

CONSIDERATIONS FOR FUTURE ECONOMIC ENGAGEMENT WITH MYANMAR

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Debates in the United States over economic engagement policy with Myanmar over the past 20 years have tended to focus on the relative merits of “carrots and sticks” to achieve human rights objectives and internal political changes linked to national reconciliation among ethnic groups, and a democratic transition that most Americans would consider legitimate. Economic engagement is also tied in many minds to the fate of Aung San Suu Kyi, or to interpretations of her views on the merits of economic sanctions or boycotts. In the American policy discourse, “sticks” have definitely won out over “carrots,” and frustrations with non-responsiveness of the leadership have been met with adding more “sticks” over time.

American policy toward economic engagement with Myanmar is also quite different from the posture taken toward Vietnam during its “opening-up” period in the early 1990’s and China since the early 1980’s, where other American business and political interests trumped human rights and democracy concerns. Nor is it congruent with efforts to change that other rogue regime in Asia—North Korea—by offering large economic incentives, in addition to sanctions, to achieve the security and political goals that the United States is pursuing in collaboration with China and other regional powers. In the Asian context, Myanmar seems to be an outlier of American economic engagement policy. The inconsistencies are very apparent to Asians across the board as well as to the Myanmar people themselves.

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While response to humanitarian concerns and recognition of the value of community-level economic assistance programs have in recent years been added to the list of politically acceptable engagement with Myanmar in the international community, generally American support remains rhetorically tepid and financially niggard, and the overall international effort has been half-hearted. While Cyclone Nargis galvanized both international and American humanitarian largess, the half-life of support for the recovery effort has been short, and also weak on the underlying need to restore sustainable livelihoods for those in the affected areas.

Pressing for economic reforms that would improve the lives of ordinary Myanmar citizens, and opening up to international norms for transparency and rules-based accountability in financial and economic relationships have not been part of the explicit American agenda, except in the case of anti-money laundering vulnerabilities where the Myanmar authorities have, in fact, been quite responsive. While American bilateral economic assistance and policy dialogue have been essentially non-existent for years, other countries—notably China, India, and Thailand—have pursued such engagement to advance their own perspectives and interests.

Multilaterally, economic policy discussions do take place in the context of Myanmar's participation in the Association of Southeast Asian Nations (ASEAN). There does seem to be some sign of responsiveness by the Myanmar authorities to considering economic policies and management practices that would conform to ASEAN standards. The annual Article IV Consultation conducted by the International Monetary Fund (IMF) is also an important mechanism for contacts with the international financial institutions (IFIs) and their assessment of Myanmar's overall economic performance. Unfortunately, IFI policy advice has tended to fall on deaf ears in Myanmar's senior leadership for many years. Recently, however, there has been more interest in IFI perspectives and technical economic management assistance. Also, the United Nations Development Program (UNDP) and United Nations Country Team (UNCT) have been supporting the National Statistics Office of the United Nations and line agencies in conducting national household surveys and improving statistics related to the Millennium Development Goals, in addition to their efforts to address humanitarian needs throughout the country and support recovery from Cyclone Nargis in the Irrawaddy delta region. Improving the statistical base is one essential ingredient for productive discussions

of future economic policy choices. The United Nations Economic and Social Council for Asia and the Pacific (ESCAP) has succeeded during the past year in arranging several high-level roundtables for policy dialogue on agriculture reform and other important topics with officials from other Asian countries and notably with Nobel Prize-winning economist, Joseph Stiglitz. The willingness of senior Myanmar officials to engage in these discussions is a hopeful sign of growing receptivity to outsiders' experiences and ideas in the socio-economic area, even while the leadership continues to resist foreign influence on domestic political issues of concern to the international community.

Now Myanmar is at a critical juncture. With the recent promulgation of election laws, the next two years will set the stage for a new era in Myanmar's internal political and economic life that can lead to a process of either deepening or weakening what will certainly be a fragile democratic transition. With all the major challenges facing a future elected leadership in domestic politics, ethnic relations, humanitarian needs, and economic reform, and however flawed the constitution, the election laws, and the elections, the question for all concerned outsiders is: what kind of economic relationship and engagement policy will support this country to evolve in ways we would like to see and not consign the Myanmar people to a future of ongoing internal turmoil or resumption of military rule. For better or worse, we have come to the end of an era in economic engagement policy toward Myanmar and we will need to chart a new course.

CHANGING CONTEXT FOR ECONOMIC ENGAGEMENT

Looking ahead from the present, there are two distinct phases for considering new policies for economic engagement with Myanmar. First, we should recognize that the Myanmar government is now formally a transitional government, with an obligation to prepare for the post-election transfer of power and changes in economic governance that will accompany the implementation of the new constitution. This transitional phase may be short-lived with limited opportunity for foreign influence. It can be expected that during this pre-election phase, the focus of attention of the international community will be on promoting free and fair elections and

on supporting the pro-democracy groups participating in the campaign. The risk of major disappointments in this period is high. One possible response by western governments will be to call for additional economic sanctions to express displeasure with the framing of the election laws or with the conduct of the election commission. It is highly likely that any such response will be ignored by Myanmar's leadership.

Another type of response is to advocate and support a robust domestic policy debate among the contending parties on issues of economic importance for the future governance of the country. The absence of any meaningful domestic policy discourse has been a notable feature of the military rule. The more open the debates and the better quality of information and analysis to inform the public discourse, the more meaningful it will be in building expectations among domestic stakeholders for new directions in economic policy and governance after the elections. This is important at the regional level as well as the national level, as the socio-economic challenges are quite different in different regions of the country. Under the new constitution, local governments will have more say in policies and more control over resources for regional economic development.

A third area of possible economic engagement during the pre-election period is to support preparations by the civil service for implementation of the new constitution after the elections in as smooth a manner as possible. While some senior officials will certainly leave the government to run for elected office and those that remain are not likely to pursue reforms under what remains of their watch, many mid-level officials will be focused on the administrative and policy challenges that will accompany the democratic transition. As a result, there is likely to be a new openness to technical cooperation with outsiders that will provide new opportunities for influencing the course of the future. In this political environment such anticipatory engagement would be best carried out through multilateral mechanisms, such as the UNCT, ESCAP, ASEAN, and the IFIs. Maintaining mandate restrictions on the UNDP in supporting capacity building of the civil service and opposing technical involvement of the IFIs on exploring new approaches on macroeconomic policy and management issues would be mistakes in this environment, given the prospects for making in-roads on some critical areas of economic management that can underpin a successful democratic transition.

After the elections, whoever wins, Myanmar will begin a new phase of national life. In this phase, there will be two significant changes from the context of the past decades. First, the new constitution provides explicit “basic principles” for economic policy and governance that will set standards for performance of the governing bodies. The constitution also provides architecture for economic decision-making and central-state economic and financial relations that will place major demands on the civil administration at both levels. The second major area of change from the past is the incentives environment for economic policy and governance. Accountability to the electorate over time will shift the focus of economic policy and priorities for national development. Future economic engagement with Myanmar should be designed with these changes of context in mind.

ECONOMIC POLICY AND GOVERNANCE IMPLICATIONS OF THE NEW CONSTITUTION

Articles 35–37 of the 2008 constitution provide a number of important markers:

- “The economic system of the Union of Myanmar is the market economy system.”
- “The Union shall:
 - a. permit all economic forces such as the state, regional organizations, co-operatives, joint-ventures, private individuals, so forth, to take part in economic activities for the development of the national economy;
 - b. protect and prevent acts that injure public interests through monopolization or manipulation of prices by an individual or group with intent to endanger fair competition in economic practices;
 - c. strive to improve the living standards of the people and development of investments;
 - d. not nationalize economic enterprises;
 - e. not demonetize legal currency in circulation.”

- “The Union:
 - a. is the ultimate owner of all lands and natural resources...;
 - b. shall enact necessary laws to supervise extraction and utilization of state-owned natural resources by economic forces;
 - c. shall permit citizens right of private property, private inheritance, right of private initiative, and patent within the law.”

The constitution thus provides a strong commitment to the goal of building a market economy under the rule of law with guarantees for private ownership and opportunity. This will require pursuing policies that promote the market economy and private enterprise, including broader access to credit, fair competition policies, monetary stability, and public expenditures that will complement private investment.

It is also not surprising that we are seeing privatization of state assets in the pre-election period. While this may be a way for the current leadership to raise cash for the upcoming election campaign or just permit “grab and go” before the elections, it is likely that crony capitalism will be more difficult after the constitution is implemented. The prohibitions against monopolies and unfair pricing practices, and scrutiny by elected officials will strengthen the rule of law leading to more transparency and accountability on business practices.

The commitment not to demonetize the currency reflects recognition of the deep damage done to the trust between the state and the people during the currency reform of 1987 that still resonates today. This possibly portends openness to more rational financial system policies and monetary management in the future, or at least, a recognition that trust in the financial system matters and is important for economic security and development.

The constitution gives ultimate ownership of Myanmar’s natural resource base to the state and mandates that the law shall govern the extraction and exploitation of natural resources by economic forces, which applies to the state, private sector, and joint-venture actors. This provides the legal basis in which, theoretically, it will be possible for a future government to design policies that will reduce the risks of the “natural resource curse”—an important issue for Myanmar as well as for many resource-rich African countries whose populations do not benefit from the sale of national assets because of macroeconomic distortions and misguided financial management.

All of these topics are ones in which domestic policy debates and external economic engagement would seem to be both potentially fruitful and also legitimate within the framework of the new constitution. There is clearly an opening to help a new government shape responses to national economic principles and aspirations that are embedded in the constitution without being seen as pressing external international agendas onto the country. From a U.S.-perspective, the constitutional commitment to private sector development, rule of law, and improving the livelihoods of the Myanmar people are all objectives that we should be willing to endorse and support.

A second area where the constitution provides important markers for future economic governance is in the delineation of the economic powers and relations between the central government and the states and regions. Not only will there be legislative bodies at both levels with budget oversight and approval powers, but the constitution lays out specific tax and expenditure authorities for local governments and a framework for intergovernmental transfers and loans, as well as processes for submission and approval of budgets. These terms more clearly define the responsibilities of the executive and legislative branches as well as intergovernmental fiscal relations.

Also important is the establishment of a financial commission with defined membership and responsibilities. This provides a high-level economic coordinating mechanism that will address both national and intergovernmental financial management in accordance with the responsibilities assigned to administrative and legislative bodies at both levels. It will also provide a natural counterpart organization for future economic policy dialogue with the international community at a high level.

The restructuring and decentralization of fiscal responsibility present both great opportunities and challenges for economic governance. More decentralized decision-making will allow for more tailored strategies to meet local needs and take advantage of local conditions. Equity issues across states and regions will need to be addressed at the national level. There will be a need for coordination of national economic development strategies with regional ones. Also, finance and administration for economic and social service sectors will need to be adjusted to fit within the new governance framework, especially in agriculture, infrastructure, education, and health.

All of this suggests that there is going to be a huge effort needed to get this new system of economic governance functioning in practice. Capacity building will have to be a major priority at both the national and local governmental levels. The fact that the international community has by-and-large denied capacity building support to the government for the past 20 years combined with the erosion of the educational system over decades only adds to the depth of the challenges Myanmar will face after the new constitution takes effect. A major shift in international engagement policy to expand significant policy dialogue, technical assistance, and training to the civil service is needed to help anchor a successful transition to the new decentralized economic management system.

CHANGE IN INCENTIVES UNDER THE DEMOCRATIC TRANSITION

No matter how flawed the constitution might be or how free and fair the elections will be, the latter will change the incentives environment for future economic policy and governance in Myanmar. Delivering on promises to the people and demonstrating attentiveness to the welfare of the general population will become standards for both legislative oversight of the executive branch and performance of elected officials. This will be a very significant change for Myanmar, which has previously experienced democratically-elected government for only about a decade in its entire history.

Economic policies that build trust between the electorate and the government will be important to anchor the democratic transition. Likely priorities for the government will include:

- keeping inflation low;
- improving rural livelihoods;
- expanding both quantity and quality of education and health services on an equitable basis;
- promoting expansion of the private sector, especially in job-creating enterprises, access to credit, and infrastructure investments in water, power, transport, and telecommunications.

It is not surprising that there has been keen and consistent interest in the Myanmar government recently for moving forward with improvements in agriculture and rural development, the two sectors that form the largest part of the economy and share of the population. Nor should it be a surprise that there are signs of a shift in financing the perennial fiscal deficit from central bank financing—which is inflationary—to selling state bonds to banks—which is not. Nor should it be a surprise that the government is sending signals that it desires more international assistance in improving economic and social statistics and research that will help design more effective policies and programs. All these signs indicate an overall awareness that the national priorities will be affected by the upcoming elections, and even before the implementation of the new constitution, new dynamics are beginning to come into play. Recognizing this reality provides an opening for economic engagement that can amplify and help push forward long overdue reforms that bring direct benefits to the welfare of the Myanmar people.

GENERATIONAL CHANGE AND FUTURE ECONOMIC ENGAGEMENT

In due course, the future of Myanmar will rest in the hands of a younger generation that has, by and large, been denied opportunities for educational, economic, or social advancement for the past two decades of military rule except for those who chose the military path to career advancement. The younger generation, even within the military, must be more concerned about the future than the past. Empowering them to take charge of their future should be a goal of international engagement policy. Young people also should have options for social advancement and not feel that the military is the only route to success.

American support for scholarships in post-graduate studies in many fields and educational exchanges with universities and research institutes has long been a hallmark of successful engagement with Asia. Korea, Thailand, Indonesia, Malaysia, the Philippines, China, and Vietnam have all benefited from this educational outreach. Myanmar has not, except in very small numbers from elite families. Investing in Myanmar's future leadership development and supporting education

and training for economic and democratic institution-building are needed to encourage and empower the younger generation to work inside their country to make these changes possible. Opening access to educational opportunities and providing financial assistance to those who need it should be given much higher priority in international economic engagement policy. Supporting the development of the domestic education system both at the basic and post-secondary levels should also be given much higher priority in the future for international development assistance.

ROLE OF SANCTIONS IN A POST-ELECTION MYANMAR

After the elections, no matter how disappointing the process or the outcome, the question will remain: what to do about economic sanctions? This is likely to be a divisive issue, as there will be conflicting forces at play. Keeping pressure on the behind-the-scenes powers in the military and on cronies who have business ventures directly supporting the military, even after the elections, is good reason to continue applying economic sanctions that directly affect the military elite. On the other hand, sanctions that constrain a new civilian government in pursuing policies that will nurture the democratic transition, support private sector development, and deliver improvements to the welfare of ordinary people should be relaxed. The same logic applies to boycotts of Myanmar products and tourism.

At present, removal of sanctions is linked to purely political and human rights concerns. There is no explicit linkage to economic reforms that would remove major distortions affecting economic efficiency and growth, and advance poverty reduction and environmental improvements. One route to consider would be to link removal of sanctions to a structural adjustment and poverty reduction strategy that the government prepares with assistance from the IFIs, the United Nations (UN), and ASEAN, and that can be broadly supported by the international community. Such a bold approach might be resisted by the government but it could also provide an opportunity for a strong kick-start to a new era of economic governance in Myanmar.

APPLYING BEST PRACTICES TO FUTURE ECONOMIC ENGAGEMENT STRATEGIES

Much attention is being given to the question of how to apply lessons of international experience in political, security, and economic transition to countries facing multiple and daunting challenges like Myanmar. In the basic model for development effectiveness endorsed by the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD), the goal should be to build political will and capacity of the government to undertake best practices in development, and for donors to pursue harmonization and alignment of assistance to achieve efficient use of resources and sustainable development and institution-building in the country. Each of these basic building blocks poses challenges in the Myanmar context, but they do provide guideposts for discussions in the international community about how to pursue future economic engagement.

There is no doubt that the elections and implementation of the new constitution will change the political will equation inside Myanmar as already discussed above. Capacity is a major constraint that can only be overcome by a change of engagement policy by the United States and the international community more generally, together with significant funding for training and technical assistance for the civil service as well as educational opportunities for the longer term. Harmonization and alignment will require a different order of communication and cooperation among Myanmar's future economic partners. Particularly important will be encouraging deeper IFI involvement to bring the new government help in applying international norms and best practices in macroeconomic management, financial system reform, and large-scale economic development projects, even if these are being funded bilaterally by China and Thailand, for example. Also critical will be to establish a policy dialogue and aid coordination mechanism that includes all major economic partners, so that there is overall coherence in the future economic development strategy and implementation arrangements, with proper attention to international standards for environmental and social safeguards. This will require building up in-country presence and capacity of donors to work together and support reforms in a coordinated way in keeping with best practices learned the hard way in other countries. Myanmar should be the beneficiary of

the recent assessments in the international community of what works and what does not in economic development and poverty reduction.

CONCLUSION

We have come to a critical juncture in international economic engagement with Myanmar. We must recognize that this is an end to an era that has been characterized by two decades of frustration and disappointment with a lack of progress on national reconciliation, human rights, and a democratic transition that is genuinely inclusive. Despite all the criticisms of the new election laws, it seems inevitable the 2010 elections will usher in a new era of national governance, and the next two years will be critical ones for setting new directions for the future. Changes in economic policies and management will matter greatly in this period to build confidence that positive change can be real and sustainable.

The international community faces a choice of maintaining distance from the new government by continuing existing “sticks-based” economic engagement policies, or of seeking to make a positive contribution to domestic efforts to implement the new constitution, which does contain elements of economic policy principles that we can broadly endorse and support. The time has come to make a bet on the younger generation and seek to engage in ways that can help move Myanmar in a positive direction in economic policy, in governance, and in the pursuit of broadly-held national aspirations.