

Myanmar

Status Index (Democracy: 1.0 / Market economy: 1.3)		2.3	Management Index		1.2
System of government	Autocracy		Population	48.2 mill.	
Voter turnout	n. a.		GDP p. c. (\$, PPP)	1,027	
Women in Parliament	n. a.		Unemployment rate	5.1 % (2000)	
Population growth^a	1.8 %		HDI	0.549	
Largest ethnic minority	8.5 %		UN Education Index	0.72	
			Gini Index	n. a.	
Data for 2001 – if not indicated otherwise. ^a Annual growth between 1975 and 2001. Source: UN Human Development Report 2003.					

1. Introduction

When Myanmar joined the Association of Southeast Asian Nations (ASEAN) in 1997, it was supposed to be a clear sign that the country was about to put an end to its international isolation. Moreover, since 2000 the generals of Myanmar's military government have sought to diminish international condemnation of their antidemocratic regime by relaxing their repression of the "National League for Democracy" (NLD), Myanmar's largest opposition party. In May 2002 this "thawing" even led to the absolute release of the opposition leader and Nobel Peace Prize recipient Aung San Suu Kyi, who had lived under house arrest, with some interruptions, for several years. At the same time, the government freed more than 300 political prisoners and permitted the NLD to reopen its offices throughout the country.

But membership in ASEAN and the policy of domestic détente did not automatically lead to political and economic stability, as the ruling generals had hoped. The country's admission to ASEAN in 1997 coincided with the onset of the Asian economic crisis, which dashed many economic aspirations throughout East Asia. In the five years since Myanmar joined ASEAN, direct foreign investments in the country have continued to fall dramatically. The military junta had expected that, by releasing Aung San Suu Kyi, they would secure an end to international sanctions against their country, particularly on the part of the European Union and the United States. The "West" did acknowledge Myanmar's domestic progress, but politicians in Washington and Brussels deemed that progress insufficient to warrant lifting sanctions against the Southeast Asian country.

2. History and characteristics of transformation

Since 1961, when General Ne Win took power in a putsch and ordered the arrest of then Prime Minister Nu, Myanmar has been a military dictatorship. Since the former colony won its independence from Britain in 1948, domestic unrest has stood in the way of its economic and political transformation. A few months after independence, ethnic minorities and Communist groups rose up in violent revolt against the young republic and proclaimed the independence of their respective settlement areas.

The military was able to prevent a permanent rift by the use of tremendous force, but even today it remains unable to find a political solution to the country's many different minority problems. As soon as it took power, the military dictatorship abolished democratic institutions and replaced them with the 17-member "Revolutionary Council," chaired by General Ne Win. The army led the country into isolation. The state adopted a mixture of Marxism and Buddhism as its official philosophy. In 1974 the leaders proclaimed the "Socialist Republic of the Union of Burma," with Ne Win in the newly created office of president. Henceforth a socialist planned economy and the one-party rule of Ne Win's "Burmese Socialist Program Party" determined the country's economic and political development.

In 1981, Ne Win stepped down as president in the face of serious economic problems, and his confidant San Yu succeeded him in office. However, Ne Win remained chairman of the country's only political party, and he continued to play a decisive role in the formation of government policy. But the formal, merely personal change in leadership could not arrest the country's economic decline. As a result there were mass demonstrations in 1988, which the military junta tolerated for some months, then brutally repressed on August 8, killing several thousand people, according to independent estimates, in the process. Ne Win and San Yu were replaced by General Saw Maung. The new military junta promised the country's democratic opposition that free elections would be held as soon as possible. Those elections took place in May of 1990, and they resulted in the overwhelming victory of the NLD, the country's largest opposition party, under the leadership of Aung San Suu Kyi, with more than 80 % of the vote.

But the army has refused to recognize this result to the present day, and it did not allow the newly elected Parliament to convene. The opposition leader Aung San Suu Kyi, who was awarded the Nobel Peace Prize in 1991, was placed under house arrest while the electoral campaign was still under way. In 1995 she was released for the first time, but the authorities repeatedly prevented her from leaving the capital, Rangoon, to undertake political activities elsewhere in the country. The opposition leader was placed under house arrest again at the end of 2000 and only released 19 months later. By contrast with her first "release" it is clear that she is now permitted to move about in the country relatively freely.

The change of leadership in 1988, a pivotal year for Myanmar, ushered in a new phase of economic transformation. In order to avoid becoming indirect victims of the country's economic distress and the mass demonstrations it might trigger, as had happened to their predecessors, the leaders implemented initial market reforms. But there are three main reasons why this change of strategy did not score significant successes:

First, foreign investors hesitated to invest in the country because of the uncertain political situation there (violent minority conflicts, legal uncertainty) and because of concern for their public image (fear of boycotts because of human rights violations and repression of the democratic opposition in Myanmar).

Second, Myanmar did not receive the same level of international assistance with its reforms that comparable developing countries received, because the European Union and the United States had imposed comprehensive sanctions against the military junta in response to its bloody repression of mass protests in 1988.

Third, despite these obstacles, the military dictatorship remained unwilling and partially unable to undertake reforms. The principle economic problems are the prevailing corruption, the country's high inflation rate and the military leaders' exploitation of state enterprises for personal enrichment.

The military government is doing little or nothing to correct these problems and abuses. Many observers therefore presume that in recent years Myanmar's population has become further impoverished. By 1998, if not before, the country's political and economic transformation seemed to hit a dead end. The last five years have not brought any tangible signs that the military rulers will in the future be willing to hand over power to a democratically legitimate successor government or even to negotiate such a transfer of power. It therefore appears unlikely that the country will experience an economic recovery in the next few years.

3. Examination of criteria for democracy and a market economy

3.1 Democracy

In the reporting period between 1998 and 2003, Myanmar made no meaningful progress toward political transformation. The government merely relaxed its repression of the opposition to some degree, but that repression continues at significant levels, and the effective political development of opposition forces remains nearly impossible. There are no serious indications that the representatives of the military dictatorship are willing to contemplate the peaceful transfer of power to democratically legitimate persons and institutions.

3.1.1 Political regime

(1) *Stateness*: Myanmar has serious problems with its identity as a state. The government is able to assert its monopoly on the use of force in central regions of the country, but capable organizations (powerful drug gangs and secessionist rebels) are in control of some individual regions. Ethnic minorities suffer systematic discrimination and to some extent also physical persecution. The military leaders have largely secularized the political process. Public order can only be maintained by the permanent threat of violence. Disputes between the central government and rebel bands continue to result in armed conflict. Administration is not fully functional.

(2) *Political participation*: The military has dominated the political and social system for the last 40 years. The last free elections took place in 1990, but the military junta refused to recognize the results. The military government is not elected by the people but took power in a coup. It completely controls all domestic media and obstructs independent reporting by foreign journalists. The entire population is denied essential aspects of full citizenship and crippled in its political expression. The country's largest opposition party, the NLD, continues to suffer extreme repressive measures. It is kept on a short leash and is under permanent surveillance by the secret police. Thousands of the party's officials and supporters are currently serving prison sentences, some of which are long, as a result of their political activity.

(3) *Rule of law*: A balance of powers only exists in theory. Most of the 700 members of the so-called Constituent Assembly are selected by the military leaders. This body was installed in 1990, two months after the election, in place of the duly elected Parliament. In 1995 the few members of the NLD to sit on the "Constituent Assembly" left the body in protest against the regime. The judiciary is also directly dependent on the military leaders. Civil rights enjoy no fundamental guarantee, and they are systematically violated. Officeholders are free to exploit their positions for private gain without fear of judicial or public consequences. According to the Corruption Perception Index, the country's political and bureaucratic corruption is among the worst in the world.

3.1.2 Political patterns of behavior and attitudes

(1) *Institutional stability*: The military dictatorship can only maintain its institutions by the continual threat of physical violence. Important international actors (the European Union, the United States, et al.), the country's largest opposition party (the NLD) and the many secessionist movements in Myanmar do not recognize its legitimacy.

(2) *Political and social integration*: Governmental repression has largely prevented the formation of a stable, moderate party system with roots in the

society. Except for the democratic opposition party, the NLD, civic organizations are only present at a very rudimentary level, because people must count on being punished for any political or social opposition to the government. In addition the NLD must conduct its political activities in the face of enormous organizational deficiencies. A shortage of financial resources and governmental repression (interdiction of travel, surveillance of communications) make it almost impossible for party headquarters to work together effectively with party offices elsewhere in the country.

Ethnic minorities in Myanmar continue in part to organize themselves into armed guerilla groups, which do battle with the government. The military government and opposition groups are almost completely unwilling to work together. The government has entered into initial conversations with the NLD alone. In January 2001 Aung San Suu Kyi officially met for the first time with high-ranking representatives of the military junta. Internationally the meeting prompted high expectations. But thus far these conversations have brought no meaningful results, because the military remains unwilling to cede or share power within the country. Indeed, among the military leadership there is heated disagreement over whether the government should be speaking with the opposition at all. Hardliners such as the powerful general Maung Aye, currently the "second in command," fear that even simple negotiations may pose a danger to the regime's continued existence, because they lend stature to the opposition.

After 40 years of uninterrupted military dictatorship, it is very difficult to estimate how positive the population feels about democracy, and especially how much they know about it. The last free elections in 1990 brought an overwhelming victory to the opposition, which won more than 80 % of the vote. However, these results are more than 12 years old, and it goes without saying that they do not permit us to reliably conclude that the population continues to embrace democracy today.

There is currently no debate under way about the authoritarian military government. In March 2002 General Ne Win, who led Myanmar from 1962 to 1988, was charged with plotting to overthrow the government and placed under house arrest. Several members of his family were also arrested, together with 100 others, including two of the army's powerful regional commanders. However, when Ne Win died, on December 5, 2002, any expectation that the judicial proceeding against him might have ushered in an honest engagement with the past died as well. In any event, it is obvious that these arrests were essentially purges conducted by the ruling generals against competing factions within the military.

3.2 Market economy

The transformation of Myanmar's economy in the last five years has brought more setbacks than progress. Already one of East Asia's weakest economies, Myanmar has been set back even further by the continuing international sanctions

and the effects of the Asian economic crisis since 1997. Urgent problems such as corruption and inflation have been largely ignored and have therefore become even worse.

3.2.1 Level of socioeconomic development

Primary indicators suggest that Myanmar's level of development is stagnating and in some sectors even falling. Measured against the Human Development Index, the country's level of development is one of the lowest in the region. The degree of social exclusion due to poverty, lack of education or gender is also much higher than in neighboring countries such as Thailand. In particular women and members of ethnic minorities are at a clear disadvantage.

Because the rate of inflation is high (more than 30 % in 2002 according to estimates), while the economy is growing much more slowly (between 2 % and 5 % a year by recent estimates), it is safe to assume that poverty in Myanmar, which was already high, has become worse, and that income inequalities have widened. It is relatively difficult to evaluate Myanmar's level of development with precision, because during the reporting period the military government has either published economic statistics that are not credible or has failed (since 1998) to release such statistics altogether.

3.2.2 Market structures and competition

In Myanmar the foundations of competition in a functioning market economy have been abolished. Despite market reforms since the end of the 1980s, large state enterprises dominate key economic sectors such as energy and heavy industry. Because they reinforce the existing system and represent a lucrative source of income for those in power, these state enterprises enjoy competitive advantages and the special protection of the ruling military elite.

There is no state policy on competition and development with generally acknowledged rules of play. The state banks are controlled by the military leaders and have special privileges not enjoyed by the country's few private banks, which are not allowed, for example, to do business with foreign clients. Foreign banks in Myanmar, on the other hand, are only allowed to do business with foreign clients. The black market is twice as large as the legal one. The production of drugs and the drug trade are Myanmar's—illegal—leading export. There are even reports that parts of the military are actively involved in drug smuggling or that smugglers are able to purchase toleration of their activities from corrupt officials. In the past five years the government has therefore been able to score only very limited successes in its campaign against the powerful drug gangs. The constant drug smuggling activity leads to repeated border skirmishes with the neighboring country of Thailand, which accuses Myanmar of supporting the drug trade.

Foreign trade is essentially limited to the export of natural gas and agricultural products. In the year 2000 the trade deficit stood at \$1 billion. The military junta reacted to this state of affairs with draconian measures, suspending the import licenses of foreign firms in April 2002. This is supposed to protect domestic companies from foreign competition. The military government took similarly drastic measures in the agricultural sector. Faced with low productivity, the government took steps to extend rather than intensify the exploitation of agricultural land. Agricultural experts are already warning that this policy is “wasteful and ecologically dangerous.” The military leaders hope to use these measures to achieve an autonomous food supply for the country, in hopes that this will bring about greater social stability.

3.2.3 Stability of currency and prices

During the reporting period, the military junta, which controls the exchange rate, has not implemented effective measures to control the country’s high rate of inflation. The official exchange rate between the kyat—the national currency—and the U.S. dollar is 6.3-to-1. On the black market, however, the kyat traded against the dollar at a rate of approximately 1-to-1 in April 2002. This shows that the country’s high inflation has a very damaging effect on the national currency. Experts predict that the kyat will continue to lose value unless the government takes decisive measures to stop it.

The military junta’s practice of redeeming so-called Foreign Exchange Certificates, nominally valued at \$1, collapsed in 2001. In 2001, even on the black market, these papers were worth less than half their nominal value. This is because, according to the International Monetary Fund, the government had issued certificates totaling \$400 million, but their foreign currency reserves were estimated to be valued at less than \$340 million at the time.

3.2.4 Private property

Independent regulation of the acquisition of private property is nearly impossible in Myanmar. At best, private companies are tolerated in the form of exclusive enclaves. Otherwise the state dominates the economic life of the country. Because the military leaders control the entire economy, they are able to alter property laws arbitrarily for their own benefit. There are no independent courts to protect property rights against the all-powerful state. Beginning in 1989 Myanmar slowly began to open its socialist planned economy to world markets. However, international sanctions against the military regime—in place since 1988—have made it nearly impossible for these economic reforms to take effect in any areas, including the area of private property.

3.2.5 Welfare regime

In Myanmar there are virtually no political or social provisions to guarantee inclusion or compensation for social inequalities. The state makes almost no effort to combat poverty, and those efforts that it makes are all ad hoc. Large portions of the population have inadequate health care. Health care expenditures in Myanmar are estimated at 0.2 % of the GDP for 2001, those for education at 0.6 %. These figures lie far below the average expenditure for these key areas even in other so-called low-income countries (as reported by the International Monetary Fund). Society is strongly segmented, and there are no institutions that permit the redress of extreme social inequalities (except perhaps the army for a certain segment of the male population). Women effectively have no access to higher education or public office, and they are systematically oppressed.

3.2.6 Strength of the economy

The per capita growth of the GDP is extremely small compared with the economic boom that Myanmar's neighbors have enjoyed in the past 10 years, which was interrupted only by the Asian economic crisis. According to independent figures, the country's economy grew at a rate of 2 % to 5 % in the year 2000. At the same time, however, according to estimates, the average rate of inflation stood at more than 20 %. Other macroeconomic data are similarly ominous. The country is estimated to be running a trade deficit of \$1 billion. The leaders in Rangoon have published no independent statistics on debt and unemployment for the past three years. However, experts believe that the country's expensive arms purchases have created an enormous national debt.

3.2.7 Sustainability

The state has not provided a social safety net for the alleviation of poverty and the absorption of social risks, and traditional structures of family and clan continue to fulfill this function. Institutions for education, vocational training, and research and development are only present at very low levels. The military dictatorship spends only 0.2 % of the GDP on education. The quantitative and qualitative investments in education, vocational training, and research and development that this level of expenditure makes possible are very small. Moreover, there are no private institutions to speak of in Myanmar that could make up the deficit. Economic growth completely subordinates environmental compatibility, which has no institutional expression. The alarming extent of deforestation in Myanmar is a vivid example of this. During the reporting period, the military leaders awarded a great many licenses, especially to Chinese companies, which proceeded to clear forestland without concern for sustainability. The military reacted to diminishing productivity in the agricultural sector by extending rather than intensifying domestic agriculture, that is, by farming new agricultural land instead

of achieving higher yields on existing land. This policy will, among other things, have serious destructive effects on the environment.

4. Trend

(1) *Democracy*: Virtually all of Myanmar's structural deficiencies and all of its political conflicts remained unresolved in the reporting period. The political conflicts were as follows: the contest for political legitimacy between the military junta and the democratic opposition, with the latter receiving support from Western countries (the United States and the European Union) in the form of international sanctions; and the numerous conflicts between the central government and ethnic minorities wishing to secede, which conflicts lead again and again to fierce armed combat. These conflicts also aggravate the border dispute between Myanmar and Thailand, which resulted in skirmishes in 2001 and 2002 and at times substantially worsened diplomatic relations between the two countries. As a result of these permanent conflicts and the inability of military leaders to begin a process of thoroughgoing reform, the oppressive structural deficiencies persisted unchanged or even partially worsened. There are enormous deficiencies in the areas of stateness, political participation and the rule of law. The great hope, especially abroad, is still the democratic opposition, but in recent years it has been unable to achieve any meaningful results in its negotiations with the generals.

(2) *Market economy*: During the reporting period the fundamental developmental indicators remained low. It is impossible to paint a complete picture of the actual condition of the economy because of the lack of relevant information (a lack caused by the ruling military elite).

The institutional framework conditions for market-based activity continue to be extremely inadequate. The state directly controls important industrial sectors such as mining and energy, and it retains command of the entire economy through secret ownership and access rights. The military junta has largely sealed off the economy from world markets. Because of these factors, the Asian economic crisis and continuing international sanctions, direct foreign investment in Myanmar, urgently needed and already scarce, has continued to fall off dramatically.

Table: Development of socioeconomic indicators of modernization

	HDI	GDI	GDP Index	UN-Education Index	Political representation of women	BIP p.c. (\$, PPP)
1998	0,585	n.a.	0,41	0,75	n.a.	1.199
2001	0,549	n.a.	0,39	0,72	n.a.	n.a.

Sources: UN Human Development Report 2000, 2003.

5. Transformation management

5.1 Level of difficulty

Baseline conditions in Myanmar were and are extremely unfavorable for the transition to a functioning market economy and stable democracy. The level of difficulty of transformation must therefore be considered very high. At no time have the government and the opposition been joined by a fundamental consensus concerning democracy and democratic mores. The same is true for the rules of a free market-economy, rules that the military leaders in Myanmar continually break and pervert for their own benefit (special conditions for state enterprises, corruption, etc.). The people of Myanmar have almost no experience with civil society, democracy, a market economy or the rule of law, and they are gradually forgetting what experience they do have. At the beginning of the reporting period, the Asian economic crisis added its weight to the domestic factors making Myanmar's transformation more difficult or even, in certain respects, impossible. That crisis, with its economic distortions, sent the economies of some of Myanmar's important Southeast Asian trading partners into a downward spiral that hence also affected Myanmar.

5.2 Reliable pursuit of goals

Recent years have provided no evidence that the military government possesses a strategy for economic reform and is determined to enact it. Individual measures primarily served to shore up the leadership's own power in the short term, and they came at high social costs such as inflation and the excessive squandering of natural and financial resources. The military leaders did nothing to establish reliability of expectations for domestic and especially foreign economic actors. They did not coordinate their macroeconomic objectives or did so insufficiently. The ruling elite does not acknowledge the creation of a market-based democracy as its goal. Other groups, such as the democratic opposition, had no influence on economic policy. The military leaders chose an equally unconvincing strategy in the area of democratic transformation. By releasing the opposition leader Aung

San Suu Kyi from house arrest and opening official negotiations with the opposition, they sought to signal to the international community that the “deep freeze” in relations between the two domestic rivals was now definitively over and that the way had been paved for a peaceful resolution. This strategy, however, has thus far not been successful.

5.3 Effective use of resources

The government uses the country’s resources to cement its own power, not in the service of transformational policies. A large portion of public funds goes to service the government’s own clients. Expensive weapons purchases are an example—35 % of the budget is spent on the military. These funds are therefore unavailable for necessary investments in the achievement of transformational objectives. Public services, including education and health care, remain inadequate, and this inadequacy stands in the way of further developmental progress. There is an urgent need for comprehensive deregulation in key economic sectors (especially the lucrative energy sector), but such deregulation is unlikely to occur, because the skimming of profits from these sectors represents the financial backbone of the military junta. There is no energetic campaign under way against corruption. On the contrary, the ruling elites consistently cultivate a system based on bribery in order to reinforce their power. There is no capable, independent judiciary that could remedy these abuses. The leadership does not make efficient use of the country’s cultural resources. Indeed, it systematically destroys those of ethnic minorities. Because the military leaders have absolute power and authority over the country, they alone bear the responsibility for the regression of the country’s political culture and economic strength.

5.4 Governance capability

The government’s economic reform policy is shortsighted and exclusively designed to serve the ruling elite. The government imposes its policies despite the resistance and well-founded warnings of the democratic opposition and foreign actors. It implements individual measures without public discussion and usually with the implicit threat of state violence. Because the military leaders are so loath to learn, they do not recognize that they have made misallocations of economic resources—for example, by purchasing weapons that the country cannot afford while at the same time underfunding social services—and reduce allocations. The management of democratic transformation also deserves an extremely negative rating. Because of the internal differences of opinion referred to earlier, the military government lacks organizational capability and flexibility in this key political arena.

5.5 Consensus-building

These actors with antidemocratic veto powers have been defending their power by authoritarian means for more than 40 years. They vehemently reject the road to democracy, and they are probably still ready to do as they did in 1988, i.e., to put down mass protests against their leadership with military violence. In the view of the military rulers, political transformation would above all else mean the end of their power. The government behaves unpredictably and rests its power on arbitrary decisions. The citizens—especially those who are members of ethnic minorities—are constantly under threat from the terror of the state apparatus. The military junta has thus far been effective at blocking far-reaching political and economic reforms. Market-economic reforms were only introduced at the end of the 1980s in order to stabilize the system and maximize profits in the industrial sectors that sustain the military dictatorship. However, recent measures such as the increasing of tariffs and the ultimate freeze on all foreign imports have led to the further degeneration of the country's market economy.

When the military leaders began to relax their repression of the country's democratic opposition in 2000, the Nobel Peace Prize recipient Aung San Suu Kyi was released from house arrest, the NLD was allowed to open offices throughout the country, and the state-run media largely put an end to its aggressive antiopposition propaganda. But the government cannot be regarded as truly ready to cooperate with civic organizations so long as its negotiations with the opposition continue to produce no tangible results. The leadership has thus far failed to initiate a similar dialogue with the country's many ethnic minorities, some of which continue to engage in violent struggle against them. The army's military superiority has allowed it to suppress the respective rebels with some success. But it has not combated the causes of these civil-war-like conflicts.

5.6 International cooperation

Myanmar's membership in ASEAN in 1997 was supposed to signal to the international community that the country was ready to work together with external actors. But ASEAN's new member confronted the organization with enormous international difficulties. The United States and the European Union had explicitly opposed the country's admission to ASEAN, and the European Union in particular never abandoned its position. Thus in recent years the European Union, in an attempt to exclude the participation of Myanmar, declined a number of joint conferences with ASEAN. When Malaysia's Prime Minister Mahathir visited Myanmar in 2001, he actually stated openly that Myanmar's membership in ASEAN had repeatedly "embarrassed" the organization and thereby damaged its international reputation.

Myanmar's relationship with the neighboring country of Thailand was also marked by conflict during the reporting period. Myanmar's generals continually

accuse their neighbor of supporting the “Shan State Army” of the Shan ethnic minority in Myanmar. Thailand in turn accuses its neighbor of supporting and profiting from the smuggling of drugs across the countries’ common border. Thus far the two sides have been able to resolve these conflicts diplomatically, by exchanging the visits of high-ranking state officials. However, these attempts at conciliation have failed to bring a lasting end to the conflict. It is especially dangerous that the military leaders in Rangoon continue to utilize xenophobic prejudices against Thailand as a domestic political instrument. The leadership uses this propaganda in a targeted manner to distract the population from domestic problems, but it continues to weigh heavily on relations between the states.

In one of Myanmar’s few international successes in recent years, Japan withdrew from the coalition of nations imposing sanctions on the Southeast Asian country. In April 2001 it granted Myanmar a package of financial assistance totaling \$28 million for the reconstruction of a dam. Japan viewed this developmental aid as a direct “reward” to the military junta for opening a dialogue with the NLD.

But these and similar, smaller successes cannot offset the damage done to the country by the international sanctions, which remain in force. According to independent estimates, sanctions caused the volume of direct foreign investment, which was already low, to drop off rapidly. Myanmar is internationally viewed as an unreliable and uncooperative partner. The country therefore only cooperates selectively and sporadically with individual neighboring states and regional organizations.

6. Overall evaluation

(1) Baseline conditions: The baseline conditions for transformation must be rated overall as extremely negative. Serious domestic conflicts (civil-war-like contests between the central government and ethnic minorities, the struggle for political legitimacy between government and opposition); the cadre economy of the military leaders; and the almost total absence of constitutional, civic and democratic traditions after more than 40 years of continuous military dictatorship—all these continue to block the beginnings of a fundamental transformation of state, society and economy. Internationally the country is condemned and subjected to comprehensive sanctions by many important international actors. It has poorly developed relationships with a few neighboring states, but these relationships cannot begin to compensate for the economic effect of international sanctions. Thus far Myanmar’s membership in ASEAN has not resulted in the anticipated economic boom, because during the reporting period ASEAN’s members have had to struggle, sometimes quite hard, with the continuing effects of the Asian economic crisis, which also pulled Myanmar into its downward spiral.

(2) *Current status and evolution:* Democratic transformation has been stalled since the bloody repression of mass demonstrations in the summer of 1988. Since then the military decision-makers have systematically repressed the democratic opposition, even if they have recently relaxed that repression to some degree. The system of government is antidemocratic and inefficient, because the ruling elites use the state's resources mainly for themselves. They deliberately refuse to integrate minorities and those with differing political opinions and to accord them political representation. The course of economic transformation was just as inadequate.

Instead of a functioning market economy, Myanmar's military leaders have systematically constructed a kind of "cadre capitalism," in which they have direct control of key industries and indirect and nearly complete control of the rest of the economy. Social systems of compensation are greatly underfinanced. There have been no significant market-economic reforms in recent years. In its management of crises, the government has been entirely driven by its desire to hold onto power, and it has completely ignored the serious economic consequences of its decisions (the inflation brought about by its failed monetary policy, isolation as the result of its freeze on imports, and the continued drop in direct investments from abroad). For this reason, there have even been reversals of the market-economy transformation in some sectors.

(3) *Management:* During the reporting period, economic mismanagement was coupled with political stagnation. The government took isolated steps to stimulate the economy (by joining ASEAN) and to de-escalate domestic conflict (by releasing the opposition leader Aung San Suu Kyi), but these steps were not accompanied by larger efforts at reform, and they have thus far come to nothing. The government's efforts to maximize its profit and reinforce its power in the short term have resulted in high social costs and problems that are gradually and steadily growing worse.

7. Outlook

In the transition to democracy and a market-based economy, Myanmar has taken more steps backward than forward in recent years. There must be fundamental change in the baseline conditions before a credible process of transformation can even begin. Above all the military would have to hand over power to civilians and civilian institutions that have received their legitimacy in elections that are free, fair and secret. Only then would it be possible to find medium- to long-term solutions to the country's other economic and political problems. However, it is unrealistic to expect that this will happen in the next few years. There have thus far been no serious indications that the military leaders are ready to hand over power.

The conservative circles surrounding the powerful general Maung Aye (who will probably soon inherit power from the aged general Than Shwe and then become the most powerful man in Myanmar) have thus far been able to ensure that the government's dialogue with the opposition brings no significant results. It is therefore unlikely that the next few years will see a change of regime in Myanmar or any improvement in the political and social deficiencies already discussed. For this reason significant recovery of Myanmar's failing economy is also extremely unlikely. The country can only hope that the Southeast Asian region will continue to recover from the effects of the Asian economic crisis, so that it can profit indirectly from that recovery. Without this regional economic revival, Myanmar's fundamental economic deficiencies (inflation, budget and trade deficits) will probably become even worse in the coming years.