

# BTI 2014 | Myanmar Country Report

|                          |       |             |              |       |
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|                          | scale | score       | rank         | trend |

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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**Key Indicators**

|                          |        |      |                                |       |                      |    |     |
|--------------------------|--------|------|--------------------------------|-------|----------------------|----|-----|
| Population               | M      | 52.8 | HDI                            | 0.498 | GDP p.c.             | \$ | -   |
| Pop. growth <sup>1</sup> | % p.a. | 0.8  | HDI rank of 187                | 149   | Gini Index           |    | -   |
| Life expectancy          | years  | 64.8 | UN Education Index             | 0.402 | Poverty <sup>3</sup> | %  | -   |
| Urban population         | %      | 33.2 | Gender inequality <sup>2</sup> | 0.437 | Aid per capita       | \$ | 6.2 |

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

Myanmar is undergoing a rapid transformation. After two decades of direct military rule, six decades of civil wars, and estrangement from the international community, the country has embarked on a process of wide-reaching political and economic reforms. Many political prisoners have been released, media restrictions have been relaxed, civil liberty restrictions have been eased, ceasefires have been negotiated with most of the armed ethnic minority groups, and a process of engagement with the global economy is underway.

Shortly after taking office in March 2011, President Thein Sein outlined a new reform initiative and in August 2011 approached opposition leader Aung San Suu Kyi. During this period, President Sein slowly managed to overcome the resistance of hardliners within the cabinet and the military.

These reform steps were also supported by liberal members of the parliament, allowing for a liberalization of the authoritarian regime to take place. Indeed, since 2011, press restrictions for the Internet and print media have been relaxed, and prepublication censorship has ceased. This has allowed for a much freer media than before. New laws regarding public demonstrations and labor have been introduced and allow for freedoms of association and assembly. However, these freedoms are provided only under very specific conditions. During the review period, several political prisoners – some of them high-profile antigovernment activists – have been released, which has drastically reduced the number of people in jail. Nonetheless, according to the Assistance Association for Political Prisoners (Myanmar), there are still 220 political prisoners behind bars. This fact points to an ongoing fragile state of affairs regarding human rights in the country. Indeed, there are continued reports of the military committing serious human rights violations against ethnic minorities in some regions.

Liberalization has also allowed the participation of the main opposition party, the National League for Democracy (NLD), in the April 2012 by-elections. The by-elections, which were considered

widely free and fair by both internal and external observers, were won in a landslide by the NLD. This has given fresh impetus for the reform drive in the country.

Altogether, liberalization has been slow in Myanmar, where the military remains the dominant political actor with veto powers over further political (and constitutional) change. The military maintains control over a number of key ministries and 25% of seats in parliament.

Although President Thein Sein has signed ceasefires with 10 of the country's 11 largest ethnic groups, including longstanding enemies such as the Karen National Union and the Shan State Army-South, and despite having promised a political solution to the ethnic minority problem, ethnic tensions persist. The outbreak of ethno-religious violence in Rakhine State in 2012 and the re-escalation of armed conflict in Kachin State in 2012 – 2013 are two such examples.

Once the president's moves toward political liberalization won the trust of the international community, his economic reforms were supported by foreign donors as well. Here, too, the resistance of the military, which dominates the economy, and of the regime's cronies became apparent. However, the president has managed to initiate important reform steps: A more flexible exchange rate has been introduced with the help of the IMF, the financial sector has been strengthened, and the introduction of an independent central bank is underway. Nevertheless, the economic situation remains complex. With virtually no property rights in place, competition remains weak, and the socioeconomic situation is still fragile. The country is the least developed in Southeast Asia, with a high degree of poverty, high rates of unemployment, and low expenditures for education and health.

## History and Characteristics of Transformation

Myanmar has been a military dictatorship since 1962, when General Ne Win staged a coup against the democratically elected government of Prime Minister U Nu, citing the rise of regional rebellions against the central government as a pretext for military intervention. After independence from Great Britain in 1948, the Communist Party and various ethnic groups rose up in violent revolt against the young republic. Since then, the military has sought to prevent national disintegration with the use of force but without offering a long-lasting political solution to the minority problems. After the military took over power, it abolished democratic institutions and replaced them with a Revolutionary Council under the leadership of Ne Win. The military led the country into isolation, cut off all contacts with the outside world, drove foreign companies out of the country and nationalized all private enterprises. In 1974, the leaders proclaimed the Socialist Republic of the Union of Burma, with Ne Win in the newly created office of president. The new one-party regime was ruled by Ne Win's Burmese Socialist Program Party (BSPP), but the influence of the military was still pervasive at all levels. The country embarked on the "Burmese Way to socialism," which resulted in a socialist planned economy and the adoption of a new state philosophy, which was a blend of Marxism and socialism. The new economic policy, however,

was a serious failure, since it resulted in the resource-rich country becoming one of the least-developed countries in Asia.

When the country began experiencing serious economic problems, Ne Win stepped down as president and was succeeded in office by his confident, retired General San Yu. However, Ne Win remained chairman of the only political party and continued to play a decisive role behind the scenes. In 1988, continued economic problems led to countrywide demonstrations and the collapse of the ruling party. However, the military staged a coup on 18 September 1988, killing thousands of people. General Saw Maung, then commander-in-chief of the defense forces, led the military junta while Ne Win remained influential behind the scenes.

The new military junta promised to hold free elections, which took place in May 1990 and resulted in the overwhelming victory of the National League for Democracy (NLD), the country's largest opposition party, under the leadership of Aung San Suu Kyi. Although she was placed under house arrest during the election campaign, her party easily won more than 80% of the parliamentary seats. Despite the clear result, the army refused to recognize the election results and continued to rule the country for more than 20 years.

Military rule in Myanmar has been heavily contested in the last two decades. Acting in the manner of a caretaker government, the military argued that the country lacked a constitution for transferring power to a new government. What followed was a decade of confrontations – on the one side between the military, the NLD and ethnic groups, and on the other side between the military and Western countries, which supported the opposition's call for an acknowledgement of the results of the 1990 elections, and which enacted economic sanctions to force the military to give in.

On the economic front, the new junta formally embraced market economic principles, but in practice continued to control the economy with poorly managed policies. Foreign investors have hesitated to invest in the country because of the unstable political situation (e.g., violent conflicts between ethnic minority armies and the military government, and legal uncertainty) and because of concerns about their public image (e.g., fear of boycotts associated with the regime's human rights violations and repression of the opposition). Investments are primarily concentrated in natural-resource extraction sectors, especially oil, gas, timber and gems, while other industries have received little attention. While Western countries have imposed sanctions on Myanmar for the regime's refusal to democratize and for its systematic human rights abuses, neighboring Asian countries (including Thailand, China and India) have invested heavily.

The junta ruled the country with a high degree of repression, visible in a constantly high number of political prisoners, continuous neglect of basic freedoms and political liberties, and serious human rights abuses committed against ethnic minorities (e.g., forced labor, forced relocations, etc.). Demonstrations were put down, among them the student demonstrations in 1996, and the peaceful protest by Buddhist monks in September 2007, when more than 30 people were killed and several hundred arrested. Opposition leader Aung San Suu Kyi has spent more than 16 of the last 22 years under some kind of house arrest. In 1995, she was released for the first time, but the

authorities repeatedly prevented her from leaving the then-capital Yangon to undertake political activities elsewhere in the country. The opposition leader was placed under house arrest again at the end of 2000 during her attempt to travel outside of Yangon, and was only released again 19 months later. In May 2003, the regime again placed her under house arrest, after it had ordered an attack on her motorcade in May 2003, killing dozens of NLD supporters and injuring dozens more. The violent crackdown triggered another outcry of criticism from the international community. The United States imposed an embargo against imported goods from Myanmar, and the European Union expanded the number of people on the travel ban list and demanded that all political prisoners be released.

In September 2003, the military responded to international criticism with a road map to democracy, which envisioned a “disciplined democracy” for the future. The government resurrected a constitution-drafting process that had begun in 1993 and came to a halt in 1996. The National Convention, which convened from 2004 to 2007 to write a new constitution, was given detailed guidelines in order to secure the military’s dominant position in politics. According to constitutional provisions, the president must have military experience, and both a number of security-related ministries and 25% of the seats in the legislature are reserved for the military. The drafting of the new constitution was finalized in February 2008, and in May was formally approved in a nationwide referendum, which was apparently manipulated, since the official result of 94.4% in favor, with voter turnout of 98%, lacked credibility. In November 2010, the military regime held multiparty elections, in which the playing field was heavily tilted toward the regime-sponsored party, the Union Solidarity and Development Party (USDP). Shortly before the elections, many leading generals and high representatives of the government had joined the party, which also enjoyed the financial support of the military regime. The main opposition party, NLD, boycotted the elections due to discriminatory election laws. Some 37 parties participated in the election, including parties representing the major ethnic groups. The international community condemned the elections as fraudulent and unfair. In February 2011, the parliament elected Thein Sein as president, who had previously been serving as prime minister in the military government. In March 2011, the military junta handed over power to the new civilian government and dissolved the junta, ending 20 years of direct military rule.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

Question  
Score

The state's monopoly on the use of force is established in most parts of the country, although some territories in the mountainous regions on the border with China and Thailand are still controlled by armed ethnic groups. Some of the biggest groups, the United Wa State Army (UWSA) and the Kachin Independence Organization (KIO), still control considerable terrain the former in Shan State and the latter in Kachin State. In the last two years, these groups have lost increasingly more territory to the Myanmar Army. For example, the KIO has lost 50% of its territory and had to withdraw from its headquarters in January 2013. Other armed groups lost much of their area long ago. For instance, the Karen National Union (KNU) has lost much of its territory along the Thai border to the Myanmar Army. Some smaller groups, such as the Palaung State Liberation Army and the Myanmar National Democratic Army (Kokang Army) were also forced to surrender.

Monopoly on the  
use of force  
4

Many majority Burman generally accept and support the official concept of the nation-state, which revolves around the religion of Buddhism, the Myanmar language and the Burman ethnicity. However, most ethnic minorities living in the seven ethnic states (the Burmese equivalent to provinces) do not support or openly reject this concept and feel that the state does not sufficiently respect their socio-cultural identity, especially in terms of language, customs and religion. Since most of the ethnic states lag behind in socioeconomic development, they also feel that Myanmar has paid too little attention to their economic and social well-being. In areas controlled by ethnic armies, the entire minority population openly rejects the official concept of the nation-state. They strongly believe that they have been bereft of their political and cultural rights and have been discriminated against by the state for decades. They openly call for some form of genuine autonomy or the establishment of a strong federal state replacing the current more centralized form.

State identity  
3

The current citizenship law of 1982 recognizes three categories of citizens: full citizens, associate and naturalized citizens. Full citizenship is given to those

indigenous groups whose ancestors lived in Myanmar before the British colonization (1823). Associate citizens are those citizens whose ancestors lived in Myanmar at the time of independence (1948). Naturalization is only possible for the children of a foreigner and a Burmese citizen or after having lived in Myanmar for three generations. This restrictive law denies citizenship to particular groups that did not settle in Myanmar at the time of independence. For instance, the Rohingya have been denied citizenship because the government considered them relatively recent migrants from Bangladesh. In May and June 2012, the Rohingya issue escalated into violent interreligious conflict between ethnic Rakhine Buddhists and Muslim Rohingyas in the western state of Rakhine, in the course of which more than 200 people were killed and more than 200,000 Rakhine Muslims were displaced.

Chinese and Indians have also been denied citizenship, even if they and their parents were born in Myanmar. However, they have been given a status similar to that of a permanent resident, although by paying bribes, some recent Chinese immigrants managed to be able to obtain citizenship.

Myanmar officially is a secular state. However, the Buddhist religion permeates laws and practice. For instance, abortion is legally prohibited because of religious norms, although the law is not seriously enforced. Higher-level promotion in the Myanmar military is highly influenced in practice by whether one is a Buddhist or not, although it is not the official doctrine. Most Christian and Muslim officers have not been promoted beyond the military's middle ranks. Moreover, the religious ministry in practice promotes the Buddhist religion only, encouraging the construction of Buddhist pagodas in ethnic states with a significant Christian population and discouraging or obstructing the construction of new churches and mosques.

No interference of religious dogmas

7

The state's administrative structures, with respect to jurisdiction and law enforcement, reach most areas in central Myanmar, but do not reach certain areas in the ethnic states. Official tax authorities cannot reach many villages even in central Myanmar, although unofficial fees for military porters and conscription fees have been imposed on many ethnic villages affected by the civil war. Many villages even in central Myanmar lack services such as communications, transportation and basic infrastructure (water, education and health), as do large numbers of villages in the ethnic states. An estimated 57% of the population in Myanmar is without access to sanitation facilities and 40% without access to safe drinking water.

Basic administration

2

## 2 | Political Participation

Myanmar's general elections for both houses of national parliament and for regional councils on 7 November 2010 were widely seen to be unfree and unfair, since many regulations benefited the regime party (the USDP) and prevented opposition parties from registering and fielding candidates on a nationwide basis. Some 37 parties

Free and fair elections

4

participated in the elections, including parties representing all major ethnic groups. The most important opposition group, the NLD, however, decided to boycott the elections due to the unfairness of the election laws, which stipulated that political prisoners were not allowed to stand for office or become members of political parties. A splinter group, the National Democratic Force (NDF), however, decided to run in the elections. It faced serious financial hurdles, as parties were required to pay high registration fees. Restrictions on campaigning were imposed as well: Candidates could campaign by using speakers and posters, and by handing out pamphlets no more than one month before the elections, but they could not hold rallies. The USDP had unlimited access to the state media, but opposition parties were allowed just to give a single 15-minute speech on state-controlled TV and radio broadcasts. Individual candidates were not allowed to access the state media at all. On election day, procedures for vote counting and the verification of results were neither transparent nor impartial. For instance, the election commission allowed advance votes, in which people were forced to mark their ballots in front of an official, to count. This body of votes tipped the results in favor of the pro-military candidates. Electoral fraud was far less systematic and extensive in ethnic minority areas, enabling some ethnic parties to get a relatively high number of votes (in the states of Rakhine, Shan, Chin, Karen and Mon, for example). Altogether, the election result mirrored the unfair playing field, as the USDP won 76.5% of the seats across all three parliaments (upper house, lower house, region level). Some ethnic parties were able to get a number of seats, such as the Shan Nationalities Democratic Party (SNDP, 57 seats), the Rakhine Nationalities Development Party (RNDP, 35), and the National Democratic Force (NDF) and All Mon Region Democracy Party (AMRDP), each with 16 seats.

The by-elections of 1 April 2012, which were held to fill 45 vacant parliamentary seats, were generally seen as an important credibility test for the reform will of the new government of Thein Sein. In August 2011, the new president met with opposition leader Aung San Suu Kyi. This trust-building exercise, the release of political prisoners, and the revision of the election laws allowed the NLD to reregister as a political party in November 2011. The NLD won the April by-elections in a landslide, winning 43 of 44 possible seats. Aung San Suu Kyi herself managed to get elected to parliament in a suburb of Yangon. Most internal and external observers characterized the by-elections as relatively free and fair. Although there were serious shortcomings at various levels of the polling process, the people could genuinely express their own voices through their votes in a peaceful process. The main shortcomings were false voter lists, attempts by some ruling-party candidates to misuse official machineries at the village and district level, and a lack of voter education. Moreover, the international election observers were invited too late to observe the campaign period. In Kachin State, the by-elections were postponed due to security reasons. Although the by-elections represent a major step in Myanmar's transition to democracy, the overall political importance is limited, since only a

limited number of seats were open and the outcome could not significantly alter the balance of power within parliament, which is still dominated by the USDP.

Elected political representatives have limited power to govern. Since the 2010 election, the new legislature under the leadership of House Speaker Shwe Mann has become a powerful body that has shaped the course of reforms as well. Parliament approved and debated important legislation, such as legalizing microfinance, labor unions and peaceful protests. In 2012, it has also debated and approved a new investment law and enacted other economic reform measures. Parliament also called for a general amnesty of political prisoners – a move that was surprisingly supported by the military bloc in parliament. The effective power to govern, however, is limited by military prerogatives. For instance, key bills often need the approval of the State Defense and Security Council, in which military officers have the majority (six military officers including the commander-in-chief are included in this 11-member body). Allegedly, this body repeatedly postponed the release of political prisoners for security reasons. Although the influence of the military in daily governance and policy-making has declined, it still is using its channels in parliament and the government to influence politics. Its formal constitutional prerogatives are pervasive: The president has to have experience in military affairs, and both a number of security-related ministries and 25% of the seats in the legislature are reserved for the military. Since a quorum of more than 75% is necessary to amend the constitution, the military effectively has veto power over further constitutional changes. The military has also autonomy in managing its own affairs. It is also questionable to what degree President Thein Sein has effective civilian control over the armed forces. For example, he repeatedly urged the armed forces to end fighting in Kachin State, and the fighting continued unabated throughout 2012.

Effective power to govern

3

The 2008 constitution allows freedom of association and assembly, but only as long as the exercise of these rights does not contravene existing security and emergency laws. As a part of his democratic reform agenda, President Thein Sein signed a new Law on Freedom of Assembly in December 2011. The law allows for peaceful demonstrations, but this right is only guaranteed under very tight conditions. Organizers must ask the authorities for permissions five days in advance and provide the time, place and reasons for protest. The law prohibits protests at factories, hospitals and government offices; it forbids protestors from blocking traffic and causing public disturbances. Moreover, the law imposes a penalty of one year's imprisonment for protests staged without permission.

Association / assembly rights

4

In practice, the freedoms of assembly and public expression have expanded. There is no systematic attempt by the authorities to prevent demonstrations anymore, but they still seem to fear large-scale demonstrations and public disorder. The country has seen a number of demonstrations in 2012, such as protests against energy shortages in Mandalay, a lawyers' protest against the privatization of state property, and workers' protest against dire working conditions and low wages. Whereas some

protests have been tolerated, a number of activists have also been charged for demonstrating without permit or violating the law. Various applications have also been rejected, including those of the NLD to commemorate Martyrs' Day and of the student union to commemorate the 50th anniversary of student protests at Yangon University. In addition, the authorities violently cracked down on a protest by villagers and monks against the expansion of a copper mine in Monywa, Sagaing Division, in November 2012. The crackdown, which caused injuries among the demonstrators, led to a public outcry and a rare apology by state authorities.

The government also promulgated a new Labor Organization Law allowing for the formation of unions and the right to strike. The International Labor Organization (ILO) provided assistance in drafting the law. As with public demonstrations, workers in the public sector must provide notice to strike 14 days in advance, and workers in the private sector must provide notice three days in advance. The law also prohibits strikes at schools, religious buildings, airports, railways and diplomatic missions.

The last few years have seen a remarkable relaxation of Internet and media controls. This can be seen from the yearly rankings of Reporter without Borders. Their reports ranked Myanmar 151st out of 179 countries in January 2013; prior to that, the country was ranked 169th (2012) and 174th (2011). Controls on the Internet and censorship were already relaxed in 2011, when the government lifted restrictions on international and independent news Web sites such as the BBC and Irrawaddy. The government also announced that a number of publications pertaining to health, technology and entertainment would be exempt from prepublication censorship. In August 2012, the government proclaimed an end to prepublication censorship and the dissolution of the press censorship board (officially known as the Press Scrutiny and Registration Division). However, the government still requires publications to be submitted to the Ministry of Information after publication. This leaves room for self-censorship. Moreover, there are certain issues that cannot be reported on according to guidelines of the ministry. These refer to state security and ethnic politics. In July 2012, two magazines were suspended for reporting on a possible cabinet change. They were permitted to resume work later, and no explanation was given for the suspension. In August 2011, a magazine was suspended for publishing photos relating to events in Rakhine State. Until a new media law is enacted – one is being discussed at the moment – further restrictions remain under existing legislation, such as the Electronic Transactions Law (2004), the Motion Picture Law (1996), the Television and Video Law (1985) and the Printers and Publishers Registration Act (1962). Efforts to review this legislation are underway.

Freedom of  
expression

5

### 3 | Rule of Law

Until the end of January 2011, there was no formal separation of powers. The State Peace and Development Council (SPDC) exercised executive and legislative powers and controlled the courts. However, with the new constitution in force, a formal separation of powers between the executive, legislative and judicial branches has been created. During the last two years, parliament has become a key power center and driver of reforms. Although the body initially was supposed to be a mere rubber stamp, the lower house has gradually transformed and has taken its role as check of the executive more seriously. Ministers are being questioned and held accountable, and bills submitted by the executive are subject to scrutiny and considerable amendment. For instance, in March 2012, parliament reintroduced provisions for the election of local officials by secret ballot, although the president advised a more indirect system of voting. The system of checks and balances, however, is nascent at best, and personalities still trump institutions. House Speaker Shwe Mann, former number three in the military regime, who is said to have presidential aspirations for 2015, has steered parliament into a collision course with the president. This led to the first constitutional crisis, in 2012, and a virtual standoff between the executive and legislative branches over the status of the parliament's committees. The status carries important practical implications, because the national state institutions ("Union organizations") have enhanced legislative and budgetary privileges. The constitution is rather vague on this subject, so in February 2012 the president asked the Constitutional Tribunal, which rules on disputes between government branches, to decide on the status of these bodies. When the Constitutional Tribunal ruled that the committees had no Union-level status, the legislators were outraged, since they believed that the decision undermined the oversight capabilities of parliament. While President Thein Sein proposed to amend the constitution, 301 of the lower house's 440 legislators insisted on challenging the Constitutional Tribunal's decision by impeaching its nine members. After more than three quarters of the upper house voted for impeachment in August, all nine judges chose to resign. Moreover, parliament also amended the Constitutional Tribunal Law, which gives parliament more power to challenge the tribunal's decisions and greater input on the appointment of its chairman, who in turn is required to report back to legislators. While this episode might be a sign of a more confident parliament vis-à-vis the president, it also seriously undermined the incipient, weak independence of the judiciary.

Under the SPDC, the judiciary was not independent. Although the SPDC has now transferred power to the new government, judicial independence remains limited. Although the constitution guarantees the independence and impartiality of the judiciary, those guarantees are undermined by the extent of executive control. The chief justice of the Supreme Court cannot appoint judges on his own, but must jointly appoint them with the president. The president's powers of appointment are increased

Separation of powers

4

Independent judiciary

2

by his control over the financing of Myanmar's court system. The president also nominates a third of the Constitutional Tribunal's nine members (the lower and upper house propose the rest). The incident reported above further undermines the weak independence of the constitutional tribunal. All in all, the judiciary is heavily impaired by the executive and legislative branches.

The fight against corruption has been the focus of President Thein Sein's third year in office. Although corruption is still widespread, the level has been reduced over the last two years. The president even sacked his telecommunications minister and a dozen senior officials from the communications ministry in January 2013. In addition, the press has been very effective in monitoring the government and exposing corruption scandals. The attempt by the mining ministry to intimidate a private news magazine, which had exposed misappropriations in four ministries' financial accounts, was unsuccessful, since the ministry had to drop its defamation lawsuit against the magazine. As a result, many officials no longer dare to openly ask for bribes, especially in Naypyidaw or bigger cities like Yangon and Mandalay. Some local businessmen also said that they do not need to bribe local military commanders anymore.

Prosecution of  
office abuse

1

Myanmar's long record of civil rights abuses still tarnishes the image of the country. The human rights situation remains fragile, despite the recent move towards political liberalization. In recent years the number of political prisoners has been constantly high (around 2000). Various rounds of prisoner releases have decreased these numbers significantly. In 2011 and 2012, the most prominent detainees were freed, including 88 Generation Students leaders Min Ko Naing and Ko Ko Gyi, comedian and government critic Zarganar, as well as one of the leaders of the "saffron revolution" in 2007, monk Ashin Gambira. However, according to the Assistance Association for Political Prisoners (Myanmar) there are still 222 remaining political prisoners in jail as of January 2013. Additionally, Human Rights Watch still lists a number of human rights violations, especially in the conflict areas in Kachin and Shan States, where the military is accused of extrajudicial killings, sexual violence, torture and forced labor. Such cases result only rarely in prosecution. The attempts of the International Labor Organization (ILO) to make the government end the use of forced labor have had some success in urban areas, where the incidence of forced labor has been significantly reduced. However, in many remote areas and particularly in civil war areas, forced labor remains a common practice. The government has promised the ILO to effectively ban forced labor throughout the country until 2015. The new National Human Rights Commission, established in September 2011, lacks independence. Although a number of cases have been investigated, it remains far from clear how the commission can deal with the abuses by the military (especially in the conflict areas of the ethnic minorities). Lacking staff, experience, a clear mandate and independence from the executive, it has remained so far a rather weak body.

Civil rights

1

#### 4 | Stability of Democratic Institutions

Until 31 January 2011, there were no formal democratic institutions in Myanmar, as it was under military rule. Since the 2010 elections were not free and fair, we can speak of electoral authoritarian institutions at best. The USDP, controlled by ex-military men, still dominates both houses of parliament; opposition parties and ethnic parties hold only about 24% of seats in the upper and lower houses. They are not able to initiate constitutional changes or reduce the influence of the military, since a more than 75% quorum is necessary to amend the constitution. A slow liberalization of the authoritarian structures, however, is underway. The reform initiative is driven by the president, reformers in his cabinet, and liberal elements within the ruling party. In August 2011, the president met with opposition leader Aung San Suu Kyi and convinced her of his willingness to reform. Since then, much political progress has been made: Many political prisoners have been released, media controls have been relaxed, basic freedoms have been enshrined, and a peace process with ethnic minorities has begun. In a September 2012 speech to the U.N. General Assembly, the president once again underlined his commitment to pursuing further democratic reforms. The speech, carried live on Myanmar radio and television, was in stark contrast to the manner in which the country has been ruled for decades. Thein Sein made clear that he is willing to work with Aung San Suu Kyi for the good of the people to “leave behind the system of authoritarian government” and foster “a new culture of patience and dialogue.” He emphasized the need for social equality and for putting a “priority on achieving a lasting peace in the country,” noting that “the cessation of all armed conflicts is a prerequisite for the building of genuine democracy.” If the elections are carried out in a similar way as the by-elections in April 2012, they could pave the way for a democratic system of government. In this system, the armed forces would still have a dominant role.

Reforms are not driven by a single individual, but by a number of reform actors who are steering the country towards democratization. President Thein Sein is heading a reform coalition that has promised to overhaul authoritarian structures. In an address to the nation on 1 March 2012, he made clear that his goal was to introduce “genuine democracy.” During his first two years in office, he concentrated on political and economic reforms, and his third year is supposed to focus on good governance and the fight against corruption. In his first major cabinet reshuffle in August and September 2012, he managed to sideline more conservative or ineffective ministers of his cabinet in order to keep the momentum for reform. The second reform actor currently is parliament, which is steered by Thura Shwe Mann, who is said to have presidential ambitions himself. In parliament, there is currently no united reform faction, but motions from the opposition are sometimes supported by USDP members, and USDP proposals get the support of the opposition. This underlies the current momentum for broader reforms, which are supported by the majority of the

Performance of  
democratic  
institutions

2

Commitment to  
democratic  
institutions

2

political elite (and even by the military). There are some conservative elements in the USDP and the military that fear a loss of power and see the reforms as too far-reaching. Certain military leaders would like to retain their constitutional prerogatives in the immediate or intermediate term. Many military leaders, however, principally agree that their prerogatives could be phased out in the long term.

However, if state stability comes under threat, these conservative elements could revert to hard-line views and attempt to draw back democratic reforms. Ultimately, apart from the balance of forces between reformers and spoilers inside the military, national stability is and will remain a key prerequisite to further liberalization and the consolidation of democracy.

Since the by-elections in April 2012, the opposition has been integrated into the political system. Nevertheless, it is openly campaigning for charter changes to allow Aung San Suu Kyi to run for president and to reduce the overall influence of the military. A pact between the opposition and the military is needed to allow constitutional changes and allow her the presidency. If there is no pact between both sides, the general elections could be very tense. As long as the military prerogatives are not encroached, there is much room for political reform, since the military supports the reform process. Former student activists, the so-called 88 Generation, are also working for democratic reform. Most of them, however, are still uncertain about their political future: They do not know whether to join the NLD or form their own political party.

## 5 | Political and Social Integration

The multiparty system is at a very nascent stage, with political restrictions and oppression under lengthy military rule having hindered its stable development. Due to the long history of military rule, political parties have only shallow roots in society. They are often centered on influential personalities. Another legacy of military rule is the high degree of polarization, which has been reduced in the current reform period. However, the coming elections might see a new polarization between the regime-sponsored USDP, on the one side, and the USDP and the ethnic parties on the other.

Since the by-electoral triumph of the NLD, the main political forces of the country have been represented in parliament. The party system at the moment is dominated by the pro-military Union Solidarity and Development Party (USDP). It was transformed from the regime's mass organization, the Union Solidarity and Development Association, into a political party now supposed to have 20 million members. The party is still in shock from its devastating defeat in the April 2012 by-elections, and it fears a huge defeat in the next elections, due in 2015. In its first party congress in December 2012, it attempted to reorganize and find new ways to attract

Party system  
3

new voters. However, the party presented the same leadership personnel – President Thein Sein as chairman and Shwe Mann as vice chairman – and no programmatic platform.

The NLD is also dominated by the personality of its leader, Nobel Prize laureate Aung San Suu Kyi. Although the party is very popular and is set to win the 2015 elections in a landslide, it has problems of its own. The strict party hierarchy and dominance of the old guard lead to frustrations within the younger NLD generation. Although some ethnic parties show internal cohesion and strong local support, especially the Shan Nationalities Democratic Party, their ethnic focus prevents them from developing wider appeal. No formal alliance among ethnic parties has yet been established.

The spectrum of interest groups working in the country has broadened with increasing freedom over recent years. Many small community groups working on humanitarian issues first emerged in 2008 in the wake of Cyclone Nargis's devastation. Since liberalization, some NGOs have decided to register, but most of them operate in a grey area: According to 2012 figures of the Ministries of Home Affairs, 270 NGOs have registered, but more than 1000 are working inside the country. Since registration takes time and is expensive, most NGOs prefer to work without registering. They also still fear repercussions for their work. Data from the ILO reveals that 264 unions and 13 employer organizations were formed in 2012. After being practically outlawed for a long time, civil society organizations still face enormous hurdles in terms of capacity and finances, in particular given the lack of trust vested in them by the authorities. Coordination between the various groups is still poor, and they still fear a crackdown from state authorities. There are also serious constraints on registration, which takes over two years. Although there is now an established network linking local and international NGOs in Yangon, which coordinates various groups in their work on humanitarian support and development programs, there is still a lack of capacity in efforts to cope with the increasing demand from the incoming international donor community. Moreover, their input into political society is still limited, as NGOs regularly are not included in the government's policy-making and implementation.

Interest groups  
3

The country remained under direct military rule until February 2011, despite people's desire for political change. Since liberalization, there has been a growing enthusiasm among the people for learning more about democracy. However, there is no survey data available.

Approval of  
democracy  
n/a

There is a low level of trust within the entire population, especially a low level of interethnic trust. This became apparent during the violence in Rakhine State. In 2012, various rounds of violence between Muslims and Buddhists in Rakhine State erupted after a Buddhist woman was raped.

Social capital  
3

Local areas have seen the creation of many autonomous or self-organized religious and cultural organizations, including meditation groups, but these have not been able to coordinate with one another at the regional or state level. However, few autonomous or self-organized social groups exist in local areas, and those that do largely fill roles such as funeral associations for the poor. Many assistance groups were formed spontaneously in response to the 2008 Nargis cyclone, but most faded away after a year because of financial difficulties.

Since 2011, there has been a new level of community building also at the central level. Many community assistance groups, especially capacity-building training groups, formed spontaneously, especially in the capital. They, however, lack effective coordination. They appear more confident, since authorities seem to have stopped infiltrating them or discouraging them from organizing and coordinating among themselves. President Thein Sein and some of his ministers even asked civil society groups to participate in the democratic reform process, saying the government could not do it alone.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Myanmar's socioeconomic indicators have continued to decline, and it remains one of the world's least developed countries. In the UNDP's 2011 Human Development Index (HDI) report, it was ranked 149, with the lowest HDI value in Southeast Asia (0.483). The gap between the small number of wealthy people and the poor has been widening. According to a UNDP-supported household survey of 2011, the national poverty rate is 26%, with a significant urban-rural gap and a much higher rate in rural areas. In Chin State, poverty is 73%; in Rakhine State, it's 44%. Myanmar is still an agricultural country, with about 70% living in rural areas. Many farmers barely survive at very low income levels and cannot access credit sufficient to significantly increase production. This situation worsened after Cyclone Nargis, as the storm hit the Irrawaddy Delta, the country's rice bowl. Surviving farmers lost their homes, their capital, their seeds and other agricultural inputs, while many of their fields and water sources were inundated by salt water.

The majority of people in Myanmar spend 70% of their income on food, with little left for health care and education for their children. More than 5 million people are living under the food poverty line (Food and Agricultural Organization, 2009). About one-third of children under five years of age are malnourished, as are 17% of the total population (U.N. World Food Programme 2009). The under-five-year-old mortality

Question  
Score

Socioeconomic  
barriers  
2

rate is high, with 66 deaths out of every 1000 births (World Health Organization 2010). Since the government does not provide enough money to the schools, and the schools charge children high fees, many parents in rural areas cannot afford to send their children to school beyond the primary level. Although 90% of children attend primary school, over 50% do not go on to middle school (UNDP 2011). The quality of higher education has also declined.

| Economic indicators       |          | 2009   | 2010   | 2011    | 2012        |
|---------------------------|----------|--------|--------|---------|-------------|
| GDP                       | \$ M     | -      | -      | -       | -           |
| GDP growth                | %        | -      | -      | -       | -           |
| Inflation (CPI)           | %        | 1.5    | 7.7    | 5.0     | <b>1.5</b>  |
| Unemployment              | %        | -      | -      | -       | -           |
| Foreign direct investment | % of GDP | -      | -      | -       | -           |
| Export growth             | %        | -      | -      | -       | -           |
| Import growth             | %        | -      | -      | -       | -           |
| Current account balance   | \$ M     | 986.0  | 1574.2 | -1423.8 | -           |
| Public debt               | % of GDP | 57.5   | 52.4   | 52.9    | <b>47.5</b> |
| External debt             | \$ M     | 7702.0 | 7788.9 | 7765.5  | -           |
| Total debt service        | \$ M     | 11.7   | 564.9  | 7.8     | -           |
| Cash surplus or deficit   | % of GDP | -      | -      | -       | -           |
| Tax revenue               | % of GDP | -      | -      | -       | -           |
| Government consumption    | % of GDP | -      | -      | -       | -           |
| Public expnd. on edu.     | % of GDP | -      | -      | 0.8     | -           |
| Public expnd. on health   | % of GDP | 0.2    | 0.2    | 0.3     | -           |
| R&D expenditure           | % of GDP | -      | -      | -       | -           |
| Military expenditure      | % of GDP | -      | -      | 3.4     | <b>4.2</b>  |

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

## 7 | Organization of the Market and Competition

After the 1988 coup, the military regime officially abandoned the socialist-era, state-controlled economic system and announced it would introduce market-based practices in order to improve the economic situation. In reality, the economy remains highly controlled by the state, which restrains market-based competition. Since 1989, the junta has initiated a series of privatizations, including a large-scale privatization in 2009 – 2010, when over 300 enterprises, including a major airline, ports, mines, factories, hotels, cinemas, gas stations, land and buildings were privatized. However, most of the formerly state-owned properties have been transferred directly into the hands of the regime's cronies or the military conglomerates that continue to monopolize the economy. According to the Heritage Foundation's 2012 Economic Freedom index, Myanmar has one of the world's 10 most repressive economies. The export tax was increased arbitrarily to 10% in 2008, although it was reduced to 7% in March 2013, making the export market noncompetitive compared to other countries. However, the government and military enterprises do not need to pay these taxes, and some of these have even received subsidies. Two military conglomerates, the Union of Myanmar Economic Holdings Limited (UMEHL) and the Myanmar Economic Cooperation (MEC), the largest economic enterprises in the country, have dominated the economy.

Market-based  
competition  
3

In the last two years, the government of Thein Sein has introduced a number of economic changes in order to make the country more competitive and attract serious, long-term investment from Western countries. Export taxes were lowered and restrictions on the financial sectors were eased. On 1 April 2012, the country ended its grossly overvalued fixed exchange rate system, which had been in place for 35 years, and introduced a market-based exchange rate. Steps are now being taken to move to full current account convertibility, possibly before the end of 2013.

In the domestic market, there is no market contestability at the level of large enterprises since market leaders are in the hands of the state, the military and a handful of cronies. Although the environment for mid-sized businesses shows better market contestability, market entry barriers for companies are still huge. For instance, it takes three months to register a company, and bribes must be paid to various authorities throughout the process. Import/export licenses and approvals for foreign investments are still controlled by the government. Due to the government's control of large economic enterprises and the plethora of government regulations, the informal economic sector has expanded.

In December 2012, the government of Thein Sein enacted a new foreign investment law that offers tax breaks to investors and allows them to lease private land and repatriate investment proceeds using market exchange rates.

No antitrust or competition laws have been introduced in Myanmar. It is unlikely that such laws will be introduced in the current parliament, since two military conglomerates are allowed to enjoy virtual monopolies. Even if such laws were to be introduced in the parliament, enforcement would be unlikely, since general economic law enforcement measures have been weak in the context of weak rule of law.

Anti-monopoly  
policy  
1

Myanmar has been a World Trade Organization (WTO) member since 1995, but because of its extensively controlled economy, foreign trade has not been liberalized in reality. The country's trade openness ratio is the lowest among its Southeast Asian neighbors. Myanmar also has a large informal trade in arms, narcotics and forest products. Regarding official trade, revenue from gas exports today is much higher than revenue from the country's traditional exports of agricultural and forest products, gems, and live animals. Gas exports are controlled by the state's own Myanmar Oil and Gas Enterprise, which co-invests with foreign partners. The remainder of the country's trade is dominated by two military conglomerates, the UMEHL and the MEC.

Liberalization of  
foreign trade  
2

A WTO member, Myanmar has an official tariff figure that is low on paper. It was 3.9% in 2007 and is likely to continue at more or less the same level. However, non-tariff measures appear to be significant, since import and export licenses are considered case by case, and some corruption fees appear to be involved in getting the licenses. Import and export taxes are also high, and if businesses don't want to pay them, they need to bribe customs officers. There are also import quotas for certain items, such as trucks, buses and certain types of cars. Certain export items are also limited; rice is one such product, for example, in order to stabilize the domestic rice market. Certain other safeguards exist to protect domestic industries such as plastics and food.

The banking system still is in a nascent stage of development. The three state-owned banks dominate the banking system and the central bank is directly under government control. A new banking law license allows 19 domestic private banks to operate and permits 32 foreign banks to open representative offices. The country has no proper capital market and has no real market for bonds, which are sold only to the banks. Banks in Myanmar operate under formal regulations, but with little supervision or enforcement and without transparency. This led to a banking crisis in 2003. During the crisis, there was a run on a few main private banks, and the central bank could not help in time. After the crisis, the central bank imposed additional restrictions on the banks' lending practices, seeking to prevent similar problems in the future. There are currently discussions underway to overhaul the weak banking sector. The IMF's technical guidance is focused on this area. A new central bank law is expected early in 2013, and a rudimentary money market may exist by the end of the year.

Banking system  
2

## 8 | Currency and Price Stability

In the past, the central bank did not have a consistent or effective inflation control policy. The government, which totally controlled the central bank, imposed arbitrary top-down policies, such as printing money to solve budget deficits, which led to fluctuating inflation rates. The government also made arbitrary decisions, such as increasing salaries sharply and removing subsidies suddenly, as it did with fuel prices in 2007, which led to large demonstrations. Due to such arbitrary practices, the volatility of consumer price index (CPI) inflation had been very high, rising from 20% in 2006 to 35% in 2007, and then dropping to 26.8% in 2008 and 1.5% in 2009. According to a research officer at Myanmar's central bank, the inflation rate fluctuated even more seriously, from 58.1% in 2002 – 2003 down to 24.9% in 2003 – 2004 and further down to 3.8% in 2004 – 2005. Overall, the inflation rate fluctuated between 57.1% and 1.5% over the years between 2001 and 2009. From 2010 until 2012, the inflation rate averaged 5.0%, reaching an all-time high of 8.3% in April 2011 and a low of 0.3% in August 2012. Inflation was reportedly at 4.2% for 2011 and 6.2% in 2012.

Anti-inflation /  
forex policy

4

The junta also had a fixed-exchange-rate policy for 35 years. The official currency exchange rate had been fixed at around six kyat per U.S. dollar, but the real market currency exchange rate has demonstrated high volatility, fluctuating between 650 kyat and 1450 kyat per dollar over the past 10 years. In April 2012, the government introduced a managed floating exchange rate, which used market mechanisms to define the floating rate. The exchange rate has floated between 800 and 850 Kyat per U.S. dollar since then. Steps are now being taken to move to full current account convertibility, possibly before the end of 2013.

The country lacks consistent and sound fiscal and debt policies to support macroeconomic stability. The level of total public debt – estimated at 47.6% of GDP in 2010 – is high. A primary reason for the high fiscal deficit over the years is poor revenue performance. According to data from the ADB, Myanmar's tax revenues as a percentage of GDP fell steadily during the 1990s – from 5% of GDP in 1990 to 2.5% of GDP in 2000. The average tax-to-GDP ratio between 2004 and 2010 was 3.6%, among the lowest in Asian countries, even as the revenues from natural gas exports rose. To finance its deficit, the government borrowed from the central bank and commercial banks. About 46% of the fiscal deficit in fiscal year was financed through bonds; the rest was monetized by the central bank.

Macrostability

2

Another obstacle for Myanmar's balance of payments was a large stock of payment arrears, on the order of \$11 billion at the end of 2012 and mostly on official loans from Japan. Especially problematic were the outstanding debts to the Asian Development Bank (\$517 million) and the World Bank (\$436 million), because of their status as preferred creditors. With the help of the governments of Japan and

Norway, the Thein Sein government managed to carry out an arrears clearance operation, which enabled the multilateral agencies to resume lending to Myanmar. At the same time, the government reached an agreement with bilateral creditor agencies in the Paris Club to cancel and reschedule most of Myanmar's other debts.

The budget deficit has increased in recent years, to 5.7% in 2010. With the construction of the new capital close to completion and a cut in defense budget spending, the deficit is expected to moderate to 5.5% in fiscal year 2011 – 2012. The World Bank is helping the country in making a Public Expenditure and Financial Accountability (PEFA) assessment and a Public Expenditure Review (PER), which have the potential to yield a great leap forward in fiscal policy.

## 9 | Private Property

There is no effective protection of property rights, including intellectual property rights, in Myanmar. According to the 2008 constitution, the state ultimately owns all the land and natural resources, although it permits some exercise of private property rights. This means that citizens can own land, but that the state can confiscate the property if it so desires. In fact, most ordinary people do not have legal title to their land and other property. The state has confiscated many private plots for government projects, including the establishment of military camps and businesses, without providing adequate compensation.

After 1988, the regime promised to liberalize the socialist economy. However, liberalization stagnated from 1990 to 2000, and the military constrained this process to shield its own business holdings. It established the two military conglomerates, the Union of Myanmar Economic Holdings Limited (UMEHL, banking, trade, tourism, precious stones) and Myanmar Economic Corporation (MEC, with interests in heavy industry and commodities). Today, the share of state-owned enterprises is 7.8% of GDP, down from 22.5% in 1996. In particular sectors, however, the share of state-owned enterprises is still high. For instance, in the energy sector, it remained high at 76.3% in 2007. A wave of privatization of state assets and enterprises came suddenly in 2009 – 2010, and was not done in accordance with market principles. The process was neither transparent nor competitive, since the government sold the assets very quietly and quickly to a handful of enterprises with close military ties (Tay Za's Htoo Co., Tun Myint Naing's Asia World Co., Zaw Zaw's Max Myanmar Co., Chit Khaing's Eden Group, etc.) and to two military conglomerates, UMEHL and MEC.

In order to accelerate investment in the country, the Thein Sein government has enacted a new investment law, which gives foreign investors the right to invest in many sectors of the economy. This might break up some of the near "monopolies" of

Property rights  
1

Private enterprise  
3

the regime's cronies. The new investment law shields investors from "nationalization" and gives a five-year tax exemption and 50-year land lease.

## 10 | Welfare Regime

Myanmar has no official safety net, and poverty is widespread. Family members, friends and religious organizations have traditionally provided a social safety-net function, especially in terms of helping with food, clothing and shelter, although widespread poverty and the paucity of job opportunities in the country have weakened this over time. As a result, tens of thousands of young and middle-aged Myanmar citizens have fled to work as migrant laborers in bordering countries, including Thailand, Malaysia, China and India. Many send remittances back to their family members, an increasing source of financial support for those left inside the country. President Thein Sein has addressed the issue, promising to concentrate on welfare reforms and the introduction of a social safety net. Social spending is also expected to increase to about 7.5% (from the current 5.4%).

Social safety nets

1

Formally, there is little discrimination based on gender, ethnicity or religion in Myanmar in terms of access to education, public office or employment. The most glaring exception is the Rohingya minority, members of which have not been granted citizenship and have seen their rights of movement severely restricted, making it very difficult for them to access even secondary education, let alone employment opportunities outside of their villages or towns. In addition, ethnic minority languages are not generally allowed to be taught at schools, although some groups are able to offer classes in their languages outside the normal school day. The engineering and medical universities accept significantly more men than women. In addition, Indian and Chinese children born in Myanmar but granted foreign resident cards instead of citizenship are not allowed to attend any of the medical institutes.

Equal opportunity

1

Ethnic minorities living in the ethnic states have less access to higher education, particularly in the fields of medicine and engineering, since these universities are concentrated in central Myanmar. There is also a certain degree of traditional sexism, in which sons are given priority to daughters in terms of receiving higher education, although more women than men attend high school.

In terms of public office, some discrimination based on gender, ethnicity and religion exists, especially for access to senior positions, and particularly in the military. For example, there are few or no women in the leadership positions of the various political organizations or holding public office. Few ethnic minorities or non-Buddhist military officers have been promoted beyond the middle ranks. In terms of total employment, the number of men holding employment is nearly twice the number of women.

## 11 | Economic Performance

Myanmar reported high GDP growth over recent decades, averaging 10.2% between 1992 and 2010 and 12.2% between 2000 and 2010. Recent economic updates by the IMF and the ADB, however, reveal that official growth rates have been greatly overstated due to the country's poor statistical capacity and use of outdated methodologies. Based on various production indicators (electricity sales, cement production), the IMF estimates that GDP growth averaged 4.6% from 2002 to 2010 and increased to 5.0% in 2009 – 2010. In 2010 and 2011, GDP growth averaged 5.3% and 5.5%, respectively. Reasons for the low growth rates over the last decades include low investment, limited integration with global markets, the dominance of state-owned enterprises, and frequent episodes of macroeconomic instability. For instance, gross domestic investment averaged only 14.2%, the lowest among ASEAN countries.

The inflation rate reportedly was 4.2% for 2011 and 6.2% in 2012. These single-digit rates, however, overshadow that inflation has been historically high and variable. According to data from the ADB, the price level nearly quadrupled from 2001 to 2007, with an annual inflation rate of 25.3%.

The balance of payments remains strong, benefiting from the high global oil prices used as benchmarks for Myanmar's natural gas exports to Thailand, along with substantial foreign exchange earnings from gem sales and other agricultural and natural resource exports. Upward pressure on the exchange rate has been heavy and is expected to continue as foreign currency receipts rise from investment, tourism, foreign aid, and other sources.

Output strength  
3

## 12 | Sustainability

In the past, environmental concerns were not seriously taken into account in either macro- or microeconomic terms. There was no environmental ministry, and environmental impact assessments have not been required either for domestic or foreign investment projects. To make matters worse, the government and various armed ethnic groups have both legally and illegally logged large tracts of forest in a competitive manner, particularly since 1988, seeking to increase their revenue. This has led to widespread and large-scale deforestation in many areas of Myanmar, especially in the border areas. Since 1988, the Myanmar government has relied primarily on the extraction of natural resources for foreign currency. There are reports of negative health impacts due to the use of toxic chemicals in the mining process without proper safeguards, for example at gold mines in Kachin and Karen States and copper mines in upper Myanmar.

Environmental  
policy  
3

President Thein Sein has promised a new approach in this field. In his inaugural speech as president, he declared that he will work for “economic development in parallel with environmental conservation.” He also promised to pay serious attention to the “conservation of forests and woodlands and take measures in various sectors to reduce air and water pollution, control dumping of industrial waste and conserve wildlife.” Just six months later, in September 2011, he suspended work on the Myitsone Dam, a \$3.6 billion project financed by China on the Irrawaddy River to provide electricity to China’s Yunnan province. Among the five specific issues he cited were environmental concerns and negative impacts on local livelihoods. In January 2012, the government cancelled a 4,000 megawatt, Thai-financed, coal-burning power plant due to possible “adverse effects on the environment.” Thein Sein has also promised to become a signatory to the Extractive Industry Transparency Initiative (EITI). The initiative’s member companies and countries agree to implement a global standard for transparency about revenues from natural resources. The institutional base for environmental policy has also been strengthened. A new environmental ministry has been created. The former Ministry of Forestry has become the New Ministry of Environmental Conservation and Forestry. Since more foreign investment is expected in the years to come, two new laws, the Environmental Conservation Law and the Environment Impact Assessment Rules, are currently under discussion.

Myanmar ranks 69 in the 2012 Environmental Performance Index, which ranks 22 performance indicators in policy categories such as air and water pollution, and impacts on agriculture, fisheries and forests.

The government has not made the development of high-quality education a priority. Because antigovernment demonstrations have often begun on university campuses, the regime has resorted to shutting down universities for years at a time (three years, following the 1988 demonstrations, and four years, after demonstrations in 1996). After 1996, several campuses were moved outside Yangon to make student organizing more difficult. At the same time, the military has encouraged students to take distance education courses, which require little time on campus and provide fewer opportunities to develop networks and become politicized. This policy has also led to deterioration in the quality of education. The regime has treated civilian education as relatively unimportant, while focusing on the development of military universities. Military medical and engineering universities have been established so that the military will have properly trained doctors and engineers. In recent years, more private schools have been allowed to open and more elites have sent their children there due to the poor quality of public schools.

Although the reported literacy rate exceeds 90%, school attendance beyond the primary level is low and at the tertiary level is very low. According to the government’s Statistical Year Book (2006), university students still represent only

Education policy /  
R&D  
1

1% of the total population. This is because many parents take their children out of school after they finish primary education, as they cannot afford the school fees.

In 2009 – 2010, only about 1% of GDP was budgeted for education, while the military budget was over 20% of GDP. For the 2011 – 2012 budget, the junta allocated 4.13% (\$350 million) of the state budget to education, and about 23.6% (\$2 billion) to defense. For the 2012 – 2013 budget, the new government has raised expenses for education to 4.9% of the whole budget. Nevertheless, expenditures on education and health are the lowest in Southeast Asia.

# Transformation Management

## I. Level of Difficulty

Structural constraints on governance are high. Poverty rates are high throughout the country, education levels are very low, the educated workforce is small, and the administrative capacity of the bureaucracy to tackle these problems is quite weak. Infrastructure is inadequate, as the national transport network (road and railway) is outdated and access to electricity remains insufficient: Only 26% of the population had access to electricity in 2011. Although Cyclone Nargis severely damaged the country's main area of rice production in 2008, such natural disasters are rare in the country, with the exception of Rakhine State, which borders on Bangladesh. The rate of HIV prevalence among the population is approximately 1% to 2%, which requires commitment in managing and reducing, but is well below the scale of some of the hardest-hit countries in Africa. However, Myanmar still has high incidences of malaria and tuberculosis.

Structural  
constraints  
9

Myanmar civil society does not have strong roots. Although there was some civic engagement by student and labor unions under the democratic government in the 1950s, the government still tried to set up its own unions to control such movements. Since the military takeover in 1962, all independent civil organizations, including student and labor unions, have been outlawed, as has the independent media. Room for civil society existed only in areas of state weakness, and civil society organizations started to organize in the education and health sector in the 1990s. This has changed. Many local community organizations and NGOs have been formed in recent years to address local social and economic problems. However, they are often uncoordinated and are still working on their own organizational development. The Yangon nonprofit Myanmar Egress launched in 2006 to help coordinate and organize civil society groups, most of which still lack capacity and coordination. Due to the long history of authoritarian rule and suppression by the military government, trust is a major issue, especially in the ethnic-minority regions.

Civil society  
traditions  
9

The country has experienced two kind of conflicts. One is between the military government and the opposition, the other is between the military government and the country's ethnic groups. While the conflict between the military government and the opposition virtually ended with the transition to quasi-civilian government in March 2011, and with the opposition taking part in the by-elections in April 2012, the second

Conflict intensity  
8

conflict is ongoing. The country has faced civil war since independence in 1948. Various ethnic groups have waged war against the government for autonomy in their ethnic areas. Although the government has forged ceasefires with more than a dozen armies, no significant concessions were made. The ceasefires made by General Khin Nyunt in the 1990s were only gentlemen's agreements. Between 2009 and 2011, the military ordered those ethnic groups that had signed ceasefires to transform into border guard forces under the Myanmar military's control. While some ethnic groups accepted the border guard proposal, the largest groups have refused to lay down their weapons, and ceasefires collapsed, so that ethnic conflict has escalated since then. However, President Thein Sein has pledged to make national reconciliation a priority and has offered a new approach to ethnic politics. He offered unconditional peace talks with all 11 groups and finally managed to sign ceasefires with 10 of them. He promised to hold a national conference to seek political solutions to the problem as a second step. Thein Sein even managed to negotiate a ceasefire with the Karen National Union (KNU) and the Shan State Army South (SSA-S), both longstanding enemies of the military regime. The only group he failed to reach a ceasefire with has been the Kachin Independence Organization (KIO) in Kachin State, where conflict – for various reasons – has escalated since the ceasefire fell apart in 2011. However, a new peace initiative launched at the beginning of 2013.

Another conflict that erupted during liberalization was ethnic and religious violence in Rakhine State. In May 2012, the rape and murder of a Buddhist woman by Muslims led to a spiral of violence in the state between the Buddhist Rakhine and the Muslim Rohingya communities there. Political liberalization also showed its side effects, since ultranationalist communities on both sides were able to organize freely and fuel the violence. Reportedly, security forces did not stop the violence, since they were taking sides with the Buddhist Rakhine. Moreover, the press also added fuel to the fire in reporting in a nationalistic way. Thein Sein declared a state of emergency in the region and appointed a committee, which is going to give recommendations on how to solve the conflict in the long term. The conflict in Rakhine State illustrates the deep-rooted, complex and multifaceted nature of political liberalization in the multiethnic state.

## II. Management Performance

### 14 | Steering Capability

The government has set strategic priorities, which amount to nothing less than a complete overhaul of the state's governance structures. Since the president is pushing forward both economic and political reforms, many reform steps are uncoordinated,

Question  
Score

Prioritization  
3

lacking a carefully designed plan. Because the president has had to convince the opposition, the international community, and hardliners within its own administration that the government was committed to reform, changes have been very slow so far. After the opposition and the international community were convinced of the government's sincerity, reforms became swifter and more visible.

The government's top long-term strategic priorities are maintaining sovereignty and expanding it to the whole country. These priorities are manifested in the government's regular proclamation of "Our Three Main Aims," which are 1) non-disintegration of the union, 2) non-disintegration of national unity and 3) perpetuation of sovereignty. Unlike his predecessors, Thein Sein envisioned true national unity and ethnic reconciliation as top goals of his presidency, and he sent strong signals to the ethnic groups, the opposition and the international community that he is willing to achieve this goal through dialogue and consensus. Already in his inaugural speech, he recognized the need for far-reaching reforms in the political sphere, in the economy, in the education and health sectors, in agriculture and in the environment. He also acknowledged the need to open up the economy to the outside world, to introduce political reforms, to acknowledge the rule of law, and to work by consensus. Thein Sein has identified rural development and equitable growth as key economic priorities. While the president does have an ambitious agenda, this is often not translated into a detailed policy framework with the right incentives in every policy field. For instance, while there has been a master plan for comprehensive rural development, no broader reform plan has been developed.

Since the speed of political and economic reforms is high and the policymaking capacity of the government is limited, the government has often made decisions on an ad-hoc basis. During Thein Sein's first years in office, the reform tempo has been slow. Hardliners have attempted to preserve the old system of politics that provided considerable rents and monopolistic advantages to small groups. After the April 2012 by-elections, the Western international community slowly suspended its sanctions policy and engaged Myanmar. With the help of the international donor community, the president is now working on the long-term goal of reaching middle income status by 2030. The international community has helped in addressing major problems. International workshops have addressed poverty reduction strategies, the IMF helped modernize the financial sector, and the World Bank has offered new lending. Since governance constraints are massive and many potential spoilers threaten to derail the reform process, progress on all fronts is sometimes slow and setbacks inevitable. Another problem is the tidal wave of international visitors. The worst impact is on senior officials, who are spending a huge amount of time in meetings with visitors, leaving insufficient time to make good policies and even less time for implementation.

The implementation capacity of the government is limited. Poor implementation mainly results from technical incompetence and widespread corruption at all levels. Ministers and top-level civil servants, especially managing directors, are chosen on the basis of seniority rather than expertise. The technical capacity of civil servants at the middle and lower levels is also declining, since they have not been able to engage in proper advanced studies at home or attend in-depth training programs abroad, although a few have been sent abroad for short courses. Importantly, there has been no effective human development programs aimed at providing long-term benefits to the country.

Implementation  
3

The new government does not effectively monitor its socioeconomic development programs. Since Myanmar has embarked on a completely new path of far-reaching reform, there has been so far relatively little opportunity to learn from the past. Thein Sein, however, has shown a general willingness to accept recommendations from the international community. Eager to stimulate investment in the country, the government spent 2012 mulling a new investment law. After parliament pushed for a law that protected national business and restricted investments in some fields, the president sent the draft law back for reconsideration and called for a far more liberal version to attract international investors and businesses. Ultimately, the investment law was praised as a milestone. Myanmar has also worked effectively with the IMF in reforming the exchange rate and accepted the fund's recommendations.

Policy learning  
5

## 15 | Resource Efficiency

The government is only gradually beginning to use its assets effectively. It still keeps a huge amount of resources in the budget for the military (still more than 20% in 2012 – 2013) and is only slowly modernizing productive sectors such as agriculture, manufacturing and education. Although the government increasingly consists of skilled people and technocrats, seniority still is an issue and cronyism is rife in many ministries. There is no competitive civil servant selection process in the bureaucracy, as personal connections to top bureaucrats and bribery are more important than personal capacity.

Efficient use of  
assets  
2

There is traditionally poor policy coordination. Due to overlapping responsibilities, redundancies and frictions between various ministries, as well as between the ministries and the regional military commands, there is generally little communication between government agencies. Ministers separate into personal cliques, split particularly between hardliners and relative moderates, making inter-ministerial coordination difficult. For example, there has been no coordination between the tourism minister, who wants to preserve forests for tourism, and the economy minister, who wants to increase revenues by logging. When the government forced poppy farmers in the Wa area to relocate as part of a drug eradication program, it was not well coordinated across the various ministries and agencies involved,

Policy  
coordination  
2

resulting in severe hunger. However, in a few situations, the government has been able to establish effective horizontal forms of coordination among certain ministries and branches. For example, when a number of important border checkpoints were opened, there was fairly good coordination between the defense, home, immigration and finance ministries.

Corruption is becoming a more widely recognized issue in the country as the media becomes more active and the government pays more attention to the problem. Thein Sein launched initiatives to tackle corruption after a report by the auditor-general disclosed the misuse of billions of kyat in six ministries. In a December 2012 televised speech, the president publicly pledged to eradicate graft and promote transparency. He underlined that he wanted his third reform phase to concentrate on good governance and the fight against corruption, and he urged the public to participate in the fight against graft. First steps were taken in January 2013, when the telecommunications minister and a dozen senior officials from the communications ministry were sacked and placed under investigation for alleged corruption.

Thein Sein has also promised to become a signatory to the Extractive Industry Transparency Initiative (EITI). The initiative's member companies and countries agree to implement a global standard for transparency about revenues from natural resources.

The Lower House Committee for the Rule of Law and Stability, chaired by Aung San Suu Kyi, has received more than 1700 complaints about abuse by state officials (land disputes, judicial issues). In January 2013, the president established a nine-member committee led by Vice President Dr. Sai Mauk Kham to coordinate efforts to eliminate bribery and establish good governance. Recent anticorruption measures include a requirement for new ministers and officials to declare their financial assets. The government is also discussing a new anticorruption law to replace the 1948 Suppression of Corruption Act. All this shows that the fighting corruption and prosecuting abuses of office are slowly coming onto the national agenda.

## 16 | Consensus-Building

There is a vague consensus within the establishment that political and economic reforms are necessary in order to catch up with neighboring countries. Even the commander of the armed forces is officially supporting the overall reform process. While there is a general consensus on political reforms, the extent and speed of the reforms is widely contested. Hardliners and other conservative elements still oppose the extent and speed of the reforms of President Thein Sein, since they are interested in preserving their economic rents and monopolistic advantages. For the opposition and the ethnic groups, the reforms are not far-reaching enough, since the military is still in control of the process. The main goals of the opposition are to change the

Anti-corruption  
policy

3

Consensus on goals

4

constitution so as to allow Aung San Suu Kyi to run for president, and to reduce the overall influence of the military. The opposition has not made statements on its preferred economic system. The armed ethnic groups' goal is to establish a federal union that provides greater autonomy for ethnic areas.

The military is still an important player in both the economy and the polity. Although its interests are far from uniform – regional commanders and military leaders might have different interests – it can still block far-reaching reforms through ministers and the military bloc in parliament. It remains unclear whether the president has civilian control over the military.

Anti-democratic  
actors  
5

The political leadership attempts to depolarize cleavage-based divisions in society and to forge a consensus. However, the conflict is deep-rooted and has been ongoing for five decades. The most important cleavage is between the Myanmar government and the ethnic groups. The president managed to start a new peace initiative. He was able to sign ceasefires with 10 out of 11 ethnic groups by promising them a lasting political solution. However, it remains unclear whether the president's strategy will be successful, since the chosen strategy remains unacceptable to the ethnic groups. The government's informal rather than declared policy seems to allow the ethnic groups to participate in the political process, to form parties, to run candidates in elections and to attempt to change the constitution. This is unacceptable to the ethnic groups, since they fear the veto power of the military. They seem to prefer an extra-parliamentary dialogue, a national conference about a new constitution. Recent statements by both the government and the ethnic representatives about negotiations for a political dialogue are encouraging, since it could delineate the path ahead and build a formal framework for the talks.

Cleavage /  
conflict  
management  
5

Civil society is not systematically included in agenda-setting, decision-making or implementation. Presidential advisers did meet with some civil society groups to receive their policy input to draft the Framework for Economic and Social Reform. The framework was presented to a January 2013 forum that was attended by some local and international NGOs and international donors. The president also met with some civil society groups in January 2012 and promised that the government will cooperate with them. In January 2013, the president's office minister who is leading the peace negotiation process with different ethnic armies asked civil society groups to help monitor the ceasefire and peace process.

Civil society  
participation  
4

These examples refer to the reform ministries and the president. Some more conservative ministries, however, do not take civil society into account, and parliament does not include hearings from civil society organizations. There are instances in which civil society groups have been included in policy making. For example, the labor ministry cooperates with labor activists, local NGOs and international NGOs to help migrant workers from neighboring countries return home. Also, the environmental ministry has cooperated with local NGOs. But civil society

groups have not systematically been included. Media groups, for example, have complained that they have not been consulted in the formulation of the media law.

There is no significant reconciliation process underway, since the leaders still struggle to find an end to the decades-long conflict between the various groups. Although the president, in his inaugural address, acknowledged cruelty and atrocities – the “hell of untold miseries” suffered as a consequence of the decades of armed conflicts and “the dogmatism, sectarian strife and racism” driving these conflicts – there has been no attempt to heal the wounds of the past until now. The president is not manipulating and attacking his opponents anymore, as the military leaders of the past did. However, the leadership is not yet addressing historical acts of injustice either.

Reconciliation  
4

## 17 | International Cooperation

Nearly all Western donors have stepped up their support for the country. This will produce a gigantic flow of aid to Myanmar. This will have a positive catalytic effect on both donor assistance and foreign investment but will not be good indicator of future flows of aid to Myanmar. There is also evidence that flows of aid from Asian donors, principally Japan but also Korea, China and India, will together exceed the aid flows from Western donors. It is too soon to say whether foreign aid to Myanmar will be a curse or a blessing. The Myanmar government has promised to cooperate with and coordinate aid. It has agreed on the “Naypyidaw Accord for Effective Development Coordination,” which is a localized version of the Paris Declaration and the Accra Agenda for Action, both international principles that attempt to ensure aid effectiveness and cooperation.

Effective use of  
support  
6

The Thein Sein government has been widely hailed for his far-reaching reforms. He has slowly improved his credibility. Aung San Suu Kyi described him as “honest man, a man capable of taking risks if he thinks they are worth taking,” and the international community has been convinced of his credibility since the by-elections 2012. Since then, the government has cooperated with numerous donor organizations. These organizations have pledged a huge sum of money to help the country address the numerous problems it faces. The exile community remains skeptical because the military remains the most important player in the country; human rights violations still exist. Although the president has offered the exile community the opportunity to come back and rebuild the country, few so far have come back.

Credibility  
5

Myanmar has successfully reengaged with the international community in recent years. The country has seen a number of high-profile visitors: U.S. President Obama made a historic visit to the country in November 2012, British Prime Minister Cameron and numerous high ranking diplomats also visited in April 2012 (to witness

Regional  
cooperation  
7

the by-elections). Apart from heads of state, a number of international organizations have reengaged Myanmar in order to support the reform process: the World Bank, the Asian Development Bank, the IMF and numerous donor organizations.

Myanmar has also tried to maintain good relations with neighboring countries, especially China, India and Thailand, by using resource diplomacy. All three neighbors together with South Korea and Malaysia are competing for gas and oil extraction rights in Myanmar. In return, China and India provide military equipment to Myanmar. China additionally provides interest-free loans and development assistance. One reason is to prevent internal unrest, since that could affect China's border. While China remains the most important partner in the region, the country has also successfully participated in the Association of Southeast Asian Nations (ASEAN). The country is also actively preparing to take over its regional leadership role: In 2013, the country will host the ASEAN Games, and in 2014 it will lead the ASEAN organization.

## Strategic Outlook

The president has embarked on a gradual liberalization of the quasi-military regime. He has opened up the economy and initiated a peace process with the ethnic groups. While the political situation at the moment is quite stable, it is imperative to consolidate the reform momentum in the years to come. Since the reform process will be contested, it remains of utmost importance that all major actors (the military, ethnic groups, parliament including ruling party and opposition) are included in this process. The biggest potential threats are the rise of ethnic and religious conflicts, political confrontation in the course of the 2015 elections, and a military coup. Social tensions may lead to protests due to inequalities, land-grabbing and low wages. This leads to the following recommendations to address these challenges:

Parliament should continue to amend many of the antiquated laws and bring them into line with the 2008 constitution. The constitution itself should be reviewed in order to make it more democratic. There seems to be some movement on this front, since lawmakers have recently begun to push for a revision of the constitution. Even the armed-forces faction has supported this move. This could pave the way for opposition leader Aung San Suu Kyi, who is now barred from running for president, to become president in 2015. The revisions should also address the issue of decentralization, or broader autonomy of ethnic groups, in order to secure their consent to the reform process.

Parliament and president should also continuously include all major stakeholders and civil society groups to discuss the new laws in a transparent way. This would also enhance trust between civil society and the government and help the reform process get the broader support of civil society.

Remaining political prisoners must be freed. Both the international community and the president should urge a general amnesty to free them.

One of the most important aspects of the reform process is to maintain stability in the period of growing openness. Political mobilization on the grounds of ethnic or religious differences should not be tolerated. Both parliament and the president should openly oppose controversial figures who attempt to stir hatred and nationalism and mobilize on the grounds of ethnic and religious differences. Especially in the context of the 2015 elections, it should be made clear that campaigning should not be based on ethnic and religious differences. The issue could also be addressed by reforming the current citizenship law. Citizenship should not be based on ethnic or religious markers anymore, and the creation of a multiethnic national identity stressing solidarity among the different religions and ethnic groups should be strengthened. This can only be done in continuous dialogue between the central government and the ethnic groups. Consequently, political dialogue with the ethnic groups should be deepened. The president should also seek to include the Kachin in the peace process.

Since the military is an important veto player, the president should also use his authority to urge the military to refrain from further offensives in Kachin State. A reform of the military to bring it in line with the democratic period could also strengthen the overall reform impetus. Since the military is a vital player in this reform process, it should be made a medium-term goal to reduce the prerogatives of the military.

Economically, Myanmar already makes the headlines as “Asia’s next tiger” or next “rising star.” However, it is doubtful whether the country will experience an investment boom aside from extractive industries. Showing already strong characteristics of a “resource curse,” it depends on the willingness of the president to reinvest these incomes into social and health sectors, to rebuild infrastructure, the financial sector, agriculture, manufacturing and the like. The country lacks many preconditions for investment (an educated workforce, infrastructure, energy, etc.). The president should address these issues, and spending on education should increase considerably. The government could also attempt to increase the incentives for exiles to return.

It remains imperative that the aid coming into the country be managed in a transparent and effective way. Early signs are promising.

The most challenging issue is strengthening human rights and the rule of the law. Several reforms could address this issue. A new, truly independent human rights commission could be formed. Recent human rights violations should also be addressed by forming a national reconciliation commission with the participation of major activists, reformist politicians and ethnic groups. Since it remains imperative that the military remains behind the reforms, the duty of the reconciliation commission should be to collect material about past human rights abuses and come up with recommendations on how to deal with them first. The constitutional court should be reconstituted as independent referee between the state organs in order to strengthen the rule of law. Rule of law reforms are also important for the economic recovery, since legal certainty is very important for investment.