888
Total	8254	132	2697070	2697.070
(2) Northern Command	-	1	303000	303.000
(aa) Battalion	-	75	180440	180.440
(bb) military personnel				
-Officers	296	-	41248	41.248
-Other ranks	274	-	35659	35.659
Total	570	76	568347	568.347
(3) Northeastern Command	-	1	269257	269.257
(aa) Battalion	-	83	208449	208.449
(bb) military personnel				
-Officers	151	-	14225	14.225
-Other ranks	709	-	4695	4.695
Total	860	84	496626	496.626

(4) Eastern Command	-	1	516000	516.000
(aa) Battalion	-	132	530805	530.805
(bb) military personnel			4695	
-Officers	338	-	16089	16.089
-Other ranks	5124	-		4.695
	5462	113	1076646	1076.646
(5) Triangle Command	-	1	184375	184.375
(aa) Battalion	-	58	163021	163.021
(bb) military personnel				
-Officers	328	-	13112	13.112
-Other ranks	354	-	7270	7.270
Total	682	59	367778	367.778
(6) Southeastern Command	-	1	100463	100.463
(aa) Battalion	-	101	241315	241.315
(bb) military personnel				
-Officers	269	-	20939	20.939
-Other ranks	515	-	2550	2.550
Total	784	102	365267	365.267
(7) Coastal Command	-	1	126188	126.188
(aa) Battalion	-	70	93520	93.520
(bb) military personnel				
-Officers	179	-	12265	12.265
-Other ranks	611	-	6617	6.617
Total	790	71	23859	238.590
(8) Rangoon Command	-	1	380173	380.173
(aa) Battalion	-	162	1364031	1364.031
(bb) military personnel				
-Officers	444	-	75145	75.145
-Other ranks	593	-	20226	20.226
Total	1037	163	1839575	1839.575
(9) North southern Command	-	1	220033	220.033
(aa) Battalion	-	39	167739	167.739
(bb) military personnel				
-Officers	528	-	7724	7.724
-Other ranks	465	-	10519	10.519
Total	993	40	406005	406.015
(10)) Western Command	-	1	342650	342.650
(aa) Battalion	-	101	407665	407.665
(bb) military personnel				
-Officers	299	-	18291	18.293
-Other ranks	1643	-	26658	26.658
Total	1942	102	795266	795.266
(11) Southern Command	-	1	86010	86.010
(aa) Battalion	-	57	136663	136.663
(bb) military personnel				
-Officers	627	-	19240	19.240
-Other ranks	647	-	9833	9.833
Total	1274	58	251746	251.746
(12) Central Command	-	1	51594	51.594
(aa) Battalion	-	151	169093	169.093
(bb) military personals				
-Officers	326	-	17651	17.651
-Other ranks	303	-	8001	8.001
Total	629	152	246339	246.339
(13) Northwestern command	-	1	21905	21.905
(aa) Battalion	-	114	762864	762.864
(bb) military personnel				

-Officers	165	-	36964	36.964
-Other ranks	1574	-	37794	37.794
Total	1739	115	859527	859.527
(14) Organization of Veteran	-	-	-	-
(aa) Central organization Committee	-	1	3900	3.900
(bb) Townships	-	83	267286	267.286
Total	-	84	271186	271.186
(15) Individual veteran				
-Officers	1464	-	401498	401.498
- Other ranks	1262	-	32021	32.021
Total	2726	-	433519	433.519
Grand Total	27743	1371	11235497	11,235.497

9. Buying of these share were reported to the office of companies registration, investment and companies directorate, Ministry of National Planning and Economic and Development.

ORGANIZATION OF STAFF

10. The UMEH was established on 27 April 1990. It implemented as the production, trade and service activities with 155 employees in the fiscal year 2001-2002.

CONDITION OF INVESTMENT

11. The UMEH has been conducting production, trade and service enterprises with wholly affiliated enterprises and joint ventures enterprises.

BUSINESS CONDITIONS

12. UMEH's current businesses activities are:

(a) 16 businesses of 100 % affiliated

(1) 9 production businesses

- (aa) Myanmar Ruby Enterprise
- (bb) Myanmar Imperial Jade Company Ltd.
- (cc) Myanmar Rubber wood Company Ltd.
- (dd) Myanmar pineapple production Enterprise.
- (ee) Myawaddy Ice factory Enterprise
- (ff) Myawaddy Clean Drinking Water Enterprise.
- (gg) Sinmin (1/2) cement production Enterprise (Kyaukse)
- (hh) Sewing Enterprise
- (ii) Shwe Pin Lael (Sea) livestock and fishery Enterprise

(2) One Trade Business

- (aa) Myawaddy trading LTDS.

(3) Six Services

- (aa) Myawaddy Bank Ltd
- (bb) Bandula Transportation Company Ltd.
- (cc) Myawaddy Tourism
- (dd) Nawaday Hotel & Tourism
- (ee) Myawaddy Agricultural services Enterprise Company Ltd.
- (ff) Myanmar Strength Construction Enterprise

(b) Cooperation and joint venture of 21 business (Semi affiliated)

(1) 14 production businesses

- (aa) Myanmar Segye International Ltd.
- (bb) Myanmar Daewoo International Ltd.
- (cc) Myanmar Unimix International Ltd.

- (dd) Rothman of Pall mall Myanmar Private Ltd.
- (ee) Myanmar Bruwari Ltd
- (ff) Myanmar Palsco Steel Company Ltd
- (gg) Myanmar Novo Steel Company Ltd
- (hh) Bingermin Paint Manufacturing Company Ltd.
- (ii) The Fax Automatic Company Ltd.
- (jj) MG Ruby Company Ltd.
- (kk) Myanmar Novo Company Ltd.
- (ll) Yadanarkadayadar Company Ltd.
- (mm) Myanmar Jade International Ltd.
- (nn) Myanmar Semint Company Ltd
- (2) 3 Trading Businesses
 - (aa) Myanmar pioneer supporting Ltd.
 - (bb) Myanmar Fairprice Private Ltd.
 - (cc) Banhothin Myanmar Ltd.
- (3) 4 Services Enterprises
 - (aa) Seman Ltd Myanmar
 - (bb) Myanmar Land and Development Ltd.
 - (cc) National Development Corporation
 - (dd) Hantharwaddy golf compound and city club association Ltd
- (C) 11 business of 100 % national and foreign investment
- (1) 8 production Businesses
 - (aa) Marquary manufacturing Company Ltd
 - (bb) Propeller rope production Enterprise
 - (cc) Myanmar Hwa Fuh International Ltd.
 - (dd) Myanmar Triumph International Ltd.
 - (ee) Myanmar Mamee double dagger Ltd
 - (ff) Myanmar Samgaung Industrial Ltd
 - (gg) Myanmar Tokiwa corporation
 - (hh) Myanmar Kurosarwartrust Company Ltd
- (2) One trading business
 - (aa) Diamond Dragon Company Ltd
- (3) Two services businesses
 - (aa) Mogoke Motel Enterprise
 - (bb) Myanmar Hotel and Securest Ltd

UMEH's 100% Supporting Enterprises

13. (a) Productions

- (1) Myanmar Ruby Enterprise (Gem) Company Ltd

(aa) Mogoke Gems Enterprise: :6 Mogoke gem camps were transferred from ministry of mine to ministry of defense and then transferred to UMEH on 5 October 1995. On 14 February 1996, UMEH established Myanmar Ruby Enterprise (Gems), as a 100% support company of UMEH and carrying out production and selling activities as its own private enterprise. In 2001/02 fiscal year, UMEH performed a Gems Emporium and also by ministry of mine.

Situation of Mogoke gem's production, sales and balance

No	Kind	2000-01 Balance (Carat)	2001-02 Production (Carat)	2001-02 Selling (Carat)	2001-02 Balance (Carat)	Clean/ Decrease (Carat)
A	Ruby	217993.35	280184.66	224580.20	297602.14	(+)24000.33
B	Sapphire	4763828.03	2361002.30	2900641.30	4193495.25	(-)30693.78
C	Garnet	530208.41	517672.05	520713.00	496963.17	(-)30203.69
D	Peridot	288243.42	274116.47	226101.50	335575.31	(-)683.03
	Total	5800273.21	3423975.48	3872036.00	5323601.52	(-)35771.17

Allocation of share from Mogoke gems sales

No	Subject	US\$/million	Kyat/million
A	Total sale	0.136	40.33
B	Issue to Companies through contract system	0.004	21.37
C	Supervisor charges to Central Command	-	28.11
D	Myanmar Ruby Enterprise's income	0.128	216.5
E	Bank cost and gem taxes	0.004	-

(bb) Mounghshu Gems Enterprise: :Mounghshu gems production enterprise was done since on 2.12.1994.

The following is its production and selling situation in 2001-2002.

No	Kind	2000-01 Balance (Carat)	2001-02 Production (Carat)	2001-02 Selling (Carat)	2001-02 Balance (Carat)	Clean/ Decrease (Carat)
A	Gem quality	7142.20	5957.05	2532.00	10272.05	(-)295.20
B	Semi-Precious stone	282984.00	219818.00	172200.00	305546.00	(-)25056.00
C	Raw mixed stone	3455685.00	1555100.00	2998550.00	1993335.00	(-)18900.00
	Total	3745811.20	1780875.05	3173282.00	2309153.05	(-)44251.20

Allocation of share from Mounghshu gem sales

No	Subject	US\$/million	Kyat/million
A	Total sale	0.83	-
B	Issue to Companies through contract system	0.29	31.73
C	Supervisor charges to Eastern Command	-	18.68
D	Myanmar Ruby Enterprise's income	0.54	(-)50.41
E	Bank cost and gem taxes	0.003	-

(cc) Appraising enterprise: :For the year 1998-1999, Myawaddy bank performed as appraiser and Kanbawza bank performed as the appraiser in the year 2001/02 on behalf of Myanmar Ruby Enterprise (Gems) and for appraising services. Myanmar Ruby Enterprise earned 1.196 Kt/million.

(dd) Gold exploring enterprise: :UMEH applied license to ministry of mine for 4472 acres of gold production: UMEH was allowed to explore gold production in Kamparni region and Ohnzone region, Thabaikkyin Township, Mandalay Division on 4 June 2001. At present, UMEH is working gold production joint venture with Boon Tip Mining Co., Ltd using 650 acres (13 sites x 50) in Kamparni region and also working with Myanmar Si Thu Co, Ltd using 600 acres (12 sites x 50) in Kamparni region from 8 February 2002 to 7 February 2007. The ratio of profit share is 60 to 40 for contract Companies and UMEH respectively.

(ee) Nantyar region gem production enterprise: :UMEH applied the license to explore gems and was allowed to do in Nantyar region, Pharkant Township, Kachin State on 2 January 2002. UMEH got 28 acres in Zabaw and 21 acres in Warbu. World Precious Gems Co., Ltd has been working at those mentioned 49 acres as a contractor with the profit ratio of 70 : 30 with UMEH. As a result, Myanmar Ruby Enterprise (Gems) earned net profit of US\$ 672.278 and 170.40 Kt/million for the year 2001/02.

(2) Myanmar Imperial (Gems) Co, Ltd.

(aa) Finished Jade Production: :Myanmar Imperials Jade (Gems) Co, Ltd., which was 100% supported by UMEH, working on finished Jade production having equal share with Shal family Co., Ltd. on 28 August 1998. Their each capital was US\$ 140,000 and 107.30 Kt/million and production of the bracelets from raw jade in the Pyin Ma Bin area, Military owned by UMEH industrial zone, Rangoon. On 7 January 2002, their factory was transferred

to No 22, seven miles, Pyi Road, Mayangone Township, Rangoon, but these were unable to sell bracelets in 2001-02 and lost US\$ 14000 and 2.21 Kt/million.

(bb) Jade Production Enterprise: :In order to conduct the Jade production and trading systematically, UMEH established Myanmar Imperials Jade (Gem) Co., Ltd on 13 September 1996. In 2001-2002, UMEH offered contract to Myanmar Silone Co., Ltd on 20 August 2001 so that Myanmar Silone could do their business at Wabo site.

The followings are the site and its contractors.

Contractor	Sites
Shal Co, Ltd	Samar, Marangan, Khinekyin, Rekhu
Pansaygan Co, Ltd	Nathmaw
Janefaul Aung Jade and Gems Co., Ltd	All green
War War Win Gem Co., Ltd	Bungar
Shwe Than Lwin Co., Ltd	Ah Ba (grand farther)
Chiva Gem Co., Ltd.	other 13 sites

The following are the situation of these Companies' Jade production and sales in 2001/2002.

No	Name of Site (Camp)	Previous Balance(Kilo)	Exploring (Kilo)	Selling (Kilo)	Balance (Kilo)
A	Sa Mar	12,794,840	1,346	132,769	12,674,555
B	Sa Mar (extension)	9,660	-	1,212	8,463
C	Ma Run Gan	158,16	-	-	158,136
D	Khine Kyin	15,326	-	-	15,326
E	All green (old)	130,876	-	1,109	129,742
F	All (new)	46,587	9,657	5,585	51,742
G	Naut (14)	20,004	-	-	20,004
H	Bun Gar	13,475	-	1,085	12,875
I	Remaining sites (13)	-	19,903	-	29,285
J	Ma Kyan Kha	558	-	558	-
	Total	13,188,940	31,464	141,760	13,100,722

The situation of these Companies' Jade production and sales in 2001/2002.

No	Subject	US\$/Million	Kyat/million
A	Total sale income	1.97	20.19
B	According to the contract Companies to issue income	0.83	8.80
C	Supervision charges to Northern Command	-	45.37
D	Income of Myanmar Imperial Co, Ltd.	1.14	(-)33.98

Myanmar Imperial Jade Co, Ltd's net profit was US\$/million 0.97 and 32.87 Kt/million in 2001/02.

(3) Timber production of Myanmar Rubber Wood Co, Ltd.: :It is 100% owned by UMEH and produced 116,6150 tons of rubber logs and sold 200,6262 tons, valued at 19.631 Kt/million in 2001/02. In 2001/02, Than Phyu Za Yat saw mill was transferred to Phar Oa to be able to make valuable furniture and planning to sell local and external markets.

(4) Myanmar pineapple production enterprise (Pegu Town): :It is 100% owned by UMEH and constructed on 20 December 1998 and operated on 30 June 1999 and exported pineapple juice concentrate. The factory was invested with 4.8 US\$/million and 125.46 Kt/million and its capacity was 109.05 tons of concentrated pineapple juice. The factory's net profit was 16.275 Kt/million in 2000/01 and 8.767 Kt/million in 2001/02.

(5) Myawaddy ice factory enterprise: It is 100% supported by UMEH and opened on 11.8.2000. Its investment was 5 Kt/million and productive capacity was 33.48 tons(250 ice logs) per day, produced 30223 ice logs, valued was 10.068 Kt/million in 2000/01 and its net profit was 4.69 Kt/million in 2001/02.

(6) Myawaddy clean drinking water enterprise: It was 100% supported by UMEH and established on 25 March 2000 and operated on 11 August 2000. Its investment was 15 Kt/million and there are 18 employees and production target is 120,000 liters per month. It produces 257,455 of one liter bottle and 51,282 of 20 liter box. In 2001/02, their sale income was 10.97 Kt/million and net profit was 0.456 Kt/million.

(7) Sinmin (1/2) cement production enterprise (Kyaukse): It is 100 % owned by UMEH and located near Nwarlealkayuk mountain, between mile No. (7/3) and (8/0) of Kyaukse and Byaukseikpin road, Kyaukse Township, Mandalay Division. Sinmin (1) was contracted with China National Building Material Equipment Corporation on 9 July 2000 and started production on 9 September 2002, and then produces 400 tons per day with wet system. Sinmin (2) was contracted with Yunnan Machinery Import and Export Corporation on 18 January 2001 and started production on 18 December 2002, and then produces 700 tons per day with dry system.

(8) Sewing Enterprise: is 100 % supported by UMEH and accepted order from outside and selling the finished clothes and cloth. There are six tailor shops in Rangoon and these enterprises lost 0.53 Kt/million in 2001/02.

(a) Myathida tailor was opened at 8 and half mile, Mayangone Township on 15 July 2000 and has sold the cloth of 1676 yards and only 16 fine clothes, total income was 0.99 Kt/million in 2001/02.

(b) Akayee tailor was opened at Padonmar compound, Sanchaung Township on 31 August 2000 and made 929 cloths and has sold cloth about 252 yards, total income was 0.48 Kt/million in 2001/02.

(c) Venus tailor was opened at Thein Byu road, Kandawgalay Township on 15.8.2000 made 787 cloths and has sold the cloth of 146 yards and 552 fine cloths, total income was 0.78 Kt/million in 2001/02.

(d) Shwegondine tailor was opened at Shwegondine road, Bahan Township on 2.9.02 made 843 cloths and has sold cloth about 249 yards and 350 fine cloths, total income was 0.71 Kt/million in 2001/02.

(e) North Oakkalarpa tailor was opened at North Oakkalarpa Township on 2 September 2000 made 522 cloths and has sold cloth about 280 yards and 559 fine cloths, total income was 0.81 Kt/million in 2001/02.

(f) Shudineyin tailor was opened at Tarmawe Township on 22.8.2001 made 285 cloths and has sold 413 fine cloths, total income was 0.47 Kt/million in 2001/02.

(9) Ngwepinlael livestock and fishing Co, Ltd. is 100% supported by UMEH and the operation activities are as follow:

- (a) Fishing Enterprise
- (b) Livestock Enterprise
- (c) Food mixing factory
- (d) Dried fish flour factory

(a) Fishing enterprise received trawlers which were caught by military commands & navy commands. Suitable trawlers were distributed to the joint ventures Co., Ltd. They are fishing together with profit share ratio of (30:70) and selling in domestic market & foreign market. Old trawlers were sold out in auction. They got commission fees from 3 foreign Companies on

shrimp and fish export. There are 3 Companies in Rangoon and one Company in Mergui and it has 39 fishing boats. Their activities in 2001/02 are as follow:

No	Subject	Kyat	US\$
1	30% income from joint venture	239,535,661.09	-
2	Sale from dried fish flour	65,352,500.00	-
3	Income from shrimp	-	216121.14
4	Income from Broker fees	-	933676.31
5	Resale income from fishing boats	108,111,000.00	-
6	General income	-	-
	Total	1,382,870,253.02	1,149,797.45

(B) Livestock: Buildings were constructed with capital 70 Kt/million on 150 acres in Bawlael kyawngnace land, Htandabin Township, Rangoon Division in April 2000. In August 2001, chicken eggs were sold from 19,500 hens. 2,478,331 Chicken eggs can be sold out and their value was 39,386,751 Kyat up to the end of the fiscal year 2002. Now, their operating capital was 137,000,000 Kyat. The construction of more building for chicken has been completed about 50% so far. There are 7,000 small chickens from Ministry of livestock and fishery is compiling in February 2002. In 2001/02, 25% of discount value of building, valued in net lost 3.34 Kt/million. But since September 2001, 4000 chicken eggs were sold with 10 Kyat per eggs daily (although market price was 20 to 25 Kyat per eggs) in 4 tax free markets in Rangoon. So their services value was 4.74 Kt/million from 47,400 chicken eggs. In 2001/02 fiscal year, Silver sea livestock and fishery enterprise's income was US\$ 1.149 million and profit was US\$ 0.149 million and 352.399 million in Kyat.

(C) Trading

(1) Myawaddy trading

(aa) Import enterprises: :In 2000/2001, Myawaddy trading Co, Ltd and two other local Companies, Nilar Yo Ma Co., Ltd and Diamond Dragon Co, Ltd imported cooking palm oil with equal share and profit from April 2001 to March 2002. The imported amount was 115,816.289 tons and got Kt 1418.49 million profit. Out of this profit, Myawaddy trading got Kt 700.52 million, USDA got 360.06 million in Kyat and Central Organization of war veteran, Burma got 257.90 Kt/million.

(bb) Export enterprises.

Agricultural products export: :In 2001/02, multi-beans, sesame and millet grain were exported to India, Singapore and Japan cooperation with 9 local Companies according to FOB (Yangon) system. Although the contract was 85,764.96 tons only 36,712.93 tons was exported and its value was US\$ 16.5 million.

Fisheries Export: :Fresh water and sea water (fish, pawn) were exported 581.05 tons with FOB (Yangon) system, to Singapore, England and Japan cooperation with 5 local Companies and its value was US\$ 1.35 million.

Cigarette Export: :London cigarettes were exported 34,500 boxes, value at US\$ 4.493 million and net profit was US\$ 0.064 million to Thailand, Bangladesh, China and India via border trade. 30,860 boxes of 555 Cigarette were exported, value of US\$ 9.62 million to Singapore, Thailand, Lao and Philippines with FOB (Yangon) and also exported 10,300 boxes, value of US\$ 3.21 million to Thailand and China through border trade.

Beer Export: :Myanmar Beer and 18,000 cartoons of Sharrande valued US\$ 96,139 were exported to Japan, Singapore and Malaysia with FOB (Yangon) system.

(CC) Services enterprises

Cement importing: : 202,497 tons cement were imported together with Nilaryoma Co., Ltd. UMEH achieved services charge of Kyats 101.24 million in 2001/02.

Electronic materials import: : Myanmar Shawesaung supporting Co, Ltd and Aung Myat Thu Co, Ltd imported electrical goods of US\$ 0.88 million and UMEH gained services charges of US\$ 0.28 million.

Import of the Industrial raw materials: : US\$ 8.37 million worth of Industrial raw materials were imported and UMEH obtained services fees of US\$ 0.046 million from Myanmar Palsco Steel Co., Ltd and Bingerpaint manufacturing, Myanmar Marmee Double Dagger.

Miscellaneous material import: : Iron, condense milk and two crop cleaning machines, value at US\$ 0.64 million and UMEH gained services fees of US\$ 19,409.24 million. These materials were imported for Myanmar Binhockhan Co., Ltd and Diamond dragon Co., Ltd. Services charges of Myanmar Brewery Co, Ltd: : UMEH achieved service fees of 10.6 million in Kyat from Myanmar Brewery Co., Ltd which has been distributing Tiger beer and Myanmar beer.

(DD) Domestic services

Automobile Sales: : 208 Isuzu automobiles were sold with US\$ 6,347,200 and 2,690.46 Kt/million. US\$ 2.599 million and 445.5 Kt/million were already paid to the First Automobile Co., Ltd.

Distribution of London Cigarette: : Since on 1 April 2001, London cigarette was distributed 29,252 boxes (50 cartoons per box) to States and Divisions through 17 agents and their net profit was 14,813.92 Kt/million.

Beer distribution: : Since on 1 April 1999, beer 2,411,211 cartoons were distributed to States and Divisions through 27 agents.

Distribution of corrugated zinc: : In 2001/02, Myawaddy trading sold 5,813,728 corrugated zinc sheets produced by Myanmar Palsco steel Co, Ltd. The trading gained one Kyat per corrugated sheet as a profit and got net profit of 5.81 Kt/million.

Distribution of Fuel (Diesel): : The UMEH imported diesel and distributed to the fishery enterprises from coastal regions and State and Divisions since 12 April 2000. These activities were being done with 12 Companies. In 2001/02, 362,636.572 tons were imported and 347,295.667 tons were sold out. 4,852.55 Kt/million was achieved as a profit. The state can save US\$ 77.63 million for factories' electricity shortage. And also can prevent increasing of black market diesel price and supported to smooth inflow of local commodities circulation.

Foreign exchange enterprises: : Under the license No. No FEMD 53/2001, FEMD 2001/242, Myawaddy Trading started foreign Currency Exchange service with the initial investment of 452.20 Kt/million. On 21 July 2001, with the permission of Myanmar Central Bank (MCB) Myawaddy Trading has carried out the following services.

- * IDD telephone sales

- * Currency Exchange Service for those who go oversea

- * Currency Exchange service for candidates who take oversea-exams

Due to the instruction of MCB's Foreign Currency Supervising Committee, the above mentioned functions were not operated since 11 February 2001. In 2001/02, UMEH sold out FEC 3.568 million and purchased 3.87 million. FEC 2.926 million was sold out to 63 Companies and as a result, it is lost 73.038 Kt/million.

(C) Services enterprises

(1) Myawaddy Bank Limited: : Myawaddy bank was established on 1 January 1993 and opened on 4 January 1993 and also operated banking activities on 5 January 1993. There are 7 branches including Rangoon headquarter Myawaddy bank. Mandalay branch was opened on 19 September 1997, Monywa branch was opened on 26 October 1999, Taunggyi branch was opened on 19 April 2000, Pharkant branch was opened on 25 April 2002, Bassein branch was opened on 14 May 2002 and Bayintnaung branch was opened on 21 March 2001. There are 321 staffs on 31 March 2002. Initial capital was 1,020 Kt/million in 2000/01 and 80

Kt/million was added on 9 May 2002, and therefore total capital has become 1,100 Kt/million in 2001/02. On 31 March 2001, total net profit was 607.28 Kt/million and 1,002.67 Kt/million on 31 March 2002. Therefore, 330 Kt/million was transferred to UMEH, as a profit share.

(2) Bandula Transportation enterprises Co, Ltd (Perrami): :It was 100% supported by UMEH and established on 30.11.99 with register no 1232/1999-2000. It is carrying out Shwemanthu highway passenger and goods transportation, Parrimi local (Rangoon) passenger transportation, Mandalay base passenger and goods transportation. It got as transferred and accepted 2090 automobiles and resold to ministries and other organizations such as 911 automobiles was sold to Rangoon Division, 1112 automobiles were using and other services such as Shwemanthu passenger transportation has 267, commodities transportation has 355, Parami local transportation has 306, Mandalay base passenger transportation has 99 and commodities transportation has 85 automobiles respectively.

(aa) Shwemanthu highway passenger transportation: :There are total 267 automobiles with daily regular passenger transportation, and other services such as hiring for the monthly services and short days hiring for picnic and tour for pagodas etc services with 26 MB, 106 CB, 106 SSB, 27 Bowser and 2 Wagon respectively. The followings are daily services schedules and starting date of activities:

- Rangoon – Mnadalay	29.2.2000
- Rangoon – Magway	27.7.2000
- Rangoon – Taunggyi	12.11.200
- Rangoon – Monywa	25.3.2001
- Rangoon – Pagan	1.8.2001
- Rangoon – Pyinmanar	12.3.2002

(bb) Commodity transportation: :It carrying out commodity transportation such as monthly hiring, containers transportation, rice exporting from Agricultural Procurement and Trading Enterprise, as a special planned of cement transportation from Myainggalay to Rangoon train since 3.4.2001. It has 355 automobiles with 186 of Truck Flat, 141 of Truck Box, one Bowser and 27 Trucks respectively.

(CC) Parrimi Transportation: :Daily passenger transportation was carrying out by 306 CB automobiles at 11 bus lines in Rangoon City area. Their activities are as follow:

- 173 bus line Rangoon – Thanlyin	1.12.1999
- 174 bus line Rangoon – Dagon University	1.1.2000
- 175 bus line Rangoon – Mawbi	1.2.2002
- 176 bus line Rangoon – Hlaingtharyar University	29.2.2000
- 177 bus line Rangoon – Botahtaung	3.4.2000
- 178 bus line Rangoon – Thanlyin	14.8.2000
- 179 bus line Rangoon – Thanlyin	25.8.2000
- 180 bus line Rangoon – Shwepyithar	4.9.2000
- 182 bus line Rangoon – Ywarthargyi	27.10.2000
- 183 bus line Shwepaukkan - Sulay	1.10.2001
- 184 bus line Danyingone – Sulay	1.10.2001

(DD) Mandalay base transportation: :It is carrying out daily passenger and transportation, monthly hiring short days hiring for picnic and tour for pagodas etc services with 99 automobiles such as 15 MB, 51 CB, 29 SSB and 4 Bow respectively. Regarding commodity, monthly hiring, cement raw transportation for Sinmin cement factory, Kyaukse with 85 total automobiles such as 53 Truck Flat, 23 Truck Box and one Bow respectively. The followings are daily services schedules and starting date of activities:

- Dagaung – Shwegu	11.5.2000
- Mandalay – Magway	29.5.2000

- Mandalay – Pyi	15.7.2000
- Mandalay city local transportation	18.9.2001
- Mandalay – Taunggyi	12.11.2000
- Mandalay – Kyauk Se	20.12.2000
- Mandalay – Monywa	4.1.2001
- Mandalay – Pyin manar	12.3.2002

(3) Myawaddy tourism enterprise: :It was established as 100 % support Co, Ltd, capital 100 Kt/million by UMEH on 29.8.95 and reputed capital 50 Kt/million on 12.6.2001, therefore total capital was 150 Kt/million now. In 2001/02, 12 tourists were sent to Kalay, Teetain, Kyuatkhone and Rangoon and got 352 US\$ and 487 FEC and also 149.789 Kt/million by FE exchanging activities.

(4) Nawaday Hotel and Tourism enterprises Co, Ltd: :Central Hotel was opened equal share cooperation with UMEH and Myanmar Macacu International Ltd, on 29.11.95. On 29.11.99, all shares of Myanmar Macacu International Ltd, was repaid and on 1.1.2000, it became 100% owned by UMEH and changed the name of Nawaday Hotel and Tourism enterprises Co, Ltd by the permission No (58/2001), dated 27.9.2001 of Ministry of Planning and Economic Development. In 2001/02, Nawaday hotel sold 12043 rooms, valued US\$ 93503.61 and 28.969 Kt/million. Ngwesaung beach hotel's room selling income was 11.687 Kt/million. Nawaday hotel's services income was US\$ 3480.412 and 54.997 Kt/million and Guest Breakfast and Function income was US\$ 25102.71 & 0.145 Kt/million and Diamond White Cafe & Bar income was 54.00 Kt/million. There were 0.146 US\$ lost and 55.049 Kt/million profit in 2001/02.

5. Myawaddy Agricultural Services Enterprise Co, Ltd.: :Its 100% investment is owned by UMEH with registered No 1463/199-2000 of Ministry of National Planning and Economic Development on January 27, 2000. The followings are its businesses:

(AA) Business of Tractors, harvesting machines and shaving machines: :Myawaddy Agricultural Services Enterprise carried out its service with 145 tractors of 80 horse-power four wheel TN-804, 490 tractors of 65 horse-power four wheel TN-654, made in China, 10 tractors of 80 horse-power two wheel Zeter, produced from Ministry 2, total 204 tractors and 15 Daewoo harvest machines and 3 Cefan harvest machines, made in Korea. In 2001/02 financial year, there are 134820.70 furrow acres, 3273.58 plough acres and 250 harvest acres, and got 259.14 Kt/million.

(BB) Selling with credit system of agricultural inputs, such as fertilizer, harvesting machines and water pumps: :Myawaddy agricultural services enterprises distributed and sold with 10 % credit system by contracting and the inputs of fertilizer, water pump and harvest machines to get welfare and increasing the yield of seasonal crops of farmers, respective State and Division, District, Township Peace and Development Council and Union Solidarity and Development Association (USDA). It got 85.74 Kt/million by selling to the confident organizations in 2001/02.

(CC) Pineapple cultivation: :It is performing about 1300 acres of pineapple farm on the free land at near Wingabaw village, Pegu Township, Pegu Division. There are planning to cultivate 2,000,000 sow plants in this year and these sow plants are transferred from 3 be scattering farms, don't buying from outside. It will become 4,000,000 seed of sacred basil plants in 2003. In 2001/02, it got back 115.97 Kt/million of debt and planning to get remain cash in 2002/03. Its net profit is 4.64 Kt/million in 2001/02.

6. Myanmar Strength Construction Enterprise: :UMEH established with the guidance of State holders and performing of needed roads, airport and other constructions, on 1.10.2001.

Affiliated and cooperative joint venture enterprises

14. The following are UMEH's affiliates and endorsed cooperative joint venture businesses:

(A) Production businesses

(1) Myanmar Segye International Ltd, garment enterprise: :It is a UMEH's affiliated and cooperative enterprise and has produced different apparels such as Pants, Skirts, Jackets, Coats, Jogging Suits etc. which are exported to European Countries and Canada. It losses were 0.45 US\$/million and 2.29 Kt/million in 2000/01. But it reported in 2001-02, that it losses were 0.126 US\$/million but that it also made a 4.86 Kt/million as a profit. The latter kyat profits were due to "creative accounting", and the easy drawing down and creating fictitious funds facility. Non-accountability and non-transparency of government enterprises and further not being limited by a "hard budget" indicates the corruptibility and bankruptcy of the SPDC state.

(2) Myanmar Daewoo International Garment Co, Ltd: :It is a affiliated and cooperative Co of UMEH and Daewoo from Korea which exports ready made clothes and apparel to USA, Europe and Canada. In the years 2000/01, it produced 5.79 PCS/million and 5.48 PCS/million respectively. Its revenue from the exported quantity and income for finishing-sewing were respectively US\$ 3.22/million and 21.26 Kt/million. The profits were US\$ 0.23/million and 3.48 Kt/million from the two activity segment the company was involved in, exporting and finishing-sewing. In 2001/02, the MDI Company produced 4.56 PCS/million and 4.48 PCS/million exportable quantity of garments and incomes earning from finishing /sewing income activities were US\$ 2.75/million and 20.13 Kt/million. The company reported a loss on its external business activity of quantity of garments exported amounting US\$ 0.08/million and reported on the other hand a total profit of 4.31 Kt/million made in the other domestic based finishing and sewing activity of the company.

(3) Myanmar Unimix International Garment Co, Ltd: :The UMEH and Unimix Myanmar Ltd from Hong Kong was established to operate a garment enterprise, This business as a affiliated and cooperative company was on 31.12.2001 temporarily suspended. In 2000/01, its production quantity was 0.22 dz/million and finishing -sewing income was US\$ 1.93 million plus 12.96 Kt/million. The company reported a profit of 0.01 US\$/million and income earnings of 32.56 Kt/million in 2001/02. The production quantity was 0.148 dz/million and sewing income earnings from exported garments was US\$ 1.055 million but made a loss 0.091 US\$/million on foreign trade and also a loss of 66.049 Kt/million from domestic business operations in 2001/02.

(4) Rothmans of Pall Mall Myanmar Private Ltd.: :The name of Rothmans of Pall Mall Myanmar Pte., Ltd was established with the agreement contracted between UMEH and Rothmans Myanmar Holding Pte., Ltd, Singapore on 14.12.93. The factory was opened on 12.9.95 and produced the brand of London Cigarette on 10.8.95 and distributed and sold to the market on 5.9.95. It is leading position of Cigarette market. And then, it got the production permit of the SE 555 Cigarette on 1.1.2000 and starting production opening ceremony on 9.1.2001 and producing the international level SE 555 Cigarette. And also, 555 Light Cigarette was produced on 25.10.2001. SE 555 Cigarette was being more distributed local than external market. 555 Light Cigarette was being appropriate produced to local market only. These Cigarettes were being distributed and sold to the local and external market via Myawaddy trading Co Ltd. In 2000/01, 327,920 boxes of London Cigarette and since January 6,832 boxes of SE 555 Cigarette were produced and in 2001/02, 341,260 boxes of London Cigarette, 48,887 boxes of SE 555 Cigarette and since October 989 boxes of 555 Light were produced. Although increasing the production side, in the distribution side, 203,963 boxes at local and 124,670 boxes of London Cigarette at external and 4,750 boxes of SE 555 at external in 2000-2001. In 2001-02, 300,026 boxes at local and 37,030 boxes at external of London Cigarette and 212 boxes at local and 46,612 boxes at external of SE 555 Cigarette and

501 boxes at local and 465 boxes at external of 555 Light Cigarette were distributed. In 2000/01 financial year, it got 1.06 US\$/million and 181.83 Kt/million profit. In 2001/02, it lost 1.018 US\$/million and as a profit 311.77 Kt/million. The reasons of lost were London Cigarette's external distribution decreasing and exchange rate problem. There are going to endeavor and reports to more distribution in external market with the negotiation of Myawaddy trading.

(5) Myanmar Brewery Beer production Co, Ltd: : It Beer factory was established with the UMEH and Fraser & Neave Co. Ltd, Singapore on 18.11.96 and since 1.3.97, Tiger Can and Quart were being distributed and sold with 17 agents to State and Division respectively. And ABC Stout Can, Anchor Can, Myanmar Beer Can/ Quart/ Drought Beer and Ra! Shandy Can were being distributed and sold. Myanmar Brewery got 0.62 US\$/million and 52.81 Kt/million in 2000/01 and 1.458 US\$/million and 102.430 Kt/million in 2001/02 as a profit.

(6) Myanmar Palsco Steel Co, Ltd.: :was established with UMEH and Pohon Iron and Steel Co, Ltd, Korea on 1.7.97 and total capital was 60 Kt/million and US\$ 10 million, UMEH's investment was 19.32 Kt/million and 10 US\$/million. It produces zinc sheets and steel materials.

(7) Myanmar Novo Steel Co, Ltd.: : UMEH established Galvanized Iron sheet factory, joint venture with Myanmar one Co, Ltd in 1996.

(8) Berger Paints manufacturing Co, Ltd: : JV with Berger International Ltd, Singapore and total capital was 50 Kt/million and UMEH's investment was US\$ 3 million and share ratio was 40%.

(9) The first Automotive Co, Ltd: :Joint venture with Mitsugi Corporation, Japan and total capital US\$ 30 million and UMEH's investment was 3.5 US\$/million (40% share ratio). In 2001/02, it got 0.453 US\$/million and 24.96 Kt/million as a profit.

(10) MG ruby Co, Ltd: :It was established myanmar ruby enterprise, UMEH's wholly support, and World Precious Gems Co, Ltd of Mogoke on 24.7.1996. In 2001/02, net profit was 24.09 Kt/million.

No	Kind	2000-01 Balance (Carat)	2001-02 Production (Carat)	2001-02 Selling (Carat)	2001-02 Balance (Carat)
A	Ruby-raw	11960.41	659.70	10191.84	2423.72
B	Sapphire-raw	6415.58	1424.75	3518.12	4239.65
C	Garnet-raw	24632.61	660.20	18582.62	6706.96
D	Peridot	7234.26	463.75	4240.33	3460.81
	Total	50242.6	3208.40	36532.91	16831.1

(11) Myanmar Noiveau Co, Ltd: :Moungshu gems trading was established joint venture with Noiveau Marketing Ltd., Thailand on 8.5.96.

(12) Yadanakadaykadar Co, Ltd: :Gems trading Co, Ltd, was established with Aung engineering Co, Ltd owned by Burmese citizen on 18.9.98 and its income was 48 Kt/million in 2001/02.

(13) Myanmar Jade International Ltd: :It was established with Jade Enterprise Co, Ltd, Hong Kong to produce jade statute and jewelry on 19.9.2000.

(14) Myanmar Cement Co Ltd: : Joint venture with P.T Semen Cibinong and P.T Prima Comexindo, Indonesia, (investment ratio 30:70),.

(15) Agriculture & Livestock Development Enterprise, (Katha): :Joint venture with Sinoscot Co,.

(B) Trading

1. Myanmar Shauesaung supporting Ltd: : joint venture with SKS Marketing Pte Ltd, Singapore established since 1990.
2. Myanmar Fair Price Private Ltd: :joint venture with NTUC Fair Price Co-operative Ltd, Singapore and opened as a super market in October 1995.

3. Binhoukin Myanmar Ltd: :joint venture with Binhoukin Co, PTE Ltd, Singapore and established in 1991, and operates with Myawaddy trading and it got US\$ 0.024 million and 0.158 Kt/million as a net profit in 2000/01.

(C) Services

1. Cement Ltd Myanmar: :Joint with Cement Agency, Germany and established with initial capital 15 Kt/million in January 1992. UMEH's share ration was 40%.
2. Myanmar land & Development Ltd: :It established and joint with Pyigyisan International Ltd, on 30.7.97 and got as a net profit 40.56 Kt/million in 2000/01 and 28.361 Kt/million in 2001/02.
3. National Development Corporation: : joint with Myanmar Gold Star Co, Ltd and construct the housing enterprise at Mayangone Township, Rangoon on 30.7.98, and its capital was 500 Kt/million and UMEH's share ratio was 50%.
4. Hantharwaddy Golf Club and City Club Association Ltd: :joint with Nikko Shoji Co.,Ltd, Japan and construct golf club and hotel at Pegu on 20.1.95.

100% citizen and foreign investment enterprises

15. The followings are UMEH's land hiring activities:

(A) Production

- (1) Marquari manufacturing Co.. Ltd: :To produce plastic pipe production for agriculture and other firms on 1.4.99. UMEH gets for land rent 6 Kt/million per year.
- (2) Rubber belt production enterprise: :Owned by Myanmar perennial plant enterprise, Irrigation Dept, Ministry of Agriculture and factory was opened on 13.11.2000 and UMEH's annual income was 18.292 Kt/million.
- (3) Myanmar Hwa Fuh International Ltd: :Hwa Fuh International Ltd, Hong Kong run garment factory, 100% foreign owned since September 1995. UMEH got US\$ 0.314 million as a rent of buildings and land per year. And also, UMEH got US\$ 34405.3 as a broker fees on the garment export in 2001/02.
- (4) Myanmar Triumph International Ltd: :with 100% foreign investment and run garment factory in August 1996 and UMEH got as a rent US\$ 67,953 for land, US\$ 170,000 for buildings per year and also got US\$ 27,518.82 for broker fees on garment export in 2001/02.
- (5) Myanmar Mamee Double Decker Ltd: :Mamee Double Decker (M) Bhd, owned by Malaysia opened its noodle factory at the land of UMEH on 9.4.99. UMEH receives US\$ 51,032 for land rent and 2% of net profit per year.
- (6) Myanmar Samgong Industrial Co.. Ltd,: :Samgong Industrial Co.. Ltd, owned by Korea, hired UMEH's land and to produce Inflatable Rubber Boat on 21.2.97. UMEH receives US\$ 30,780 for land and as a broker fees for 4% of export and 4% of local sale annually.
- (7) Myanmar Tokiwa Corporation: :Myanmar Tokiwa Corporation constructed pencil and make-up factory at the UMEH's land on 9.5.99. UMEH gets US\$ 38,485.07 for land and 5% of invoice value annually.
- (8) Myanmar Kurosawa Trust Co., Ltd,: :Kurosawa Trust Company, Japan has been operating gems processing at the land of UMEH on 19.12.98. UMEH receives US\$ 18,000 for land and 1% of invoice per year.

(B) Trading

- (1) Diamond Dragon Co., Ltd.: :It hired the land owned by UMEH with 2.4 Kt/million per year, to construct the cooking oil storage tank at the coke piling place, Kyimyindine Township, Rangoon on 12.7.96.

(C) Services

(1) Mogoke Motel: : It was transferred from Ministry of hotel and tourism on 4.2.96 and operated with Myanmar Sithu Co..Ltd. On 1.4.2002, transferred to Nawaday hotel & tourism and UMEH got 8.4 Kt/million for rent in 2002.

(2) Myanmar Hotel & Curises Ltd(Agent) : :Sea Containers Hong Kong Ltd, United Kingdom has operated behalf of UMEH's agent with the name of Myanmar Hotel & Curises Ltd on 27.1.95. It runs the tourism enterprise, the name of Road to Mandalay, Pagan-Mandalay travel and Mandalay-Pagan-Banmaw. UMEH receives 5% of total income, excluded trading & service charges annually.

Fiscal condition

16. The followings are fiscal condition in 2001/02.

(A) Profits from 100% support Co., Ltd, and partial support Co., Ltd. (Million)

No	Name	Fiscal Year				
		1998/99-Kt	1999/00		2000/01	
			Kt	US\$	Kt	US\$
1	Myanmar Shauesaug Supporting Ltd	200	250	-	250	-
2	Myawaddy Bank Ltd	150	500	-	1,000	-
3	Myawaddy Trading Ltd	-	-	-	-	-
4	Myanmar Ruby Enterprise	600	400	2.5	200	-
5	Myanmar Imperial Jade	50	-	2.5	-	1.35
6	Myanmar Land & Development	8	12	-	12	-
	Total	1,008	1,112	5.00	1,462	1.35

(B) Profit shares from affiliate operating Co Ltds

No	Name	Fiscal Year	Amount	
			US\$	Kt
1	Rothman of Pall Mall Myanmar Private Ltd	1998/99	240,000	1,608,000

(C) Distribution of profit share

Fiscal Year	Profit - Kt/m	For "Ka" share-%	For "Kha" share- %	Remark
1990/91	0.61	-	-	
1991/92	6.67	10	10	
1992/93	5.99	40	10	
1993/94	25.12	40	15	
1994/95	52.89	40	15	
1995/96	218.62	12.5	30	
1996/97	733.17	30	30	
1997/98	1,225.83	30	30	
1998/99	1,184.19	12.5	30	
1999/00	2,634.86	12.5	30	
2000/01	3,433.17	12.5	30	
2001/02	3,254.18	12.5	30	

Summary accounts for 2001/02.

17. appendix: a, b, c, d, e, f, g, h etc..

Future Programme

18. (A) Manufacturing of garment: :Comfort International Incorporated (CII), Malaysia made a agreement to rent land from UMEH and form Comfort Industries Limited with a base capital of US\$ 1.5 million on 18.8.98. CII proposed to produce ladies apparels and to export. UMEH will receive 3 US\$ per square meter of textiles exported and also land rent. The contract for leasing UMEH land was for 15 years. Also the contract agreement between the two parties stipulated commission fees of US\$ 0.15 per dz.

(B) Construction of Beach Resort

(1) Ngapli Beach construction: :UMEH confiscated 35.53 acres of land from Zeephyu Gone, Ngapli, Rankhine State and distributed (according to share ratio) to Kanbawza, Htoomaw, Asia World, Woodland, Yuzana and Htunlinyaung Co..Ltds, 30 years tenant contract.

(2) Kantharyar Beach construction: : Among 427.41 land acres, 120.02 acres was given to 747 Co., Ltd. to construction beach resorts.

(C) Soap factory construction: :UMEH is performing to construct a soap factory between 185/1 and 185/2 mile of Rangoon-Martaban road at near Thephyugone village, Paung Township, Thaton District, Mon State. Its estimated capital was 910.599 Kt/million and will be produce laundry and toilet soap for military families and expected can be open on 27.3.2003, military day.

(D) Myanmar Mamee Double Decker: : As extended noodle factory with UMEH in Pyinmabin Industrial Zone, Mingalardone Township, Rangoon.

(E) Graffiti factory

(F) Thuhtaykyun Hotel: :Andaman Club Co., Ltd, Thailand hired and established the hotel at Thuhtaykyun, Kawthaung Township, Tannissarim Division. And also, it extended at St Luke's Island Palau Canchar beach in this area.

Recommendation

21. UMEH was established according to the 1950 special Companies' act with the shares of state, battalions and veterans and the Board of Director conducted with this act in 2000/01. And also, the Board of Director approved the profit & lost account, balance sheet, audit report and share distribution and there will be need to continue these approvals.

Appointment of Auditor General

22. UMEH assigned as a auditor for 2001/02, to Director General, Account office, Ministry of Defense in March, 2002 and also continues to assign for 2002/03.

By order of Board of Director

(Colonel Aung San, Director)

Appendix – 4. Burma's Private Banks and (Accusations of) Money Laundering*

The **Asia Wealth Bank**, which vies with **Yoma Bank** for the title of Burma's largest, was founded by U Eike Htun, a shadowy figure who emerged in the early 1990s from Kokang, 'an area notorious for opium production' (Maung Maung Oo 2001a). Started operating April 1995. Linked to Kokang "national race leader" Pheung Kya-shin. Eike Htun also heads a leading trading and property business called the Olympic Group that has been very active in investing large sums in residential property and hotel developments in Rangoon. Most of these stand empty. The Asia Wealth Bank reports a return on equity of 54.56 percent for 2000-2001 – substantial profits for a bank whose funds are tied up in assets in which the returns (as noted above) are less than half the rate of inflation.**[5] The Asia Wealth Bank does much of its business along the Chinese border, a prime transit point through which drugs from Burma go out into the world. It is particularly popular amongst ethnic Chinese business in Burma generally. Protests were staged in Thailand in May 2000 when Eike Htun was invited to attend an Asian Development Bank conference in Chiang Mai. §§[6]

The **Mynamar May Flower Bank**, often listed as the third biggest in Burma, was founded and started operating June 1994 by U Kyaw Win, an ethnic-Chinese former Baptist lay-preacher. During the 1980s he was linked to a Thai businessman with logging and heroin-trafficking interests. Kyaw Win had real estate and logging interests and in 1997 bought Yangon Airways from Thai businessman Aduai Chaiyapass. He is said to be close to SPDC Vice-Chairman General Maung Aye, and he was an associate of Khun Sa, Burma's former leading 'drug lord' who 'surrendered' to Burma's military regime in 1996 (Maung Maung Oo, 2001a). In 2000 Kyaw Win sold an 80 percent stake in the bank, including Yangon Airways, to the United Wa State Army (UWSA). The UWSA's role in the drug trade is well known, of course and it has been described by the US State Department as the 'world's largest armed narcotics-trafficking organisation'. ***[7]

Kanbawza Bank has grown extremely rapidly in recent years. Established and started operating July 1994 by U Aung Ko Win (aka Saya Kyaung) in Shan State (in an area also noted for opium production), the bank is famed for its largesse in many areas, not least for its sponsorship of Burma's national football team. +++[8] According to Maung Maung Oo (2001a), Aung Ko Win is believed by business people in Burma to be 'the adopted son of [junta Vice-Chairman] General Maung Aye and that he is laundering the corrupt money of the generals through his bank'. The bank is now the biggest private financial institution in Burma with more than 45 branches. KBZ's sister company, the Billion Group, has significant gem mining interests.

Myawaddy Bank is owned by Union of Myanmar Economic Holdings (UMEH). UMEH, Burma's largest firm, is to all intents and purposes Burma's army itself. Formed in February 1990, UMEH is 40% owned by the Defence Ministry's Directorate of Defence Procurement and the remaining 60% by 'defence services personnel'. The latter are mostly senior officers, including members of the State Peace and Development Council (since 1997, the more acronym-friendly name of the SLORC), current serving members of military regiments and army veterans (individuals and organisations). UMEH has its fingers in all manner of pies and enjoys great privileges (including exemption from profit taxes). UMEH runs monopoly subsidiaries in industries that range from tourism, mining, trading to textiles. As was reported in the last issue of BEW, it often gets 'first pick' of joint-venture projects and partners. Myawaddy Bank is located in the old Central Bank of Myanmar Building, a demonstration of

* Sean Turnell: "Reforming the Banking System in Burma: A Survey of the Problems and Possibilities", [Paper presented to the 1st Collaborative International Conference of Burma Studies Group, Gothenburg, Sweden, 21-25 September 2002, & The Irrawaddy, April 2004.

**[5] Return cited from AWB website, *op.cit.*

§§[6] News report, *The Irrawaddy*, June 2000, vol.8, no.6.

***[7] Cited from *The Irrawaddy*, February 1998, Burma: Asia's first narco-state?, vol.6, no.1.

+++[8] *ibid.*

its establishment status. According to Kyee-Mohn U Thaung, 'when Myawaddy Bank opened on January 4 1991, they declared that there would be no questioning of the depositors...'.^{***[9]}

Innwa Bank. Like Myawaddy Bank, is owned by UMEH.

Myanmar Universal Bank has been implicated not only in the laundering of drugs money, but in the financing of amphetamine factories in Burma. Started operating January 1995. The Bank is believed to be owned by Wei Hsueh-kang, described by the South China Morning Post as Burma's 'premier trafficker'. Wei has been indicted on drugs charges in both the United States and Thailand (Barnes 2001), now a Burmese citizen. The bank's president, who goes by the Burmese name in Tin Sein, is an ethnic-Chinese from Shan State who reportedly speaks Burmese poorly. Wai's main non-financial firm is the Hong Pang Company, which has wideranging interests from Burma's biggest piggery near Kengtung to a factory in Sagaing Division that makes electric cable and fluorescent light chokes.

Tun Foundation Bank. Owned and founded by Thein Tun, the former 'Mr Pepsi' (so-named because he was PepsiCo's business partner in Burma before that company's withdrawal from the country). Thein Tun was famously told a group of Burmese business people that they should unite to 'crush destructuralists' who were undermining the work of SLORC.^{§§§[10]}

Yoma Bank. Started operating August 1993. Founded by Serge Pun, an ethnic-Chinese Burmese who had lived in Hong Kong many years. There is no evidence that Yoma was knowingly associated with narcotics-trafficking money. Yoma was used to finance numerous Pun family real estate projects-the most recent being the Pun Hlaing Golf Estate project and FMI City. Ironically, one of Serge Pun's other business ventures is a genuine Laundromats, Shine laundry.

^{***[9]} Kyee-Mohn U Thaung's comments are reproduced at <http://rebound88.tripod.com/gp/eco/eco.html>.

^{§§§[10]} For these comments, see <http://www.criminallawyers.ca/newslett/oct96/11copela.htm>.