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Doing Business in or with Burma

(January 2005)

What are the consequences of investment in or trade with Burma? How does it work? Who profits? Who suffers from it?

Contents

1. Introduction

A lot has been written and said about whether economic sanctions in Burma will work or not. Will they speed up the process towards democracy? Are they an effective weapon? Do they harm the dictators more than the general public?

As with previous sanctions and boycott discussions, there are believers and non-believers. Economic sanctions are not exact science and their effect can not be easily measured. Therefore, some will continue to argue that sanctions do more bad than good, in spite of the very many indications to the contrary in the case of Burma, where, when one looks at the big picture, they seem to be the right thing to do.

Burma is the only country for which the international trade unions are calling for disinvestment and sanctions. The situation in Burma is different to that of most other countries which have been (or are) the target of a boycott, for more than one reason. Burma has been a dictatorship since 1962. There is an opposition that was elected, but never allowed to govern. This opposition supports the position that is not yet time for companies to engage with Burma. Another particularity of Burma is the way in which the ruling dictators maintain their iron grip on both economy and political life.

International pressure is one way to influence the Burmese junta. The other option - internal pressure - is much more difficult, given the internal repression in Burma and the fact that very few people inside the country dare to protest – for good reasons. Over the last few years, international pressure seems to have been one of very few ways to make the generals move – a little. Sadly, the few steps forward that came as a result, such as the promise to work together with the International Labour Organisation (ILO), usually undertaken or announced before a large international conference took place, or before some important decision needed to be taken, were almost always undone or discredited soon after they were announced.

Sanctions are no guarantee for democracy in Burma. It is not a certainty - by no means - that sanctions will make the regime go away. However, there are other things that are certain. Given the almost complete grip of the Burmese junta on the formal economy in the country, it is clear that sanctions do affect the generals' income, the generals' families' income, as well as the generals' family's friends' income.

Someone once sent the following sentence to one of the Burma news e-mail lists: "Sanctions might not move them right away, but at least sanctions do not allow them to play the harp while they are destroying the country." This is an essential thought: even if sanctions do not bring an immediate regime change, they will, at least, have the merit of decreasing the amount of money - leading to more terror and more personal enrichment ends up in the hands of the Burmese dictators.

From: Aungsan Daghun on a Burma e-mail list

> When you are saying "a child on the other side of the world dies of hunger", right at this moment, the political prisoners in Burmese prisons are being tortured, anguished to death or mental and the ethnic girls in the minority areas are being gang raped and killed, the under aged girls and boys of ethnic minorities are being forced to prostitution in border areas not because of sanctions but because the military robbed their land of farming and the generals

> are playing harp while the whole country is being destroyed. Sanctions might not move them right away, but at least sanctions do not allow them to play the harp while they are destroying the country.

2. Who owns the economy?

(When you do business with Burma, who do you need to deal with? Can a company have independent business links in Burma?)

Burma has been ruled by a repressive, authoritarian military regime since 1962. Up until 1988, the Burmese government, i.e. the military, had a philosophy of doing it on its own. During that period - at the time of the 'Burmese Socialist Republic of the Union of Burma' - there simply wasn't very much interest inside Burma to deal with foreigners.

As of 1988, that changed as the new leadership started to see the possibilities of attracting foreign investment. It developed a strategy that narrowly redefined 'attracting FDI and trade for the good of Burma' to 'attracting FDI and trade for the good of Burma's rulers'.

The generals keep an iron grip on power, both politically as well as economically. A large part of this work is being done with the help of the army, consisting of nearly half a million people, and a system of military intelligence that seems to monitor anything any Burmese citizen says anywhere in the country. Both instruments have been helpful to install the current system of terror and military supremacy. In this environment, it was not too difficult for the junta to establish themselves as the main actors of business life in Burma, without whom nobody can operate.

A large number of people and organisations have described how the junta keeps its grip on the economy, in addition to politics.

From: 'Ready, Aim Sanction' - November 2003, by Altsean

> The Burmese regime has manipulated the development of the economic system so that it has 'tentacles' reaching all throughout the economy, making it almost impossible to do business in or with Burma without directly profiting the regime.
>
> The economy is largely controlled by state-run enterprises and private companies run by regime officials. Business investment mainly benefits the regime as an institution and as individuals.
>
> Since the late 1980s, the regime has pursued a process of 'privatization' to manipulate the economy in a way that has allowed the military to 're-assert ownership and control over formal sector enterprises'.
>
> This ownership occurs via private business organizations, where often times the main beneficiaries are not directly the state, but the regime's top officers, family members, allies and close business associates.
>
> The SPDC continues to create ministries and civil organizations under its control to extend its control over and profit from investment and trade.
>
> The regime's business ownership is pervasive, but it is also important to recognize that these enterprises often dominate the various business sectors.

It must be assumed that a high percentage of the profits of the joint venture deals embarked upon to date must eventually return in one form or another to the armed forces.

- The State-Owned Economic Enterprise Law of 1989 gives the ‘government’ the right to control 12 key areas of economic enterprises.

- The Burmese Army controls a ‘wide range’ of industrial, commercial, and financial enterprises, which are used to support ‘off-budget expenditures.’

- Foreign businessmen report that to do business one must ‘make a deal’ with a state-owned firm, a firm controlled by a senior military officer or pay at least 5% commission to a uniformed officer.

- Traders report that private companies can only export under the authorization of Union of Myanmar Economic Holdings Ltd (UMEH) or Myanmar Agriculture Produce Trading (MAPT), which receive an 11% commission on transactions.

- A 10% tax is applied to all repatriation transfers.

For example, in Arakan State, almost all business activities are controlled through a monopoly system, which severely inhibits any free enterprise. All agriculture, fishing, prawn breeding, bamboo, timber, firewood cutting, sale of livestock, and trade (rice, fuel, oil, fertilizers, etc) operate under a monopoly license system that allows for outrageous taxation. SPDC ministries or local Na Sa Ka reportedly sell licenses to a 'rich and influential' person, who then controls the market by vendor selection and taxation. The ministries and Na Sa Ka continue to benefit from this practice as the 'monopoly license' must be repurchased each year.

In Sagaing, Tenasserim, Pegu, Magwe, Rangoon and Irrawaddy Divisions as well as Mon, Arakan and Shan States, the USDA has extensive businesses. Business interests include railway lines, construction companies, fisheries, agriculture business, alternative firewood, summer rice paddy harvests, car part imports from Thailand, rice mills, prawn farms, well drilling companies, hotels, and karaoke shops. USDA is also heavily involved in taxation systems on vehicles entering towns or crossing bridges, river transportation, and market shops.

(USDA - Union Solidarity and Development Association – is an organisation linked to the Burmese junta - often used for propaganda purposes – a kind of NGO, but enforced on the people as Burmese citizens are often forced to be a member)

Western diplomats in Rangoon have said that the list of owners of the hotel plots at the newest beach resort, Ngwesaung, reads like a Who's Who of generals and their cronies.

From: 'Burma, twelve years after 1988 - a common future' by Camilla Buzzi - 2000

"The armed forces and the Ministry of Defence are also heavily involved in the private sector. They have established their own companies or engage in other forms of enterprise management. For instance, Burma's largest private company is the Union of Myanmar Economic Holding Company Ltd. where half of the shares are owned by the military. UMEH controls most of the joint ventures with private foreign investments.

Furthermore, top leaders of the junta, their families and associates, including Sen. Gen. Than Shwe, Lt. Gen. Khin Nyunt, Gen. Maung Aye, also have important private stakes in the economy."

Forestry monitor sounds alarm on logging in Myanmar - AFP - 9 October 2003

"The local population has benefited little in economic terms but the powerful have enriched themselves as the environment, and thereby the prospect for future sustainable development, has been destroyed."

Some economic sectors allow private (also foreign) investment, others simply don't. That means that in some cases, it is clear that government directly owns and controls everything, whereas, in other sectors, the relationship is less clear.

In the end, whether a company is a formal state enterprise (whereby one can be sure that the money goes to the generals and their cronies that own the companies) or a Burmese private company that is owned by a general, someone high up in the hierarchy of the military of one of their business friends (whereby one can be sure that the money goes to the generals and their cronies that own the companies), is usually only a matter of formality. In practice, in Burma, there is often not much difference between a government owned company and most other large companies – both are set up for the benefit of the junta, be it directly or indirectly.

Under the current legislation, foreign companies can not buy 'shares' in Burmese companies. Foreign businesses that want to set up shop in Burma usually need to do this through the form of a joint venture. UMEH (Union of Myanmar Economic Holdings) and MOGE (Myanmar Oil and Gas Enterprise) are examples of well-known, large state companies which, either directly or through their own subsidiaries, set up joint-ventures with foreign partners.

The situation is clearer for some sectors than for others. There are 12 sectors where the state has – by law – a monopoly.

From: http://www.asiatradehub.com/burma/trade.asp
(The law can be found here: http://www.mpt.net.mm/mpt_jointinv.html)

> To give more specific guidance to foreign investors the Foreign Investment Commission (FIC) issued a notification in May 1989 giving in detail the type of activities, covering almost all the economic activities except those reserved to be solely carried out by the State according to the State-owned Economic Enterprises Law.
>
> However, Section 4 of the said law relaxes the reservation by providing that the Government may waive the reservation whenever necessary. These activities can be carried out by forming Joint Ventures between the State Economic Enterprises and Local or Foreign Entrepreneurs or organizations. Accordingly Myanmar Investment Commission has permitted the exploration of oil and gas and minerals with the approval of the government.

From the State-owned Economic Enterprises Law - 31st March, 1989

> The Government has the sole right to carry out the following economic enterprises as State-owned economics enterprises:-
>
> - Extraction of teak and sale of the same in the country and abroad;
> - Cultivation and conservation of forest plantation with the exception of village-owned fire-wood plantations cultivated by the villagers for their personal use;
> - Exploration, extraction and sale of petroleum and natural gas and production of products of the same;
> - Exploration and extraction of pearls, jade and precious stones and export of the same;
> - Breeding and production of fish and prawns in fisheries which have been reserved for research by the Government;
> - Postal and Telecommunications Service;
> - Air Transport Service and Railway Transport Service;
> - Banking Service and Insurance Service;
> - Broadcasting Service and Television Service;
> - Exploration and extraction of metals and export of the same;
> - Electricity Generating Services other than those permitted by law to private and co-operative electricity generating services;

- Manufacture of products relating to security and defense which the Government has, from time to time, prescribed by notification.

The textile sector is an example of a sector that does not fall under a state monopoly. In spite of this, here as well, foreign involvement translates into a large amount of foreign currency income for the junta. The reason for this is that, monopoly or not, the junta and friends own the sector anyway.

From: “Myanmar garment manufacturers call for end to U.S. ban” – AP – 8 May 2003

> The Myanmar Garment Manufacturers' Association represents about 400 garment factories. Ninety-five percent of the factories are state-owned while the remaining 5 percent are either joint ventures or wholly owned by foreign companies. (according to Myint Soe, chairman of the Myanmar Garment Manufacturers Association)

A company that wants to invest in Burma needs the approval of the Burmese authorities to do so. In those cases where the junta sees a profit for itself, the Myanmar Investment Commission, through which all investment requests pass, will require the multinational to enter into a joint venture with a Burmese company. Entering in joint ventures is often the only way for a foreign company to do business in Burma.

How this works in practice is described below:

From: Burma Economic Watch - June 2001

> The Myanmar Investment Commission was established in 1989 to administer foreign investment under Burma's Foreign Investment Law. This commission is one mechanism that ensures that the regime controls FDI, with the majority of the Commission's members coming from the military cabinet itself. The practices of the commission ensures that the regime is able to direct resources towards the quasi-military companies which dominate the economy. Standards of competitive equality are not applied to private companies in competition with state or quasi-military companies, or even to private companies competing amongst themselves for access to foreign partners to form joint ventures. FDI in joint ventures has historically been with state enterprises and the quasi-military companies. The most important of the latter is the Union of Myanmar Economic Holdings (UMEH), which often has priority in accessing foreign partners. Reports suggest that UMEH is a major player in Burma's apparel industry.
>
> FDI approved by the Commission has access to a range of incentives not available to other investors. Once the investment proposal is approved, it goes to the Office of the Myanmar Investment Commission. As this office includes representatives of the state enterprises who may be in competition with the foreign investor, restrictions can be imposed. In the past, this has included the rejection of joint ventures between domestic private and foreign partners - only subsequently for projects to be approved with the domestic private firm replaced by a state enterprise. Privileges for those associated with the FDI approval process include signature fees, both official and unofficial.

The tourism sector also is – for the Burmese government anyway – just another way of generating income.

From: The New Light of Myanmar (Tuesday October 29, 2002)

> Chairman of the Committee Secretary-1 General Khin Nyunt made a speech.
>
> ...In doing so, encouragement is being given for the development of the tourism industry that is a successful business in world countries. In reality, tourism industry is a lucrative business that earns foreign currency easily and it is the one that can make the reputation of the country

> famous in the world. It also creates opportunities for obtaining foreign investments as well as technologies. So, it is a beneficial industry for the State, he pointed out.

It is generally assumed that the top generals have “divided” the economic sectors amongst themselves. Different generals control different sectors of the economy and profit from these. This leads to occasional internal struggles amongst the top generals, who “battle for turf”. According to insiders, disputes of this kind even were the main reason behind the recent removal of Prime Minister Khin Nyunt.

From: BBC, Burma's prime minister 'arrested', 19 October 2004

> According to the BBC's South East Asia correspondent, Kylie Morris, Khin Nyunt's removal is more about control of the military's business interests than a disagreement over politics.

From: 22 October 2004, AP, Myanmar foreign minister says junta's democracy plans on track despite leadership change

> In the week before Khin Nyunt lost his positions, several profitable businesses operated by military intelligence - including a travel agency holding a concession at Yangon's international airport - were closed down.
>
> Bagan Cybertech, a joint venture Internet service provider in which military intelligence held an interest, was taken over by the army soon after Khin Nyunt left his posts. One of the company's directors had been Dr. Ye Naing Win, a son of the former prime minister.

From: Myanmar's hardliner crackdown also a cash grab: analysts and opposition, 22 October 2004, AFP

> Deposed Prime Minister Khin Nyunt was also the head of Myanmar's infamous Military Intelligence (MI) which allegedly controls much of the black market and drug money in Myanmar.
>
> With the generals struggling to stay afloat in the face of crippling trade embargoes and with widespread jitters among foreign investors, analysts said those loyal to general number one Than Shwe had long set their sights on MI's fortunes.
>
> "These fellows (MI) have been acting like the mafia," a source close to Myanmar's military intelligence told AFP, adding that they had used the unit's elite status to collect a lot of "unaccountable income." MI corruption is particularly strong along the border areas where the daily income of a sergeant far outstrips the pay of a mainstream military man, said the source.
>
> Last month the army reportedly became disgruntled when MI began moving into their own business territory. Soon afterwards, regular army soldiers raided a busy checkpoint at Muse, some 800 kilometres (500 miles) north of Yangon, where they reportedly arrested dozens of officials including members of MI and other government officials considered to be working under Khin Nyunt's sphere of influence. The soldiers seized an unspecified amount of gold bars, jade, cash and other valuables.
>
> Ceasefire deals have given MI access to the country's gem mines and teak forests, that environmentalists have warned are being overexploited to the point of eradication. "(MI) negotiated all the ceasefire agreements with the ethnic minorities, the terms of which saw a lot of money flowing from these regions into Myanmar banks which thrive on money laundering and corruption," the head of Thailand's Senate Committee on Foreign Affairs, Kraisak Choonhavan told AFP.
>
> Diplomats have described the corruption as so entrenched that it is simply viewed as unofficial taxation or the accepted way of doing business. "They (the junta) run the economy and have a

hand in all deals... and a lot of those economic turns are for the army or sometimes a ministry," said former Australian ambassador to Myanmar Trevor Wilson.

From: Myanmar shakeup offers glimpse of junta Inc, 25 October 2004, Reuters

From karaoke bars to travel agents and newspapers, rivals are carving up the business empire of Myanmar's sacked prime minister and his once powerful clique. Khin Nyunt's demise has offered a rare glimpse into how the generals, their families and a handful of businessmen profit in one of the world's most corrupt economies, analysts say.

…Since then, scores of businesses, including a Yangon travel agency and a plastics maker, have been closed or have had their assets seized. At least 17 newspapers and magazines were shut or suspended after Khin Nyunt associates lost control of the censorship bureau. They included a magazine linked to Khin Nyunt's son, Ye Naing Win, who also runs Myanmar's sole Internet service provider. Khin Nyunt's circle was involved in everything from hotels to mining and cash crops to massage parlours. "You name it they did it, as long as it was profitable. We couldn't do anything without their blessing," said one Yangon businessman, who declined to give his name.

"But they should not just point fingers at military intelligence. There are many other government departments where corruption is rampant," he said. John Badgley, a retired Cornell University professor, says the junta accusing Khin Nyunt of corruption smacks of "the pot calling the kettle black".

He says competition between the generals and their families has intensified as investment pours in from China, India and southeast Asian neighbours such as Thailand and Singapore. Much of that money is funneled into joint ventures with military-run companies or their business allies.

Yangon has also become adept at "resource diplomacy", analysts say, giving neighbours a bigger slice of its natural wealth in return for political, financial and military support. The biggest player by far is China, which has denounced Western sanctions against the regime it props up with loans while Chinese firms build bridges, roads and factories, and dominate teak logging near the border.

But Yangon has sought to balance Beijing's influence by offering gas deals to India, which rolled out the red carpet for Than Shwe on Monday, the first visit by a Myanmar head of state in nearly a quarter century.

3. Levels of Foreign Direct Investment and trade

Reliable figures on Foreign Direct Investment (FDI) and trade flows from and to Burma are not easy to find. There are large differences between the few different figures available, depending on which organisation provides them.

Available numbers indicate that there are large fluctuations from year to year, as can be seen from the table below. One reason for this is that, as there is not that much investment going into Burma, relatively speaking, a single large investment in Burma may significantly lift figures for a particular year.

The figures are usually provided as normal FDI figures, but they are, in fact, sometimes not exactly that. There is, for example, a difference between the FDI that is pledged and that which actually arrives in Burma. A lot of announced FDI never materializes. Obviously, the regime likes to quote ‘promised FDI’. Another tactic by the junta is to release official figures that span a whole decade or more, to make the figures look more impressive, hereby disguising that virtually nothing came in during the most recent period.

All in all, the conclusion of the figures seems to be that there is not that much investment in or trade with Burma. Investment and trade levels are much lower than those for similar, neighbouring countries. In addition, FDI and trade flows into Burma seem to have dropped significantly since 1997 and, especially, after 1999. The Burmese government is responsible at least in part for this situation. Many companies decide to keep out of Burma because operating in Burma is difficult, dangerous, and not very profitable. Moreover, there is a strong case for arguing that the negative publicity generated by international pressure campaigns against companies investing in Burma has not only persuaded many of them to pull out but also kept others from investing in or trading with the country.

From: UNCTAD's FDI Country profiles: (figures are provided in millions of $US)

	FDI Flows **(source: Myanmar investment Commission)**	FDI Flows **(source: IMF)**	Approved FDI flows **(source: Myanmar investment Commission)**
1989	56.0	7.8	
1990	225.1	161.2	**280.6**
1991	235.1	238.1	**5.9**
1992	149.0	171.6	**103.7**
1993	91.7	104.7	**377.6**
1994	135.2	126.1	**1,351.9**
1995	317.6	277.2	**668.2**
1996	580.7	310.4	**2,814.2**
1997	878.8	387.2	**1,012.9**
1998	683.6	314.5	**54.4**
1999	304.2	253.1	**58.2**
2000	208.0	254.8	**217.7**
2001	192.0	208.3	**19.0**
2002	191.0		**86.9**
2003	**128.7**		

Overall, there is very little foreign direct investment going into Burma, certainly when compared with other countries, as can be seen in the table below.

	FDI Burma	FDI Thailand	FDI Singapore	FDI USA
1999	304	6,091	16,067	**283,376**
2000	208	3,350	17,217	**314,007**
2001	192	3,813	15,038	**159,461**
2002	**191**	**1,068**	**5,730**	**62,870**

From: ANALYSIS-Asian firms fill void in sanctions-hit Myanmar, Nov 11, 2003 (Reuters)

> Myanmar accounted for only $123 million of the $13 billion in foreign direct investment in Southeast Asian countries in 2001. Thailand attracted $3.8 billion that year.

A large part of the FDI to Burma during the 90's originated with large oil companies. However, most of these investments have been completed and these projects are now in operation. The newly discovered gas fields (in the A and M blocks, off the Arakan coast and in the Gulf of Martaban, respectively), are potentially going to bring fresh FDI to Burma in the years to come. Companies such as Daewoo, Thai PTTEP and two Indian companies, GAIL and ONGC Videsh, will be partly responsible for that.

From: ‘Ready, Aim, Sanction’ - November 2003, by Altsean

> Foreign direct investment in Burma is drastically declining. It was reported that FDI dropped by 70% in 2001 from the previous year. In 2002, FDI fell 16.5% from 2001 and about 75% from 2000. In 2002, only 4 countries invested in Burma, as opposed to 10 countries in 2001.

From: "Myanmar's foreign investment up 4.8% in FY 2003-2004", Kyodo, September 6, 2004

> About 60 per cent of the total investment in fiscal 2003-2004 went into the oil and gas sector, with South Korea investing $32.3 million and Thailand $22 million.
>
> Since the country switched to a market economy in late 1988, it has drawn over $7.47 billion in foreign investment, of which over 50 percent comes from other Southeast Asian nations.

From Xinhuanet, July 1, 2004

> Situated at Yangon's Mingaladon Industrial Zone, the factory, operated by the Myanmar Asia Optical International Company Limited, is solely invested by the Asia Optical Company of Taiwan.
>
> Myanmar Prime Minister General Khin Nyunt and other ministers attended the inaugural ceremony as the factory is Myanmar's biggest foreign-invested project in most recent years.
>
> According to official statistics, Myanmar absorbed 95.31 million dollars of foreign investment in 2003, bringing the total to 7.54 billion dollars as of the beginning of 2004 since it opened to such investment in late 1988.

From: Myanmar foreign minister visits India, keen to attract trade and investment - Jan 20, 2003 – by Nirmala George Associated Press Writer

> According to statistics published by the Myanmar Ministry of National Planning and Economic Development, only one foreign company made a major investment in the first half of 2002 - worth US$1.5 million.

Interpreting trade figures with Burma is equally difficult. Different figures are given for different years, all varying, depending on the source.

Overall, most trading, even increasingly so, seems to be with Burma’s neighbours. The top 5 countries are Thailand, China, Singapore, India and Malaysia. Bilateral trade between Burma and China, for example, is said to have reached the US$ 1 billion mark in 2003 (of which Burma’s exports to China amounted to about 170 million and imports from China to 900 million). If true, this would be a very large part of the total imports into Burma, which, according to figures given below, stood at US$ 2.4 billion in 2003. Given these figures, it is not a mystery why China wants to be good friends with Burma. Trade with India, currently at US$ 500 million, is also expected to grow fast.

In spite of this regional interest in trading with Burma, all articles in the international press indicate a drop in overall Burmese imports and exports since 2001. Trade has decreased, every year, for the last three years. Here as well, figures are, at times, somewhat contradictory, but the overall trend is clear: there is, in absolute figures, less trade with Burma then before. The conclusions of these figures therefore seems to be that, other than Burma’s neighbouring countries (China, India, Asean countries), who are interested in regional power play, most of the world’s other countries are trading less with Burma than in previous years.

From: Myanmar's foreign trade dropped in 2002 , AP, 31 January 2003

> Myanmar's foreign trade dropped by nearly 16 percent in the first nine months of 2002 compared to the same period during the previous year, according to official figures published Friday. Imports during the January-September 2002 period totaled 10.4 billion kyat, a 37 percent decline from the same period during the previous year. Exports totaled 15.3 billion kyat, up 10.35 percent from 2001.

From: Myanmar's foreign trade down in first 3 quarters, Xinhua, November 18 2003.

> Burma's foreign trade in the first three-quarters this year was down 17.8 percent with both of its exports and imports reducing by 26.7 percent and 4.7 percent respectively from the same period of 2002.
>
> According to official statistics, Burma’s foreign trade volume stood at 5,276.63 million dollars in 2002 with its exports amounting to 2,982.13 million dollars and its imports 2,294.5 million dollars. That year's foreign trade enjoyed a trade surplus of 687.63 million dollars.

From: Myanmar's foreign trade dropped slightly in 2003, Jan 10 2004, AP

> Myanmar's total foreign trade volume in 2003 fell by 4.4 percent to US$4.3 billion from US$4.5 billion in 2002, said a semiofficial report.
>
> The slight fall came after Western nations imposed harsher economic sanctions on the military-ruled nation following the detention of pro-democracy leader Aung San Suu Kyi.
>
> In a report seen Saturday, the weekly Business Information Group bulletin said exports for 2003 totalled US$2.4 billion, compared to US$2.5 billion in 2002, down 4 percent. Imports, meanwhile, dropped 13 percent to 1.84 billion in 2003 from 2.12 billion in 2002, it said. Most of Myanmar's imports came from Singapore.

From: Myanmar's foreign trade drops nearly 7%, 4 April 2004, AP

> Myanmar's foreign trade fell by 6.6 percent in the last fiscal year, according to a semi-official report, but it wasn't clear if the drop was caused by Western sanctions following the ruling junta's detention of pro-democracy leader Aung San Suu Kyi.
>
> Myanmar's total foreign trade in fiscal year ended March 31 dropped to US$3.42 billion from US$3.66 billion in the previous fiscal year, said the latest report released Saturday by the weekly Business Information Group bulletin. It said imports fell 4.8 percent to US$1.99 billion from US$2.09 billion in the previous year, while exports dropped 8.3 percent to US$1.44 billion from US$1.57 billion.

From: Myanmar's foreign trade drops only slightly despite Western sanctions, AP, 16 October 2004

> Myanmar's total foreign trade fell less than one percent in the first half of the current fiscal year compared to the same period last year, despite economic sanctions imposed by the United States and the European Union, a semi-official report said.
>
> It said imports - most of which come from Singapore - fell 6.4 percent, from US$1.07 billion during the six-month period last year to US$1.001 billion this year. The report did not elaborate, but official figures show imports of textiles dropped from US$170 million to US$112 million, and oil and diesel imports sank from US$191 million to US$166 million. However, exports increased 4.7 percent, to US$1.12 billion over the period this year from US$1.07 billion last year. Most of Myanmar's exports go to neighboring Thailand.

There is a trend in Burma towards less import and more export (of which a large part seems to be gas to Thailand). According to the figures, 2002 was the first year where Burma exported more than it imported. The explanation for this seems to lie in the fact that imports saw a sharper decline that exports.

One particular action has had a very noticeable effect on trade: the US sanctions, which prohibit imports from Burma.

From: Snubbed By US, Myanmar looks to China, The Straits Times, 31 August 2004

> The State Department estimates that Myanmar lost about US$200 million in the first year of the ban on imports to the United States.

From: Myanmar junta turns to Asian business links as Western sanctions bite, AFP, 16 November 2003

> Textile exports to the United States last year were worth about 350 million dollars.

4. How much of this money is going to the junta?

Finding out the precise details on who really owns what in a particular company in Burma is not an easy task, given the degree of non-transparency of business. Burma is one of the world's least transparent countries to do business in. Providing exact figures on how much cash flows to the junta, is, therefore, equally difficult.

Many Burmese companies are directly owned by the military, some are owned by the highest or higher members of the military, often in a personal capacity, while others still are owned by relatives and/or friends of the junta's leaders. For all these companies, obviously most, if not all, of the profit goes to those that own the enterprises, i.e. the military and friends. Given the almost absolute grip on the economy by the ruling junta, they are in pole position to make sure that they own those companies where money is to be made.
Therefore, it often does not matter that much whether a company is military or 'privately' owned. Much of the profit goes, in both cases, to the junta and their cronies.

The Burmese banking sector is just one example of how the economy is controlled by the military and its top-generals. The foreign exchange monopoly is shared by four banks, all of which are fully government-owned. However, that does not mean that the rest are 'private banks', as half of them are also owned by the junta (the other half is owned by a variety of people, ranging from dodgy Chinese business interests to Burma's narcotics industry. Many of these private banks are even less transparent than the government-owned institutions).

From: Reforming the Banking System in Burma: A Survey of the Problems and Possibilities, by Sean Turnell, Macquarie University, Sydney, Australia, September 2002

> This paper has made the distinction, as most commentaries do, between Burma's 'state-owned' and 'private' banks. It's a not unreasonable distinction usually, but in Burma matters are never so simple. The issue here is simply that a sizeable number of Burma's private banks (indeed precisely half) are owned or controlled by members of the ruling military clique. Clearly they are not 'state banks' in the traditional sense, but nor are they purely private in that they are not entirely independent of government.

As for the financial sector in Burma, SWIFT, a company based in Belgium but operating worldwide, plays a very important role at the international level. SWIFT is a company that hosts a network which enables high street banks and other financial institutions to make transactions with one another on a daily basis.

As of 2003, SWIFT has adopted the four banks mentioned above into its network, thereby providing the Burmese junta with the opportunity to continue making international financial transactions and profit from them. Because of the fact that they are able to use SWIFT's network, the Burmese generals can evade the economic sanctions imposed on them by the international community, particularly sanctions imposed in 2003 by the USA, which prohibit, amongst other things, financial transactions to and from Burma in US dollars by US citizens or US-based companies.

In some cases, as in the joint ventures or other partnership arrangements with the large government-controlled companies, of which UMEH (Union of Myanmar Economic Holdings) and MOGE (Myanmar Oil and Gas Enterprise) are just two examples, it is clear who participates and who benefits. However, even in these cases, it is far from clear how much money goes to the Burmese partners. One of the reasons why this remains unclear is that it is sometimes forbidden for foreign partners of joint ventures or other partnerships to disclose payments made to the junta. This is, for example, the case in the oil and gas sector.

> *From: "Multinational Enterprises in Situations of Local Conflict and Widespread Human Rights Abuses" - OECD document[1] - May 2002*
>
> > Fiscal Practices in Selected Oil and Gas Producing Countries and Regions
> > Myanmar: Non-disclosure of payments to government required of oil and gas companies? Answer: Yes
> > http://www.oecd.org/dataoecd/46/31/2757771.pdf - page 16

Partly because of the opacity of the Burmese economy, different people and different organisations quote different figures when trying to identify the share of the income that directly goes to the junta. For some sectors and items, however, some clearer figures are provided. The numbers here below are usually based on 'official' contributions and money flows. It is reasonable to assume that, in most cases, the real income for the junta will be much higher than the figures below suggest, owing, for example, to corruption, other taxes, or the fact that the junta (directly or indirectly) also owns the companies in question.

> *From: Free Burma Coalition press release – 12 June 2003*
>
> > Burma's regime completely controls the garment sector and derives considerable revenue through its exports, including a 10% export tax.
>
> *From: 'Ready, Aim Sanction' - November 2003, by Altsean*
>
> > According to the U.S. Department of Commerce, the SPDC Ministry of Finance and Revenue have placed a 10% tax on exports in foreign exchange.
> >
> > Minister for Hotels and Tourism, Maj-Gen Saw Lwin, admitted that 12% of the earnings of private tourist enterprises fund the regime.
>
> *From: Danish Burma Teak Report - 2004 - Published by the Danish Burma Support Group and the Danish Burma Committee.*

[1] Source: Directorate for Financial, Fiscal and Enterprise Affairs, Working papers on international investment, Number 2002/1, Multinational Enterprises in Situations of Violent Conflict and Widespread Human Rights Abuses, OECD, Paris, May 2002

The Burmese regime, which is one of the world's most brutal regimes, owns all forest in Burma. They are party to all agreements concerning legal export of Burmese timber via its company Myanmar Timber Enterprise (MTE).

Some private companies do run logging businesses in Burma but they are always linked to MTE in one way or the other. Corruption is widespread, and individuals working for the regime often demand money under the table before handing out logging concessions. Officially the Burmese regime earns 11 % of its foreign exchange earnings from the export of timber (2001), and the regime expects to make more money from timber in the future.

At least half of the timber in Burma is exported illegally, according to the report from Global Witness. Where the money goes is undocumented, but it is likely that the regime uses it for personal benefit and the buying of arms, and that some it ends up with local guerrilla groups or troops in the Burmese military who run some of the illegal trade.

From: Myanmar mired in a deforestation crisis - Globe and Mail - May 13, 2004

More than 9 per cent of Myanmar’s legal foreign earnings came from logging in 2002, according to official data. But the actual amount of timber revenue is believed to be more than twice the official figure, with huge amounts of the logging trade illegal or unrecorded.

There are a few figures available on how much money the junta makes from individual projects or particular investments by certain companies. Here again, these figures vary from source to source. (for comparison purposes, the total GDP of Burma is estimated somewhere between 6 and 10 billion US$)

From: Another Yadana: The Shwe Natural Gas Pipeline Project, Earth Rights International, August 27, 2004

Many speculate that the Shwe Project could generate between $800 million to $3 billion U.S. dollars in annual revenues.

From ‘Quels levier de RSE ? La société civile - Etude de cas : Total et Unocal en Birmanie’ - Par Marion Cohen - 22 octobre 2003

Le contrat porte sur plus d'un milliard de dollars, et, depuis sa mise en service, le gazoduc rapporterait selon les estimations entre 150 et 400 millions de dollars par an au régime.

*(*From a study on Total and Unocal in Burma*:” The contract is worth over 1 billion dollars and, since it started operating, the pipeline is believed, according to estimates, to earn the regime between 150 million to 400 million per year”)*

From: Corporate responsibility and despotism, The Irriwaddy, November 2004

As dreadful as the forced labour, torture, rape and murder committed along the pipeline route was in human terms, the greater part of the Yadana and Yetagun consortiums’ responsibilities with relation to Burma are that the gas revenues help perpetuate and enrich a brutal, incompetent government.

Next year Rangoon will receive more than $250 million (not counting condensate from Yetagun) from the gas as royalties and profits.

From: Myanmar Actively Develops Foreign Economic, Trade Ties, Dec 11, 2001, Xinhua

In October 2000, the Yadana gas field started supplying gas to Thailand and will earn for Myanmar a foreign exchange of 300 million dollars annually.

From: "Chinese, Myanmar companies sign petroleum exploration contract", Xinhua, September 3, 2004

> The statistics also show that Burma produced 7.2 million barrels of crude oil in 2003. Gas export during the year earned 655 million dollars, while crude oil import worth 27.85 million dollars the same year.

From: Snubbed By US, Myanmar looks to China, The Straits Times, 31 August 2004

> The State Department estimates that Myanmar lost about US$ 200 million in the first year of the ban on imports to the United States.

From: Canadian Business – 27 October 2003 - Business without borders

> Ivanhoe's Monywa partnership provides the SPDC with roughly US$ 800,000 in annual royalties--an amount set to increase dramatically once construction loans have been repaid.

From: British House of Commons debate on Burma - July 2, 2003

> The Burma Campaign UK estimates that the joint venture (BAT) earns the regime £ 400.000 a year.

Another source of income: all kinds of taxes

Burma is a country where ordinary tax income is rather low, given the general population’s extreme poverty. As is the case in many developing countries, foreign investment is, therefore, very important in Burma, given that taxation on FDI may be a large and reliable source of income for the state. The same applies to trade with Burma, with custom duties being equally important for the State’s finances.

From: “Multinational Enterprises in Situations of Local Conflict and Widespread Human Rights Abuses” - OECD document - May 2002 (op. cit.)

> Many developing countries are characterised by low general tax revenues and, especially, by a low ability to levy household income or consumption taxes.
>
> Governments in many developing countries, including Myanmar, tend to rely on more easily controllable revenue sources (e.g. customs duties or the granting of competitive advantages to state owned enterprises for fiscal purposes).
>
> Multinational enterprises that can operate profitably in difficult environments like Myanmar (or Angola, Sudan and others) offer potentially large and viable funding sources for governments that might otherwise have trouble generating revenues.
>
> Extractive industry companies face serious problems when doing business in troubled countries, but these do not necessarily prevent them from running highly profitable operations. This is presumably because the high natural resource rents that are built into petroleum and mineral prices provide a margin of profit that can be used to offset the extra costs and risks of doing business in these countries as well as to make large tax and royalty payments.

Other sources of income for the junta are the various taxes that are being charged by the Burmese army, sometimes for the strangest of reasons. This alternative ‘tax system’ is, obviously, closely linked to the widespread corruption in Burma.

Victims are usually ordinary civilians, who are often forced to pay taxes for something nobody should pay any taxes for. Other victims are merchants and business operations that need to transport goods, thereby passing a number of checkpoints.

Prices for some export products, bought by foreign companies, therefore already are artificially high, as they include bribe money that goes to the military.

From: ICFTU Briefing Burma: "Terror rules" – June 2003
http://www.icftu.org/www/pdf/brief_BirmanieEN.pdf

> And then there are all these taxes that the local authorities are continually inventing and which push us ever further into poverty. For example, in January 2002, every family had to give 10,000 kyats (around USD 10) for building a road. And if you have a visitor in your home, you need to pay 50 kyats per day if it's a child, 100 kyats if it's an adult. There is a fine of 500 kyats for not reporting the visit to the authorities. I even had to pay for my own mother's visit!

From: The Mon Forum – June 2004

> However, on the way to the Three-Pagoda Town, the extracted wood has to pass many checkpoints of SPDC and they have to pay 1200 baht per ton of wood at each checkpoint. If a lot of tons of wood would be transported, there is negotiation between the merchant and in charge at each checkpoint.
>
> After that, in the Three Pagoda Pass border town, they have to pay 600 baht per ton of wood has to be given to the SPDC's forestry Department. It is also needed to give 100 or 200 or 300 Baht to other checkpoints set up by other armed groups such as KPF, DKBA, NMSP and People's militia groups.
>
> According to the businessmen or merchants, they have no many benefits from this business, due to variety of tax collections to be paid, heavy charges for transportation and labour, and instability of market. On the other hand, who benefits are DKBA[2] and other armed groups who collect much tax, Thai companies who trade in these furniture, SPDC's checkpoints which took a lot of tax from the merchants.
>
> On the other hand, SPDC authorities are also exploiting variety of taxes from domestic manufacturing industries and merchants. Every furniture manufacturing industry has to give between 100 and 500 Baht per month per ton of wood and every truck loading with wood is charged for entrance of the town plus 1000 Baht per ton.

From: Motor vehicle tax enforced, Irrawaddy, October 21, 2003

> The current price of a 2000 Toyota Landcruiser or Mitsubishi Pajero is more than one billion kyat (about US $109,000), he said. Those vehicles are categorized in the seventh tax group and incur the highest tax burden, almost 10.5 million kyat (about US $11,500).

From: Cash and Repression: Arbitrary Taxation and Looting by the Military in Burma, October 2004, Burma issues Newsletter, by C. Guinard

> Arbitrary taxation and other forms of extortion are common practices throughout Burma.
>
> These informal taxes range from travel or work permits, paddy taxes and cattle registration fees to a multitude of contributions to be made to the authorities in cash, goods or services. The tactic of arresting people for minor offences or under suspicion of being an informant for an insurgent group and demanding high bribes in return for their release is also widespread in ethnic areas throughout Burma.

[2] (*Democratic Karen Buddhist Army,* an armed militia linked to the junta, ed.)

> In Pa-an District in Karen State, SPDC soldiers planted landmines on cattle paths. If animals stepped on the landmines and died, SPDC soldiers would keep the meat for themselves and force the cattle owner to pay for the landmine. The price of a cow or buffalo ranges between 80,000-200,000 kyat (2000-5000 Thai baths). The price of a landmine can be up to 5000 Kyat.

A possible third source of income: the exchange of foreign currency

A separate - but related - and less known issue is that of the exchange of foreign currency. Companies, as well as organisations that deal with Burma and operate inside the country, at times, have to exchange foreign currency into local Kyat.

There is an enormous difference in Burma between the official exchange rate (which is set at 6 Kyat to the dollar) and the going rate in the street, which is usually somewhere between 800 and 1100 Kyat to the dollar.

Tourists can usually get away with exchanging (nearly) all of the money they need through moneychangers in the street, using the black market rate. At the business level, on the other hand, most companies presumably do not have that option, as much larger amounts are involved and these companies need to follow, at least partly, the official route. Although very little is known about how this works in practice, indications are that, in most of these cases, the exchange rate is ‘negotiated’ with representatives of the State. Reportedly, this results in an exchange rate somewhere between the official and the black market one.

When considering the concrete example below, where a rate of 400 Kyat to the dollar was reportedly used, this would mean that about half of what the amount is worth is lost just by exchanging it into Burmese currency. This translates into a rather large profit for the Burmese authorities, something for which they have to do very little. The same applies to trade with Burma, though it is unclear what percentage is lost in those cases where currency exchanges are involved.

From: A Peace of Pie? - October 2002 - ALTSEAN

> Meanwhile, humanitarian workers in Rangoon independently claim the UN accepts a rate approximately 40% lower than the market rate; currently 400-450 kyat. (At the time of printing the exchange rate is approximately 1,100 kyat to the US$.)

From: Tax sparks Myanmar panic buying, June 17, 2004, Reuters

> In a further blow to importers, a finance ministry official said duty would now be calculated using a value of 450 kyat/dollar on all goods, rather than a previous staggered rate of 100 kyat/dollar for consumer goods, 150 for televisions and 180 for roofing sheets.

From: Import Tax Hike Slows China-Burma Border Trade, By Naw Seng, August 11, 2004

> Previously, imported goods were taxed at an exchange rate of 180 kyat to the US dollar. But the Ministry of Finance and Revenue changed the exchange rate to 450 kyat on June 15. On the Chinese border, however, goods were valued at a rate of 850 kyat per dollar until last week. The current black market price in Rangoon is 925 kyat per dollar.

Another problem is that of exporting profits earned by foreign companies. In Burma, companies can not, due to exchange regulations, exchange local money into hard currency. This sometimes leads to strange situations, as is shown in the example below, involving export of earnings through barter trade rather than currency.

From: ICFTU online - interview with Maung Maung[3] - March 2003

> We know, for example, that they (*foreign investors*, *ed.*) have to pay their taxes in dollars though they sell their goods in local currency. And it is hard for them to change their kyats (Burmese currency) into dollars - indeed the tobacco firm Rothmans has been buying fish with the kyats it gets for its cigarettes, and is exporting it on to Hong Kong to be sold for dollars!

From: Reforming the Banking System in Burma: A Survey of the Problems and Possibilities - by Sean Turnell, Macquarie University, Sydney, Australia, September 2002

> Burma's military regime continues to outlaw, for example, the conversion of Kyat into foreign currency. This means that the repatriation of profits from Kyat denominated income is difficult.

5. What do the generals do with this money?

Obviously, there would not be that much of a problem if Burma were an ordinary country where income is used wisely and put to good use. Whereas most countries have priorities such as education, health or culture, in Burma, income, if not used for personal enrichment, seems to be preferentially spent on military issues.

The Burmese junta doubled the size of its army during the nineties and uses it as a tool to hang on to power. The army carries the main responsibility for egregious human rights' abuses, such as forced labour, population displacements, arbitrary detention, torture, etc.

Forced labour often means forced portering for the army, in some cases in combat, with frequent deaths of porters from exhaustion, disease, deprivation of food, water, rest and medical care or by sheer murder. Other cases of forced labour include forced road clearing and building, construction and maintenance of army installations, confiscation of land and forced agricultural work on this land for the army's benefit or profit, compulsory supplies of construction materials, food (including rice, meat, fish, vegetables and fruit) and alcohol, forced labour in army-owned brick kilns and forced supply of firewood, as well as random and arbitrary tax collection.

The Burmese generals have a long history on spending money on those issues that help them cling on to power, instead of on issues which would further the interests of its population.

From: Another Yadana: The Shwe Natural Gas Pipeline Project, EarthRights International, August 27, 2004

> The United Nations Human Development Report of 2003 estimates that over 40% of Burma's national budget is dedicated to military expenditures, while 0.4% of GDP is spent on health and education.

From: 'Burma, twelve years after 1988 - a common future' by Camilla Buzzi, 2000

> "Defence spending is currently taking the lion-share of public spending, and was estimated at 46% of total expenditures between 1989 and 1994.

From: Myanmar's rulers defy sanctions – International Herald Tribune - 2 August 2004

[3] General Secretary, Federation of Trade Unions – Burma (FTUB, not recognised by the authorities)

> The government's annual health budget is about 24 cents per capita, with only one country, Sierra Leone, spending less, the World Health Organisation says.

From: Burma - Country Reports on Human Rights Practices 2003, US Bureau of Democracy, Human Rights, and Labor, US Department of State

> Government expenditures for civilian health care in 1998-99 were equivalent to only 0.3 percent of GDP. In 2001, official studies sponsored by U.N. agencies found that, on average, 109 of 1,000 children died before reaching the age of 5 years, and that only 1 out of 20 births in rural areas was attended by a doctor. A joint Ministry of Labor and United Nations Populations Fund (UNFPA) study in 2001 indicated that, among children under 5 years of age, 7.9 percent were severely malnourished. A joint Ministry of Health and UNICEF report in 2000 indicated that on a national level 35.3 percent of children under 5 are moderately to severely underweight, 33.9 percent are moderately to severely underdeveloped, and 9.4 percent are moderately to severely emaciated.

From: UN warns of child malnutrition in Myanmar, AFP, 14 September 2004

> A third of children aged under five in Myanmar are suffering from malnutrition because of the failure of the military regime to reform the country, the World Food Program (WFP) said.
> "The policies of government are in fact impoverishing these people."

From: ‘Ready, Aim, Sanction’ - November 2003, by Altsean

> By the late 1990s, the regime's expenditure on civilian education equalled only 1.2 % of the country's Gross National Product - compared to 3.8% for developing countries - and had declined 70% in real terms since 1990.
>
> According to the World Bank, the government only spends 28 cents a year per child in public schools. Almost 40% of children never attend school.
>
> Almost 75% fail to complete primary education in Burma. 98% of schooling children have never finished basic high school.
>
> Yet, spending on arms increased by 700% between 1988-1999 and public expenditure has decreased more than 50% during their reign.

From: Human rights, socioeconomic situation in Burma (compiled by the NGCUB - August 2004)

> The UNDP Human Development index of Burma has been dropped from 118 in 2001 to 132 in 2004.
>
> The government spends 40 % of the national budget on the military, while spending on health care and education is one of the lowest in the world at under 1% (US$ 0.60 and US$ 0.28 per capita respectively).
>
> The World Health Organisation's (WHO) 2000 report graded Burma 190th overall in the health system of 191 surveyed.

From: A Peace of Pie - October 2002 - ALTSEAN

> In May, it signed a contract with Washington lobbyists DCI Associates worth US$ 550,000 plus expenses for the year ended May 15, 2003. One objective was to obtain humanitarian assistance for HIV/AIDS projects. US$ 550,000 is over 18 times the regime's budget for HIV/AIDS in 1999!

The role of the Burmese army:

From: Amnesty International report ASA 16/007/2002 – July 2002 – Myanmar: Lack of Security in Counter-Insurgency Areas:

Life in hiding after forcible relocation

Several Shan interviewees had been in hiding for months or even years after having been forcibly relocated by the tatmadaw to relocation sites away from their home villages, fields and food supplies. At the relocation sites they generally had no means to make a living, as they could not farm their land, and there was little or no employment for them. When they could no longer survive in the relocation sites, they often went into hiding. While they were not at risk of being taken for forced labour in hiding, they did face other dangers which eventually caused them to flee to Thailand. They lived in small settlements in the jungle and tried to grow some food, but often had little to eat. Shan civilians also risked being shot on sight by tatmadaw troops on patrol as they searched for SSA-South soldiers.

A 35-year-old widow from Keng Kham village tract, Kunhing township, had been in hiding for four years before fleeing in early February 2002 to Thailand. She and her family could not make a living in Ka Li relocation site so they hid near their original village, but tatmadaw troops burned their hiding places several times, forcing them to move yet again. Her husband became weak and died, apparently from lack of food, in late 1999. Aged 32 at the time of his death, he was very healthy before they went into hiding.

(“Tatmadaw” is the junta’s official name for the Burmese army, ed.)

From: Burma's Child Soldiers Tell of Army Atrocities
By Ellen Nakashima, THE WASHINGTON POST, Monday, February 10, 2003

Another young man, Naing Win, said he was 16 when he was ordered into a nasty fire fight. To fuel the soldiers, he said, the commander made them take amphetamines, washed down with whiskey. The troops, Naing recalled, "got very happy."

In the encounter, each soldier was ordered to lob five grenades at the enemy. Naing, whose forehead bears a shrapnel scar, said he was sufficiently high on the drugs that at one point he was throwing stones. With one grenade, he forgot to remove the pin that allows it to explode. Then he was ordered to run forward exposed to enemy fire, retrieve the grenade, take out the pin and throw it again. The battle killed his best friend, 15.

Another time, after his unit had won a battle against ethnic Karenni rebels, his commander wanted the area cleared of mines. About 40 Karenni villagers were made to walk through the mined zone, he said. In the ensuing explosions, some died and some lost their legs. Those who survived were lined up. Naing said he and several other soldiers were ordered to shoot them. They did.
"I'm very sorry," he said.

From: Coalition to Stop the Use of Child Soldiers: Report Shows Child Soldier Use Continues Unabated - January 16, 2004

In Myanmar there was little if any progress in ending child soldiering, with an estimated 70,000 children in the government armed forces. Exiled children told of being abducted by government forces and taken to military camps where they were subjected to beatings, forced labour and combat.

6. Corruption, transparency and drugs

In addition to moral and ethical arguments, there are also a number of economic arguments why investing in Burma is not such a good idea. Most of these arguments centre on decreasing general economic indicators, on the closed business environment, on corruption and on drug problems.

From: ADB Report: Myanmar Economic Outlook Remains Uncertain - 2002

> The government doesn't issue detailed economic statistics and independent verification of the figures it gives is difficult. Most economists believe the government's figures are exaggerated.
>
> Inflation is estimated to have averaged around 20% in 2001. It had averaged over 25% a year for more than a decade.

Burma is one of the most corrupt countries in the world. It is also one of the countries with the least transparent business culture. According to the latest overview by Transparency International, Burma ranks 142nd (out of a total of 145) on the list of most corrupt countries in the world.

From: Transparency International - Corruption is rampant in 60 countries, and the public sector is plagued by bribery, says TI - 21 October 2004

> Corruption is perceived to be most acute in Bangladesh, Haiti, Nigeria, Chad, Myanmar, Azerbaijan and Paraguay, all of which have a score of less than 2.

Burma has been singled out for this reason by a number of organisations. One such organisation is the FATF (Financial Action Task Force, an intergovernmental organisation linked to the Organisation for Economic Cooperation and Development, OECD), which has developed a list of countries and territories that are seen as havens for money laundering.

From: FATF targets cross-border cash movements by terrorists and criminals, 22 October 2004

> The FATF continues to use the NCCT (non-cooperative countries and territories) list to call on financial institutions to scrutinize transactions with persons, businesses, or banks in listed countries or territories with inadequate anti-money laundering infrastructures. The current list of NCCT countries is: Cook Islands, Indonesia, Myanmar, Nauru, Nigeria and the Philippines.

Another reason why doing business in Burma doesn't make much business sense is the long list of restrictions on business in the country. This is in addition to the system of bribes that is the order of the day.

From: Reuters - January 4, 2005 - HK ranked world's freest economy for 11th year –report

> Hong Kong remains the world's freest economy but it could jeopardise its position if it goes ahead with a goods and services tax, U.S. think-tank the Heritage Foundation said on Tuesday. The countries with least economic freedom, according to the foundation, were Myanmar and North Korea.

The widespread corruption in Burma creates the perfect environment for laundering of drug-related money. Burma is one of the world's leading exporters of illegal drugs. A number of industrial sectors are concerned with drug-money laundering.

From: 'Ready, Aim, Sanction' - November 2003, by Altsean

> An article in the Irrawaddy Magazine asserted that, "Increasingly, the garment industry has become the investment of choice for distributors of narcotic substances, as it provides not only a profitable industry for laundering ill-gotten gains, but also the ideal cover for large shipments of drugs. It is widely known that some of the world's most notorious drug kingpins, including Khun Sa and Lo Hsing Han, are key business partners of the regime and are also involved in the garment industry.

From: Forestry monitor sounds alarm on logging in Myanmar - AFP - 9 October 2003

> "Drug traffickers have invested in logging to launder money, and logs have been hollowed out to conceal drugs," the report said, adding that some drug eradication schemes have been used to justify large-scale logging by providing farmers with alternative income.

From: 'Burma, twelve years after 1988 - a common future' by Camilla Buzzi

> "Furthermore, there is reason to believe that money laundering and profits from the narcotics traffic play an important role in the overall economy. According to a 1999 US State Department report, family members of current and past drug traffickers have invested heavily in infrastructure projects, such as roads, port facilities, hotels and real estate. The large number of political and economic constraints on legal capital, the underdeveloped banking system and the lax enforcement of measures against money laundering have created a business and investment climate in which drug money has become the seed capital for many legitimate enterprises.

7. Is there a link between FDI and politics?

Investment in Burma is not only just a matter of money. Politics and power are also involved. Some people - or some governments, or companies linked to them - invest because of politics. In addition, in those cases where the foreign investment was there first, the home country’s policies are subsequently often less critical towards Burma, owing to investment concerns.

As Burma is part of a regional power play, many of its neighbouring countries seem to have changed their approach towards Burma over the last years.

China continues to be interested in Burmese business (China has always been a good friend of Burma – both countries have similar opinions on the need for freedom of speech, freedom of association and other fundamental human rights). Many Chinese state enterprises operate in Burma and the Chinese government is willing to support the Burmese junta, including financially, without asking too many questions.

From: People’s daily online - March 22, 2004 - Sino-Myanmar bilateral economic, trade ties get new momentum

> The bilateral economic and trade relations between Myanmar and China continued to develop in recent years, attributing to being deepened by China's policy of good neighbourly and friendly cooperation with its neighbours including Myanmar.
>
> According to official statistics, Myanmar-China bilateral trade, including border trade, exceeded 1 billion US dollars in 2003 with Myanmar's exports to China amounting to about 170 million and its imports from China 900 million.
>
> Especially during Myanmar top leader Senior-General Than Shwe's visit to China in early January 2003, an agreement on economic and technical cooperation, which is one of the three, is for China to provide a 50 million yuans of aid to Myanmar and a largest ever preferential loan of 200 million dollars at low interest rate for carrying out Myanmar's 790-megawatt Yeywa hydropower project.

China’s strong interest in Burma (most recently demonstrated by China’s announcement of plans to build a pipeline across Burma) is not being lost on other regional powers. India has also decided to increase cooperation with Burma. So have a number of ASEAN countries. This partly explains the soft approach by most of the countries in the region towards Burma. Large business interests are often presented as a reason for these countries to express only mute criticism of Burma’s policies and style of government, at best.

In addition to that, some personal interests are also at stake. A company closely linked to Thailand’s Prime Minister Thaksin Shinawatra, for example, has large business interests in Burma. His counterpart in the business deal was reportedly the son of the recently ousted Burmese Prime Minister Khin Nyunt.

From: Myanmar signs satellite deals with foreign firms – AP - Jan 22, 2004

> The state-run Myanma Posts and Telecommunications inked a deal for international roaming services with Shin Satellite Public Co. Ltd., owned by the family of Thai Prime Minister Thaksin Shinawatra. In May 2002, the company signed a US$12 million deal with Myanmar to provide telephone service to villages in remote parts of the country.

From: BURMA-THAI RELATIONS: US Senator slams PM - The Nation – 4 march 2004

> Speaking in the US Senate on Tuesday, McConnell charged that Thaksin’s policy towards Burma may have been shaped by his family’s investment in the country.
>
> “Some suspect that the raison d’etre can be summed up in a single word: iPSTAR,” McConnell said. iPSTAR is a US$350 million (Bt14 billion) broadband satellite owned by Shin Satellite and Shin Corporation, a holding company founded by the Thai Prime Minister who owns 53 per cent.

From: Burma shake-up further strains Asean-EU links - FT - 20 October 2004

> Singapore, however, has urged the EU not to focus on the Burma issue at the cost of damaging economic ties with Asean. Lee Kuan Yew, modern Singapore’s founding father, is on the international advisory board for Total, the French oil group that is largest EU investor in Burma.
>
> Thailand’s Export-Import Bank, citing the “uncertain situation“, temporarily closed a 4bn baht ($97m) credit line designed to help Burma buy Thai telecommunications equipment. Shin Corp, founded by Mr Thaksin, has a telecoms joint venture with a company owned by Gen Khin Nyunt’s son.

There are other examples of conflicts of interests. Consider Mr. Razali, the UN Special Envoy for Burma, who visits Burma from time to time, in an effort to promote a democratic process. Mr. Razali is Chairman of a company – IRIS Technologies – that is involved in selling electronic passport technology to Burma.

From: IT Business - Technology in Government, January/February 2004, Vol. 11 No. 1, Myanmar's e-government is a sham

> It's interesting to note that IRIS Technologies is partly owned by the UN special envoy to Myanmar, Razali Ismail. He also heads up Leader Universal, another tech firm looking to expand into Myanmar, and is on the board of Wah Seong, a Malaysian engineering firm with interests in Yangon.

Politics and business also mix in Europe, where France (Total is a large investor in Burma) is not always sure what to do either. When Europe discussed whether or not to take more action (sanctions) towards Burma, in September 2004, the consensus opinion was towards more biting sanctions. France objected.

From: Financial Times - France opposes Burma sanctions - September 8, 2004

> European Union plans to impose new sanctions on Burma have been challenged by France, which has yet to be convinced of the need for such a step. Like all other EU countries, Paris wields a veto over EU foreign policy.

> At an EU officials' meeting in Brussels yesterday, France made clear it needed to be persuaded of the need for additional sanctions. TotalFinaElf, France's oil giant, is active in Burma. EU foreign ministers will discuss the issue at a meeting early next week.

The USA, in spite of its stronger stand on Burma, does not forget to defend corporate interests from time to time either. For example, the law prohibiting new investment in Burma, dating back to 1997, was constructed, similarly to the new, so-called EU “sanctions” of 2004, in such a way as to allow pre-existing investment to continue. This also made it possible for Unocal to maintain its presence in Burma. In addition, as the example below shows, Unocal still continues to benefit from a little help from its friends.

From: Ashcroft's Justice, Burma's crimes and Bork's revenge - by Joanne Mariner, CNN.com, May 28, 2003

> Given the chance to protect corporate interests, the Bush administration is predictably happy to take it. Ditto for the prospect of undermining international justice. But it's not every day that the opportunity arises to accomplish both objectives at once. It takes a case like John Doe I v. Unocal Corp., a civil damages action currently pending in U.S. federal court.
>
> In a brief recently filed in the Unocal case, the administration -- in the person of Attorney General John Ashcroft -- sets out to defend an oil company, reaffirm the president's untrammeled power over foreign policy, and eviscerate a law that has provided a modicum of justice to victims of rights abuses from around the world.
>
> The plaintiffs in the Unocal case are Burmese villagers who claim that they were subjected to forced labor, murder, rape, and torture during the construction of a gas pipeline through their country. Soldiers allegedly committed these abuses while providing security and other services for the pipeline project.
>
> Except for a token acknowledgment of the Burmese government's human rights abuses, the Justice Department's brief ignores the facts of the case. Rather than attempting to defend Burma and Unocal on the factual record, it instead aims to destroy the legal basis of the villagers' suit. In its brief, the Justice Department embarks on a wholesale attack on the Alien Tort Claims Act (ATCA), the law underlying the villagers' claims.

8. Are there direct links between FDI and abuse of workers?

Many multinational companies immediately go into defence mode when faced with the request to sever their links with Burma because of forced labour issues. In most cases, the reaction is one of: ‘we are not using any forced labour, and we are making sure that we will never be’.

It is not genuinely believed that many foreign companies actively engage in using forced labour. The army is responsible for the lion’s share of that practice. Possibly also partly because of the lack of transparency in Burma, there are not that many known instances where forced labour is used directly by operations that are linked to foreign enterprises. However, one noted and important exception is the large infrastructure projects, such as the building of pipelines.

The main reason why foreign enterprises should not engage in investment in or trade with Burma is because of the financial benefits that the junta reaps from their activities, which contribute to allowing the military to remain in power and perpetuate their criminal rule over the country.

However, there are also some direct consequences of the operations of companies in the area of forced labour. Even though companies may not often use forced labourers themselves, in some cases, there exists at least some measure of forced labour related to their presence. This applies, for example, to the tourism sector.

Furthermore, infrastructure is often being built because of pledged investment, or in the hope of attracting it. And forced labour is often used in this infrastructure building. Examples are roads to certain facilities, airports, helicopter pads, etc.

From: Another Yadana: The Shwe Natural Gas Pipeline Project, EarthRights International, August 27, 2004

> Similarly, tens of thousands of villagers are believed to have been forced by the Burmese military - many of them repeatedly - to help construct the Yadana-Yetagun Pipeline between 1996-1998. These figures do not include the estimated 36,000 who were forcibly relocated without compensation to secure a corridor for the project. Nor do these figures count the victims of other abuses, including: rape, torture, and summary executions.

From: Democratic voice of Burma News - June 1, 2004

> Ko Khet Lwin - 46 years old mine worker from Ivanhoe Mine company was sentenced by Bahan Court for 7 years with hard labor for escorting a visitor, Andrew Michael, to the compound of Daw Aung San Suu Kyi in December 2003. He was transferred to Taungdwingyi Forced Labour Camp.

From: Burma Country Reports on Human Rights Practices, US Bureau for Bureau of Democracy, Human Rights, and Labor

> There also were reports that the Government used forced labor to construct infrastructure to support tourism. According to credible sources, in February 2000, the SPDC announced plans to develop the Karen hill town of Than Daung Cyi as a tourist "hill resort." Immediately after the announcement, new army battalions moved in, land was confiscated from the town's residents and surrounding villages and persons began forced labor on a road to the hot springs at Ker Weh.
>
> According to two eyewitness accounts, forced labor was used to develop the Hlaingthaya Industrial Zone in Rangoon in 2000.

From: FTUB (Federations of Trade Unions Burma) database on investment in Burma - October 2004, mentioning the Italian-Thai Development Company (ITD)

> Forced Labour on the Taninthari- Boatpyin motor road.
>
> ITD company of Thailand was awarded a contract to pave the road between Taninthri and Boatpyin with stones. In June, 2004 to pave the earthen road with stones between Taninthari and Boatpyin, Center of Strategic Command (4) Col: Soe Thet has started using forced labour everyday. The following numbers of villagers from the mentioned villages have to take turns to go and work on the mention road up to this day.
>
> 1. Kaw-yun village 30 persons
> 2. Nyaungbin Kway village 30
> 3. Chaungla Mu 35
> 4. Banla Mu village 30
> 5. Manaw Yone village 28
> 6. Yawr Thar Yar village 27
> 7. Inn Peh village 20
> 8. Tha Baw Lake village 30
> 9. Thane Kaw village 30
> 10. Ton Kar village 35

9. What is the effect of sanctions on ordinary citizens?

The international community, as represented by governments and intergovernmental organisations, generally dislikes economic sanctions. And the business community positively hates them. Though some sanctions are at times imposed at national or regional levels, the imposition of effective, global economic sanctions is mostly a prerogative of the UN’s Security Council. They are generally contemplated only as a last resort before military action and designed to avoid the eruption of international armed conflict which may follow as a consequence of action by “rogue” states. When it comes to violations of human rights, only the most extreme situations are considered as legitimate grounds for contemplating economic sanctions, all too seldom at that. Concrete examples are scarce.

Burma is a case in point, in which any economic sanctions that have been taken are limited in scope and under perpetual attack by many governments, business interests and often international organisations themselves. The arguments against imposing economic sanctions on Burma are not different from those used in other cases. Roughly speaking, they belong to two categories: pragmatic and moral ones.

Firstly, it is argued, “sanctions don’t work!” Thus, it is argued that sanctions can easily be circumvented by the junta and that other foreign investors will be found to fill the market gaps left by those who withdraw. This is happening to some extent, as illustrated in the oil and gas extraction industry, where Asian investment is continuing while many European companies have left, under pressure from civil society and, occasionally, political decisions. To argue that sanctions therefore have no place is akin to the logic that stealing someone’s handbag is to be tolerated because ‘if I don’t do it, someone may’.

The second line of argument is that “sanctions don’t hurt the junta, they hurt the people”. In the case of Burma, the most frequently quoted example is that 200,000 textile workers allegedly lost their jobs when the United States banned imports from the country in 2003.

As often in such debates, facts are changed and realities twisted to make a point. One of the worst examples of this has been where the Burmese junta argued that, because of the US sanctions, many young girls had lost their jobs and had no alternative than to enter the illegal prostitution sector. The argument was used by Burmese authorities, by neighbouring countries’ governments and even by some Western politicians. Figures that were provided as evidence were, as usual, not based on any concrete research whatsoever. And Burma’s democratic forces, including many women’s organisations, were incensed by the implied moral judgement of this bogus argument.

Even if it were true that, due to the job losses, many young Burmese girls entered the prostitution sector, the Burmese junta would have been the main responsible actor for this, as they are the ones that mismanaged the Burmese economy for the last four decades.

Both the “markets” and moral arguments are equally misleading. They are, however, amply exploited by the Burmese junta. Similarly to other dictatorships or authoritarian

governments, the SPDC has a record of offering last-minute compromises when facing an imminent threat of sanctions or similar measures by the international community. These have, over the years, come in the shape, for instance, of legislation purporting to ban forced labour when confronted over the issue by the International Labour Organisation (ILO), or the release of a prominent political prisoners ahead of crucial meetings involving the European Union. These SPDC measures have nearly always been short-term, and were often reversed once the crisis had passed.

The junta has occasionally also resorted to comprehensive propaganda schemes, including by “warning” of important job losses if international “sanctions” were imposed, especially with regard to the implementation, in March 2001, of measures decided by the ILO’s international Labour Conference in June of the previous year. It had at the time put in place secret plans to evade what it feared – wrongly at the time – would be international measures targeting its exports.

From: Burmese junta's disinformation exposed by ICFTU *(ICFTU OnLine, 28/3/2001)*

> The existence of the carefully-designed propaganda campaign was confirmed this morning when a Norway-based Burmese opposition radio (Democratic Voce of Burma, DVB) released details of the plan, adopted last November. The so-called “White Paper” inter alia instructed Burmese companies to use containers for textile and other exports, in an effort to make their Burma origin more difficult to trace, advised them to re-route exports via countries whose governments are friendly towards the regime and ordered the administration to organise for “letters from workers” to be sent to the ILO in order to protest “ILO sanctions set to deprive them of jobs and destroy their livelihoods.
>
> The latter idea was implemented last January and announced at the time by the Myanmar Times as a spontaneous initiative by Burmese workers. The ILO last week acknowledged it had indeed received a letter to that effect. A 40-pages report by the ILO’s Director General, due to be discussed in Geneva tomorrow, 28th March, by the ILO’s Governing Body, includes information about an “open letter regarding ILO decision on Myanmar” dated 29 November and purportedly send on behalf of “18 million workers in public and private enterprises”, petitioning the ILO “to reconsider its actions” on forced labour in Burma. The ICFTU says the letter is completely bogus and sees its announcement by the Myanmar Times as confirmation that the secret propaganda plan is now in full swing.
>
> In a separate development, the Myanmar Times falsely claimed last month that Burma had regained access to European markets at privileged conditions established under the EU’s Generalised System of Preferences (GSP).”
>
> (source: http://www.icftu.org/displaydocument.asp?Index=991212548&Language=EN)

This is not to say, however, that no Burmese citizens may suffer from economic sanctions. But they do not represent hundreds of thousands workers, much less eighteen million of them!

Direct employment of Burmese workers by foreign involvement is very limited, whereas the political repercussions for the population are enormous. As seen earlier, foreign capital strongly contributes to keeping in power a regime which oppresses a country of nearly 50 million people.

In actual fact, 75% of all Burmese derive their income from agriculture. The majority of the rest (those working Burmese that do not work in agriculture) work in the informal economy. As these are not linked to the formal economy, they are hardly influenced by

the rise and fall of government companies or foreign investors. Therefore, the overwhelming majority of ordinary Burmese citizens are not affected by the few sanctions that have been imposed so far. Neither are they likely to suffer significantly more if and when economic sanctions are strengthened. The bottom-line, in contrast, is that many more people suffer - and are forced to take drastic measures, such as escape and exile - from policies applied by the junta than from any from of international sanctions. The Burmese generals are directly responsible for the fact that the population of Burma is suffering. This is where a change is needed.

Also relevant for this discussion is that many people that work in or for companies that have some foreign involvement, are there because of their personal links to someone in or close to the ruling circles. In most other cases, where one was not fortunate enough to ‘know someone’, workers have had to pay bribes to secure employment in these factories. The fact that they may, in some cases, offer a higher salary is, therefore, not always of much use to the ordinary Burmese citizen.

From: Testimony by Daw San San, elected Member of Parliament, NLD, March 25, 2004

> I am often asked about effect of sanctions on the Burmese people. First, it is important to understand that all major industries are dominated by the military. It is very difficult to get a job in a military run factory or business unless you are a part of the junta's military or political apparatus. They take care of their own. They also demand kickbacks for employment opportunities. It is impossible to start a business unless you have the express approval of the regime, foreign joint-ventures are instructed to partner with specific military officers.

Owing to the nature of the regime, Burma’s people can hardly be expected to express their feelings about economic sanctions. Those that dare, in fact, tend to end up in prison. It is thus tempting to listen to what the democratic opposition has to say on the subject.

Hence, strong economic pressure against the junta has the support of the political party that won over 80% of the parliamentary seats, the National League for Democracy, or NLD. The two last quotes, therefore, are from Aung San Suu Kyi herself:

From BBC, 12 December, 2002, Aung San Suu Kyi talks to the world

> “I have to say quite frankly that the people of Burma, in general, do not depend on tourists and foreign visitors to bring them information.”

From AFP, 9 May 2002, Sanctions send 'strong' message to Myanmar regime

> Daw Aung San Suu Kyi said, "There is no evidence that sanctions have caused harm primarily to the Burmese people.
