

South Asia Analysis Group

Published on *South Asia Analysis Group* (<http://www.southasiaanalysis.org>)

[Home](#) > Sustaining change in Myanmar

Sustaining change in Myanmar

Submitted by asiaadmin2 on Thu, 03/28/2013 - 05:19

Paper No. 5439

Dated 28-Mar-2013

By Col. R. Hariharan

[This article formed the basis for Col Hariharan's presentation "Political and economic change in Myanmar" at the Federation of Indian Export Organisation (FIEO) seminar "Doing Business with Myanmar" at Chennai on March 16, 2013.]

Strategic context of change

Myanmar is in the throes of change since 2010 after the first-ever multi-party election was held after two decades. President Thein Sein has surprised all the stakeholders by the speed with which he is transforming the government from an insensitive military dictatorship to a democratic rule of sorts, despite the limitations imposed by the Constitution 2008. As a result Myanmar has become the focus of international attention and even approval.

Geographically located on the eastern borders of India, and on the South and Southeast of China, Myanmar's strategic value for two most populated nations of the world is immense. This is further enhanced with the impending completion of two infrastructure projects linking Myanmar with China and India. The China-funded Kyaukphyu port project with road link and gas and oil pipelines to Yunnan in China is likely to be completed in the next few months. This would provide China a direct strategic access to the Indian Ocean by passing the choke point at Malacca Strait. Apart from security implications, it would make Chinese exports to the under exploited South Asian market more competitive, while helping the development of Yunnan province.

Similarly India's Kaladan multi modal project providing easier road and river access for India's troubled Northeast to Sittwe port in Myanmar is expected to be completed in May 2014. This link could act as a catalyst for the development of Northeastern states of India as it would open a direct route for India's trade with Myanmar and the rest of ASEAN. In tandem with China's direct access through Kyaukphyu, Sino-Indian trade will have greater opportunities to flourish. And we can expect China to enlarge its foot print further in South Asia.

China's increasing belligerence in East and South China seas has become a cause for concern for Japan and its close ally the U.S. It threatens to destabilize the U.S.'s dominance in East Asia and longstanding strategic equation with Japan, South Korea and Philippines. China's contentious territorial claims on South China Sea have become louder. To contain this development, the U.S. has been trying to enlarge its strategic periphery from Asia-Pacific to Indo-Pacific. As a key geostrategic entity in this region, Myanmar is well on its way to become a focus nation of the U.S., shedding its out caste status of earlier years.

During the last three decades, China had carefully cultivated Myanmar's military junta by providing vital economic and political help to soften the crippling effect of international sanctions imposed upon the country after the military refused to hand over power to the democratically elected civilian government in 1990. China chose to ignore the struggle for restoration of democracy by the National League for Democracy (NLD) under the leadership of Ms Aung San Suu Kyi. Although India and ASEAN countries did not observe the sanctions and built their own links with the military regime, it is Chinese influence that predominates in Myanmar, particularly in the armed forces, infrastructure, mining and trade and commerce.

The cosy relationship China had built over the years in Myanmar is under threat now. Sustained international pressures and support to Ms Suu Kyi's campaign spearheaded by the U.S. ultimately compelled the military regime to come out with the 2008 Constitution which gives limited democracy to the people. China had no option but to go along with the international community on the democratic reforms in keeping with its growing international profile.

Ever since the civilian government came to power and started taking up political, economic and structural reforms process, the U.S. has started rebuilding its relations with Myanmar. As a result the U.S. sanctions are progressively being lifted to facilitate greater opportunities for U.S. business in Myanmar. President Obama's visit in November 2012 came perhaps as the final recognition of President Thein's earnest effort in the democratic exercise. As increasing U.S. presence in Myanmar is eating into the Chinese sphere of influence, it has become a matter of concern to China. Chinese media had been lamenting the failure of its policy makers to cultivate the democratic constituency in Myanmar.

Though Chinese are trying to repair their relationship with leaders like Ms Suu Kyi, in the amorphous state of politics in the country it will be quite some time for results to emerge. However, China as a neighbour with enormous economic and military power will continue to enjoy widespread influence in Myanmar for some time to come. However, China would always be on watching with extra attention the U.S.

initiatives in Myanmar in the context of regional security and trading regimes. This would become even more important when Myanmar assumes the chairmanship of ASEAN in 2014.

Unlike China, India's relationship had been more laid back. However, Myanmar's historical cultural and religious experience and shared colonial history with India makes Myanmar more comfortable in dealing with Indians. India's presence as a friendly and powerful neighbor enables Myanmar to somewhat balance China's overwhelming influence. This could become a potential game changer as and when India-U.S. strategic relationship grows. Indian efforts to enlarge its economic and strategic relationship are not on the same league as China.

However, given the entrepreneurial spirit of Indians which is second only to the Chinese, we can expect it to grow more rapidly in the coming years. Indian leadership of all political hues is aware of the importance of Myanmar in India's overall strategic spectrum. And as democracy comes to stay in Myanmar its equation with India is likely to make rapid progress.

Myanmar's ability of to sustain political and economic changes now underway has to be viewed in this overall strategic context.

Political changes

The country owes much of its new found success to President Thein Sein's prioritized and action-oriented style of governance. Within two years of coming to power, he has managed to overcome his negative image as a handpicked man of the military junta and a former military officer. Clearly he has impressed not only the people of Myanmar but also Ms Aung San Suu Kyi, who led the struggle against military rule.

Though the reform process still has a long way to go, President Thein appears to have chosen his priorities right. In the last two years in office in the first stage of the reform process, he took up political reforms to produce visible results. Most of the political prisoners have been released, exiles have returned after a number of irksome military-imposed restrictions were removed, and media is freer than ever before.

Thein not only freed Ms Aung San Suu Kyi from house arrest, but persuaded her to bring the NLD back to national political mainstream despite her strong objections to the 2008 Constitution. Electoral laws were amended to enable her and the NLD to contest parliamentary by-elections; now under Ms Suu Kyi the NLD is taking an active part in the parliament as the main opposition party.

In this climate of growing political harmony, Ms Suu Kyi has reciprocated Thein's positive approach. Even in some of the grey areas like ethnic reconciliation, Ms Suu Kyi has chosen to help him than confronting him. Overall, there is a lot of enthusiasm among the people, particularly the youth, who are trying to understand democracy in action. Unless, the government performance matches enthusiasm the danger of the country reverting to army rule and chaos is always there.

The NLD is staging a comeback from two decades of political wilderness. The recently held NLD conclave has shown weaknesses in organisational structure and leadership. The party needs to replace the aging leadership ruling the roost and bring in fresh blood to impart

dynamism. Historically the student power had been the catalyst of change in Myanmar.

Though the NLD has planned to bring in younger leadership it may not be an easy task as a popular political party it can become a bandwagon for diverse vested interests. This is the malady that had undermined Myanmar in the early days of independence when political parties gained notoriety rather than fame for schism, power struggle and factionalism.

Fortunately for NLD, Ms Aung San Suu Kyi still remains the only charismatic national leader with grass root popularity. However, she appears to be a little hesitant in exercising her leadership clout as demonstrated in her reluctant approach to some of the contentious problems like ethnic conflict and attacks on Rohingya people. President Thein Sein appears to have cleverly used her as the cat's paw by making her to head the Latpadaung Inquiry Commission after public outcry against a copper mine project destroying their environment. Inevitably in the process, she has courted some unpopularity with her recommendation to go ahead with the project as planned by the government.

The Union Solidarity and Development Party (USDP) now in power is backed by the military. Though this background could be a baggage when it is pitted against the NLD in the elections, as a ruling party it has the advantage of being able to dispense favours. Moreover, Thein Sein's reforms have the potential to improve the quality of life of the people, and win their support to the USDP. Other political parties are yet to establish themselves in the nascent political environment. However, ethnic parties have established constituencies and their support could become useful in jacking up strong coalitions. In this respect the NLD has a better history while USDP as a party in power has a better opportunity to improve the equation with ethnic communities.

So the future of stability in democracy would depend upon the relative ability of Ms Suu Kyi and President Thein to rally the support of smaller political entities. While President Thein has the advantage of power, Ms Suu Kyi has a record of achieving this during the two decades of her political struggle for democracy. However, to achieve this in the present context, perhaps she needs to evolve a proactive strategy to impart greater political dynamism in the NLD.

Potential game changers

Myanmar's ability to sustain economic and political reforms as planned could be dislocated by two game changers – army and ethnic insurgencies – which had been having antithetical relationship in the history of the country.

Ethnic insurgencies plaguing the country since independence provided a valid reason for army taking over power when political instability troubled the government. The army seized power in 1962 when there was political chaos as a number of parties clamoured for power, and Karen and Communist insurgencies threatened the existence of the nation. According to Wikipedia the army has doubled its strength to 500,000 since 1988. With progressive modernisation the army has become a powerful one in the region. Such a powerful army with a

constitutional role conferred on it to intervene in the democratic system makes an incendiary combination. Any dilution of its role can be carried out only through constitutional amendment. With the political scene in a flux, it is probably too premature for any party to even think about amending the constitution to curb military's role. In any case it will provoke immediate army reaction.

A second aspect is army's unfettered control over national security. Thus in any ethnic reconciliation process, the army will be the final arbiter of peace and war. There are about 17 ethnic insurgency groups in the country. They have a long history of fighting the army to preserve their identity, areas of habitation while seeking autonomy. Of these, 14 have signed ceasefire agreements with the government after it came to power. However, the Kachin Independence Army (KIA) in the North bordering India and China, the Shan, and Karen insurgent armies have been involved in sporadic clashes with the army after they refused to accept the terms of the under the 2008 constitution. As per the constitution their armed cadres were required to come under the Myanmar army. The insurgent groups have refused to surrender their weapons in the absence of a political solution to their demands for autonomy in terms of the Panglong Agreement signed at the time of independence. This may not be forthcoming in the present unstable political environment. As the economy opens up, rich natural resources abundantly available in ethnic states would add an economic rider to the issue as it happened in Kachin state triggering conflict with KIA. Unless a permanent solution is found the possibility of resurgence of insurgency will always loom in the horizon. Such a conflict would definitely put the clock back on democratic reforms and provide space for the military to step in to rule.

Economic and structural reforms

Ever since General Ne Win, the architect of military dictatorship, introduced the Burmese way to socialism, the country's economy became a disaster. After the global economic liberalisation became a fact of life, in 2008 the junta started carrying out economic and fiscal reforms. This process picked up momentum after democratic reforms. The government on coming to power in 2011 introduced two-stage reform process in which structural and economic reforms to facilitate less bureaucratic and more accountable process and bring stability to Kyat are important components. The key economic indicators based on the last 5 years' performance compiled by the Asian Development Bank are given in the Table below:

Head	2008	2009	2010	2011	2012
GDP in billion \$	20.2	31.4	35.2	45.4	51.9
GDP per capita \$	351.0	537.3	595.7	759.1	856.8

GDP growth % constant prices	5.5	3.6	5.1	5.3	5.5
• Agriculture, livestock	8.0	3.4	4.7	4.4	4.4
• Industry	21.8	3.0	5.0	6.3	6.5
• Services	12.9	4.2	5.8	6.1	6.3
Consumer price (% change)	32.9	22.5	8.2	7.3	4.2
Overall fiscal deficit % of GDP	(3.8)	(2.4)	(4.8)	(5.6)	(6.4)
Current A/c balance % of GDP	0.6	(2.2)	(1.3)	(0.9)	(2.6)
External debt as % of GDP	56.8	37.7	35.3	30.6	28.2

Evidently the government has achieved success in managing inflation and in stabilising the monetary value of Kyat. However, as the economy opens up managing them will become even more complex and a lot of foresight and planning would be required from the government.

However, even with all the goodwill in the world, today doing business in Myanmar is not easy. There are no foreign banks in Myanmar as their operation is not codified. Nineteen foreign banks, including 5 Chinese and one Indian entity have been permitted to open only representative offices. They cannot do banking transactions. Any Myanmar citizen can open a dollar account to deposit dollars but he cannot transact in dollars! And there is only one Myanmar bank - with a single office in Yangon for channelizing foreign currency transactions! So the foreign investor's option as of now is limited to bring in foreign currency without the facility to directly remit profits in the currency and bank of his choice. At present the correspondent bankers facilitate this by reciprocal arrangement with the authorized Myanmar bank.

However, all these are set to change. With large number of American businesses visiting Yangon, the U.S. is relaxing its strong financial curbs on transacting with Myanmar. So it is a matter of time, structural frame work with legal oversights would emerge in Myanmar.

The international community appears to be favourably disposed towards the structured economic reforms process. In this context Myanmar Govt. Letter of Intent to International Monetary Fund of Dec., 28, 2012 is of interest. The government claims: “Myanmarafter substantial progress in the first stage of reforms, which aimed at achieving peace and national unity....has embarked on second stage reforms to comprehensively modernize the economy and integrate it with the global economy, including through regularization of financial relations with the international community. We recognize that to successfully meet these challenges, lasting macroeconomic stability is critical.

Therefore, government has developed a program of economic policies and institutional reforms for the period through December 2013.”

However, according to both IMF and ADB, Myanmar has limited capacity to handle macroeconomic management and establishing and managing sound economic policies and structures. The government seems to be aware of this. At present the IMF is helping it to overcome these limitations, monitor and assess the progress.

Conclusion

During the last two years of democratic experiment despite its military patronage, appears to have progressed well in ushering political and economic reforms. This is mainly due to the positive approach of President Thein as well as Ms Suu Kyi, the opposition leader, to work together to progress. All the external powers including China and the U.S., are vying for a piece of action in the country now opening up for global business and they are unlikely to allow the nation to revert to become the failed state it was. This augurs well for democratic and economic reforms sorely needed to enhance the quality of life of the people.

The U.S. has been suitably impressed and despite the economic recession U.S. business is making a beeline to Myanmar. China which was the cock of the walk in Myanmar during the days of military rule is worried over the U.S. political and economic foray. India not to be left behind in this race for a share in the economic pie, has unrolled its red carpet of aid - \$ 500 million package – to Myanmar.

Myanmar could become the newest tiger to join the pack in ASEAN in the next decade if the reforms progress smoothly. That still remains a big question mark because the future of Myanmar is paved with landmines of political, economic and ethnic relational uncertainties that could explode and halt the progress of reforms.

It will depend upon how two historic game changers of Myanmar – the army and the ethnic powerful freedom-minded ethnic entities – conduct themselves to keep the reform process on track. As of now the future of Myanmar depends upon Thein Sein's ability to manage the army as much as the national government.

Even if the political and ethnic environments remain peaceful and army extends full cooperation, it is too early to say the reforms would make an easy passage. Army rule has created huge voids in public services, banking, civil society and political institutions. A culture of cronyism and corruption permeates the system. Myanmar simply lacks the capacity to bounce back unless capacity building across the board is sustained during the next decade. As peoples' expectations have been kindled now, sustaining change in this complex scene is going to be a big leadership challenge not only for Thein but for other leaders of the country.

(Col R Hariharan, a retired Military Intelligence specialist on South Asia and its neighbourhood, is associated with the Chennai Centre for China Studies and the South Asia Analysis Group. E-Mail: colhari@yahoo.com [1])

Tags:

[Myanmar](#) [2]

[Political and Economic Reforms](#) [3]

Category:

[Papers](#) [4]

Countries:

[Myanmar](#) [5]

Topics:

[Political](#) [6]

Copyright ©2012. All Rights are Reserved.

Source URL: <http://www.southasiaanalysis.org/node/1218>

Links

[1] <mailto:colhari@yahoo.com>

[2] <http://www.southasiaanalysis.org/taxonomy/term/170>

[3] <http://www.southasiaanalysis.org/taxonomy/term/251>

[4] <http://www.southasiaanalysis.org/papers>

[5] <http://www.southasiaanalysis.org/myanmar>

[6] <http://www.southasiaanalysis.org/political>