### Status Index

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<td>Democracy</td>
<td>1-10</td>
<td>1.70</td>
<td># 124 of 125</td>
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<td>Market Economy</td>
<td>1-10</td>
<td>2.21</td>
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This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

The BTI is a joint project of the Bertelsmann Stiftung and the Center for Applied Policy Research (C•A•P) at Munich University. More on the BTI at [http://www.bertelsmann-transformation-index.de/](http://www.bertelsmann-transformation-index.de/)


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**Key Indicators**

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<th>Indicator</th>
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<tbody>
<tr>
<td>Population</td>
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<tr>
<td>HDI</td>
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</tr>
<tr>
<td>GDP p.c.</td>
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</tr>
<tr>
<td>Pop. growth(^1)</td>
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<tr>
<td>HDI rank of 177</td>
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<tr>
<td>Gini Index</td>
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<tr>
<td>Life expectancy</td>
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<tr>
<td>UN Education Index</td>
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<tr>
<td>Poverty(^3)</td>
<td>%</td>
</tr>
<tr>
<td>Urban population</td>
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<tr>
<td>Gender equality(^2)</td>
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<tr>
<td>Aid per capita</td>
<td>$2.9</td>
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**Executive Summary**

During the period under review, Myanmar’s political stalemate has continued. Since the purge of General Khin Nyunt and other high-ranking officials in late 2004, the general political environment has further deteriorated. Although the dismantling of General Khin Nyunts military intelligence apparatus relaxed the control mechanisms on the general population for a short time, restrictions on political activity imposed by the military regime have worsened in parallel with its continued refusal to permit meaningful opposition activity. The military still denies all basic freedoms and suppresses all avenues of dissent, including the media and public protest. Room for civil society organizations to maneuver is extremely limited and largely restricted to areas of ethnic conflict and state failure. Because of this increasingly erratic and repressive regime, the international community finds it increasingly difficult to deliver humanitarian assistance.

Despite strong external pressures from Western countries to bring about political change in Myanmar, the military has remained unwilling to introduce real reforms. Two visits by UN special envoy Gambari, intended to encourage democratic change and foster the relationship between Myanmar and the international community, did not achieve the desired results. In January 2007, a U.S. attempt to enact a UN Security Council resolution, which urged the junta to release political prisoners and to hold a dialogue with democracy groups and ethnic minority groups, failed. The military continues to retreat into isolation, as illustrated in the abandonment of the ASEAN chairmanship in 2006 and the relocation of the capital to Pyinmana in 2006. The military regime still uses vast resources to restrain the actions of the opposition and to repress its citizens. Although the military released some 400 political prisoners in 2005 and 2006, the military has not relaxed its suppression of political opponents, and new arrests have been made. There are currently more than 1300 political prisoners serving...
long-term prison sentences. The detention of opposition party leaders Aung San Suu Kyi and Tin Oo has been extended. The military is still pursuing its roadmap to the “disciplined democracy” announced by General Khin Nyunt in September 2003. The national convention to draft a new state constitution is the first of the roadmap’s seven steps. The national convention has convened three times, in 2004, 2005 and 2006. It is widely believed that it will end its work in 2007. The military junta plans to approve the constitution through a referendum and to hold fresh elections; however, no time frame has been set for this process. The roadmap to “disciplined democracy” will merely refine the authoritarian nature of the regime. In order to ensure its dominant position in politics, the military determined the basic principles of the new constitution beforehand. According to these predetermined principles, the military will select the head of state, will be free of parliamentary control and will receive appointments to 25% of the seats in the legislature. Therefore, even if the roadmap is fully implemented, the substance of democracy will be missing.

The economic transition initiated in 1988 has made little progress. Once considered the rice bowl of Asia and rich in minerals, Myanmar’s economy has languished for years due to the economic mismanagement of its generals and the West’s sanction policies. Investment is concentrated in the gas and oil sectors. The state’s dominant role in economic policy has caused the suppression of fundamental economic institutions (effective property rights, contract enforcement) and led to arbitrary macroeconomic policy making, which is driven by the personal interests of military generals. A chaotic money policy has yielded high inflation rates. Moreover, the currency and financial systems are widely distrusted by the population. Negligible spending on education and health have eroded human capital formation and reduced further economic opportunities. The rules for sound economic management can only be established after a political transition has taken place and the international community has abolished their sanctions.

History and Characteristics of Transformation

Myanmar has been a military dictatorship since 1962, when General Ne Win took power in a bloodless coup and arrested Prime Minister U Nu. Since independence in 1948, Myanmar has had extensive problems in state-building, with ethnic minority groups and communist rebels that have violently revolted against the young republic. The military was only able to guarantee the unity of the country by the use of tremendous force, and at the time of this writing, the military does not seem able to find a political solution to the country’s difficult minority problems.

When the military took power, it abolished democratic institutions and replaced them with the 17-member Revolutionary Council, chaired by General Ne Win. The army led
the country into isolation, cutting off all contacts to the outside world, driving foreign companies out of the country and nationalizing all private enterprises. The state adopted a mixture of Marxism and Buddhism as its official ideology. 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 one-party rule by Ne Win’s Burmese Socialist Program Party (BSPP) determined the country’s economic and political development.

In the course of serious economic problems, Ne Win stepped down as president, and his confidant, San Yu, succeeded him in office. However, Ne Win remained chair of the country’s only political party and continued to play a decisive role in the formulation of government policy behind the scenes. Continued economic downturns led to mass demonstrations in 1988, which the military tolerated for some months, then brutally repressed on August 8, killing several thousand people. Ne Win and San Yu were replaced by General Saw Maung. The new military junta promised to hold free elections, which took place in May 1990. The elections resulted in the overwhelming victory of the National League for Democracy (NLD), the country’s largest opposition party, led by Aung San Suu Kyi, with more than 80% of the vote.

Despite this clear victory for the opposition, the army refused to recognize the election results and did not allow the newly elected parliament to convene. The opposition leader, Suu Kyi, was placed under house arrest while the electoral campaign was under way. In 1995, she was released for the first time, but the authorities repeatedly prevented her from leaving the capital to undertake political activities elsewhere in the country. The opposition leader was placed under house arrest again in the end of the year 2000 and was only released 19 months later.

In May 2002, Suu Kyi was released from house arrest under conditions that allowed the NLD to resume some political party activities. Her release initially seemed to provide another opportunity for political reconciliation; however, deep-seated disagreements continued to hamper dialogue between the two sides. Escalating tensions eventually led to another clampdown on the NLD and the second arrest of Aung San Kyi in May 2003. This renewed house arrest triggered an outcry of renewed criticism from the international community. The United States and the European Union have further tightened their sanctions and demanded a release of all political prisoners.

In September 2003, the military junta announced a roadmap to democracy that is supposed to lead to a “disciplined democracy” in the near future. The government has since then called for another National Convention to draft a new constitution. The body finished its latest session in December. Many observers believe that the charter will be formally drafted in the first half of 2007, and that a finished product will be put to a national referendum by the end of the year. In anticipation of these reforms, a massive shakeup of the army and government is planned to pave the way for constitutionally mandated civilian rule. Yet the guided transition will not end the military’s dominant
position in politics; since the military determined the basic principles of the new constitution beforehand, it totally controls the transition process. The military will select the head of state, will be free of parliamentary control and will receive 25% of the seats in the legislature. Therefore, even if the roadmap is fully implemented, the substance of democracy will be missing.

The change of leadership in 1988 ushered in a new phase of economic transformation. In order to avoid becoming direct victims of the country’s economic distress and the mass demonstrations it might trigger, Myanmar’s leaders formally embraced a market economy; however, this strategy failed for three reasons. First, foreign investors hesitated to invest in the country because of the uncertain political situation there (violent minority conflicts, legal uncertainty) and because of concerns about their public image (fear of boycotts because of human rights violations and the repression of the democratic opposition). Second, Myanmar received lower levels of international assistance for its reforms than other comparable countries. Moreover, 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. After the re-arrest of Aung San Suu Kyi in 2003, the sanctions have become more severe. The United States has imposed an embargo against goods from Myanmar, and the European Union has further tightened its travel bans. As a result, investments are concentrated in the oil and gas sectors while other industries have been seriously hurt. Despite these obstacles, the military has so far remained unwilling and partially unable to undertake economic reforms. The main economic problems are prevailing corruption, the country’s high inflation rate and the military leadership’s exploitation of state enterprises for personal enrichment. Policy-making seems all too erratic, and the military is doing little or nothing to correct these problems.
Transformation Status

I. Democracy

Myanmar has made no meaningful progress towards political transformation. Although the military junta released 400 political prisoners in 2005 and 2006, repression continues at significant levels, and the effective political development of opposition forces remains nearly impossible. The military government promised that its roadmap to “disciplined democracy” would negotiate a transfer of power to constitutional rule. However, this transition is proceeding at a glacial pace, and the military is trying to secure its domination through this process.

1 | Stateness

The state administration of Myanmar does not cover the whole territory; it is restricted to the central parts of the country. Parts of the outer provinces (states) are under de facto control of powerful guerilla groups run by ethnic minorities. Some of these groups have been fighting for independence since 1948, when Burma gained independence from Great Britain. However, at the time of this writing, almost all ethnic minority groups of any power have signed cease-fire agreements in exchange for territory and de facto independence. Many of the groups left fighting (i.e., the Karen or the SSAS) are remnants of their former selves. The generals continue to argue that their power is justified by the need to unify the country, while armed conflict between the junta and ethnic rebels remains a principle source of human rights abuse in Myanmar/Burma. Of the 25 ethnic groups that have armed men in the field, 17 groups have entered into cease-fire agreements with the military since the 1980s. The agreements give the ethnic groups varying degrees of de facto autonomy in administration and politics (including control over natural resources and narcotic trade). Ethnic minorities suffer systematic discrimination and to some extent physical persecution. Fighting between the central government and ethnic rebels flares up occasionally, and since most of the ethnic groups have retained their weapons, a re-escalation of armed conflict remains possible. Some ethnic minorities in the border areas also lag behind in social and economic development. However, it is important to mention the varying degrees of social and economic development that do exist among border populations. Those groups living in autonomous areas of Myanmar close to the border with China have access to power, the Internet and cell phones,
all from China. They also receive a great deal of alternative development aid from
the international community; the Karen or Mon, however, receive little
assistance, although they make up a disproportionate number of internally
discharged persons. Governance structures in the border areas are extremely weak,
and other forms of structural violence persist.

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Although the state of Myanmar is defined as a secular order, religion and
religious prejudices have some influence in daily politics. Although the junta
abolished the old Ne Win ideology of a Buddhist Socialist Way, the fact that the
junta is based on the military as its main political power base, and since the
military is predominantly a Burmese-Buddhist force means that Buddhism, or the
antagonism between Buddhist groups and other religions (Muslims, Christians),
is reflected in the junta’s political mentality as well as the de facto workings of
the state.

Governance structures in the border areas are extremely weak and other forms of
structural violence persist. Although still in place, civilian administrative
structures have been bypassed by parallel military structures. A shell of civilian
infrastructure remains, and the real administrative and state infrastructure is
military; as such, it is neither effective, nor does it include the entire population.

2 | Political Participation

The military has dominated political life for the last 45 years. Since the coup
d’etat in 1962, it has extended its political role and consolidated its power. The
military did not recognize the election results of 1990 and has, until now,
completely controlled 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 National
League for Democracy (NLD), is subject to continuing pressure. Its leadership
remains under house arrest – the detentions of Tin Oo and General Secretary
Aung San Suu Kyi have been extended. Members of the NLD are forced to resign from party posts, and they are under permanent surveillance by military intelligence organizations. Hundreds of party officials and supporters continue to serve long prison sentences.

The development of free and independent civil society associations is restricted by the absence of fundamental civil liberties. Most civil groups or associations are co-opted by the military, and there is very little room to maneuver independently of the military. If some student activists find room for activism, they face the constant risk of being jailed for criticizing the military regime. However, some space for civil society actors does exist within various sectors of the weak welfare state and in areas of ethnic conflict. Civil society organizations and international NGOs working in these fields have encountered serious restrictions imposed by the military regime in the last two years.

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3 | Rule of Law

Myanmar has yet to develop any rudimentary form of rule of law. The country has neither a constitution nor a parliament. The power of the military junta, which rules in the form of the State Peace and Development Council (SPDC), is not balanced by any other political institution in the country. The SPDC consists of the commanders of the service branches and of the regional military commands. The 19 members of the junta wield a great deal more power than the cabinet ministers. Some of the members of the SPDC also hold cabinet portfolios. Regional commanders enjoy a great deal of autonomy in their respective areas. An independent judiciary does not exist.

The junta appoints judges to the Supreme Court which in turn appoints lower court judges with the approval of the junta. These courts then adjudicate cases under decrees promulgated by the junta that effectively have the force of law. The military rules with a combination of martial law and restrictive decrees left over from Myanmar’s colonial past. The National Convention has debated a new constitution since 2004. According to the Unlawful Association Act, the head of state can declare any association unlawful without basing his decision on hard evidence and can punish its members with up to five years of imprisonment. Civil rights are not fundamentally guaranteed and are systematically violated.
Officeholders often exploit their position for private gains without fear of judicial or public consequences.

Due to the closed nature of the political regime, any assessment of the extent to which officeholders abuse their position, as well as the extent to which they are held responsible for corruption or other abuses of offices, remains speculative. However, many observers and anecdotal evidence seem to suggest that levels of abuse are extremely high, and legal or political penalties do not exist. According to official press reports, Prime Minister General Khin Nyunt was removed from office in 2004 for failing to take systematic action against corruption in accord with military rules. General Shwe Mann, the third-ranking member on the country’s junta, made the comment to government ministers, officials, members of the Union of Myanmar Federation of Chamber of Commerce and Industry, and other entrepreneurs, the official press said. Citing a corruption incident at a trade checkpoint in northern Myanmar on the border with China, Shwe Mann said that the military had taken action against responsible officials involved in corruption of thousands of millions of kyats. The government would remove anyone violating the existing rules and laws. While this indicates that the Junta increasingly worries about abuses committed by officials, there is no independent source to confirm if any real steps were taken.

Civil rights are not fundamentally guaranteed and are systematically violated. Officeholders often exploit their position for private gains without fear of judicial or public consequences.

4 | Stability of Democratic Institutions

The military dictatorship can only maintain its institutions by the continual threat of physical violence. The legitimacy and authority of the ruling junta have been contested since its inception, not only by the domestic opposition and ethnic groups, but also by some Western states (the European Union and the United States). The military uses nationalist slogans to enhance unity and utilizes mass mobilization to seek legitimacy.

There are no democratic institutions in Myanmar’s autocratic state.

5 | Political and Social Integration

Political parties have no roots in society. With the exception of the democratic opposition party, the NLD, independent civic organizations exist only in a very rudimentary form, because people must count on being punished for any political
or social opposition to the government. Moreover, the NLD has to cope with the severe restraints imposed by the military regime. Government repression (prohibition of travel, surveillance of communication) and a shortage of financial resources make it impossible for party headquarters to work effectively with offices elsewhere in the country.

The civil society organizations that do exist are co-opted by the military government. All associations are controlled by members of the ruling junta, and the generals’ wives often lead these organizations. The United Solidarity and Development Association (USDA), whose patron is the head of state, Senior General Than Shwe, is 22 million members strong and is the largest of these organizations. It mobilizes support for the military junta and is allegedly involved in the suppression of civil society and pro-democracy groups. It is rumored that it will evolve into a political party in the next election in order to ensure the SPDC’s control over a semi-democratic state.

After 40 years of uninterrupted military dictatorship, it is very difficult to estimate how the population feels about democracy and especially how much they know about it. The last free elections in 1990 brought an overwhelming victory for the opposition.

While Myanmar has certain traditions of social self-organization reaching back to pre-colonial and colonial times, as well as two periods of democratic rule between 1948 and 1962, the past four decades of military rule, and especially the harsh authoritarian regime since 1990, has dramatically reduced the role of civic self-organization. There is no reliable data to estimate the level of social trust among the population. Although anecdotal evidence suggests that there might be some trust within the ethnic communities and at the local level, it seems safe to assume that decades of military rule, poverty, underdevelopment and insurgency have also contributed to the erosion of trust among the population.

II. Market Economy

Economic transformation, which was initiated in 1988, is currently stagnating. Already one of the poorest states in Southeast Asia, Myanmar’s economy has been set back further by continuing international sanctions, such as the import ban by the United States. Only windfall gains from the rising demand for Burma’s natural gas exports (mainly from China and India) are easing the economic situation. A fundamental economic turnaround will require fundamental political reforms. True economic reforms are unlikely to be enacted by the current regime. Even with new leadership and a transition to democracy, Myanmar will continue to face economic hardships and slow economic
development because of years of economic mismanagement. However, even in the unlikely case of a democratic transition and an NLD takeover of power in the near future, it would remain unclear whether meaningful economic reforms would take place.

6 | Level of Socioeconomic Development

According to the Human Development Index, Myanmar’s level of development is one of the lowest in Southeast Asia. The degree of exclusion due to poverty, gender or lack of education is also much higher than in neighboring countries. The socioeconomic situation is characterized by accelerating impoverishment. Roughly 30% of the population lives below the poverty line. Of these, more than 10% live in extreme poverty, which is defined by the inability to meet basic food needs. Poverty is even more widespread in ethnic minority areas; in Chin state, more than 70% live below the poverty line, and in the eastern state of Shan, rates of poverty are nearly 52%. Increasing impoverishment is also resulting in a greater number of children being unable to complete primary education. More than 40% of enrolled children are unable to do so.

<table>
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<td>GDP $ mn.</td>
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<tr>
<td>Growth of GDP %</td>
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<td>-2.7</td>
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<td>Unemployment %</td>
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<td>Foreign direct investment % of GDP</td>
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<td>Export growth %</td>
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<td>Import growth %</td>
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<tr>
<td>Cash surplus or deficit % of GDP</td>
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<td>Tax Revenue % of GDP</td>
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<tr>
<td></td>
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<td>% of GDP</td>
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<tr>
<td><strong>Public expnd. on edu.</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>% of GDP</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td><strong>Public expnd. on health</strong></td>
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<td>% of GDP</td>
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<td><strong>R&amp;D expenditure</strong></td>
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<td>-</td>
<td>-</td>
</tr>
<tr>
<td>% of GDP</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td><strong>Military expenditure</strong></td>
<td>1.3</td>
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<td>-</td>
<td>-</td>
</tr>
<tr>
<td>% of GDP</td>
<td>1.3</td>
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</tbody>
</table>


7 | Organization of the Market and Competition

In Myanmar, the foundations of a market economy have never been established. Despite the renunciation of the socialist economy and the introduction of market reforms in the late 1980s, large state enterprises still dominate key economic sectors such as energy and heavy industry. The state is constantly intervening in the market. Myanmar’s leading corporations are mostly owned and operated by serving and retired military officers. Because they generate a lucrative source of income, state enterprises enjoy competitive advantages and the special protection of the military elite.

There is no state policy on competition and no generally acknowledged rules of the game for efficient economic transactions.

Foreign trade is essentially limited to the export of natural gas and agricultural products. Foreign banks are only allowed to do business with foreign banks.

State banks are controlled by military leaders and have special privileges not granted to the country’s few banks.

8 | Currency and Price Stability

Myanmar’s central bank is not independent. Given Myanmar’s fiscal difficulties, the role of the central bank, in practice, is to be the provider of funds to the government. Fiscal policy is simply concerned with the raising and spending of funds, and monetary policy deals with keeping interest rates low to minimize financing costs. Both seriously blunt the functioning of a market economy. During the reporting period, the military junta has not been able to implement effective measures to control the high rate of inflation, which fluctuated between
10 and 20%. The double-digit increase in the cost of living was partially the result of a rise in salary for the civil service (1200% in autumn 2005), which is perhaps attributable to the relocation of the civil service to the new capital, Pyinmana. Since 2004, the official exchange rate for the kyat, Myanmar’s official currency, has varied between 5.80 and 6.70 kyats per U.S. dollar. However, the black market rate, which more accurately takes into account the standing of the national economy, has varied from 800 to 1335 kyats per U.S. dollar.

There are neither political nor institutional elements of a state policy for stability.

### 9 | Private Property

In Myanmar, fundamental economic institutions like effective property rights and contract enforcement are completely suppressed. Consequently, competition is severely restricted, and a functioning market economy is not in place. The state dominates the economic life of the country. Since military leaders control the entire economy, they are able to arbitrarily alter property laws for their own benefit. There are no independent courts to protect property rights against the all-powerful state.

At best, private companies are tolerated in the form of inclusive enclaves. The state dominates the economic life of the country. Since military leaders control the entire economy, they are able to arbitrarily alter property laws for their own benefit. There are no independent courts to protect property rights against the all-powerful state.

### 10 | Welfare Regime

The state has not provided a social safety net for the alleviation of poverty and the absorption of social risks. Traditional family and clan structures continue to fulfill this function. The health sector is in a disastrous state and lacks sufficient funding. Tuberculosis and malaria have become serious problems. AIDS has become pandemic in recent years. According to UN figures, the estimated adult HIV prevalence rate was 1.3% in 2005, which is one of the highest rates in Asia. Government response has been very slow. During the period under review, the delivery of international humanitarian assistance faced new threats. Since the fall of Khin Nyunt, the military government has pressured aid agencies to curtail or cede control of their assistance programs. The Global Fund for AIDS, Tuberculosis and Malaria’s decision in August 2005 to terminate a program worth $98 million, was a serious setback that and puts the lives of thousands of people at risk. Although it has been partly replaced by the Three Diseases Fund, the situation remains serious.
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 arbitrary. Large portions of the population have inadequate access to health care. The health care system is one of the worst in the world. According to a UN survey, Myanmar ranks at 190th, followed only by Sierra Leone. It is feared that the growing inability of existing health structures to confront increasing rates of HIV/AIDS, tuberculosis and malaria will result in an absolute inability to contain these epidemics. Experts fear that a humanitarian crisis looms over Myanmar. Members of several ethnic groups have either very limited access to public infrastructure or no access at all. However, this is also true for the majority of the Burmese population, especially the rural population and those Burmese who have no family members in the military or bureaucratic elite of the country.

11 | Economic Performance

Official statistics in Myanmar are notoriously unreliable or falsified. Therefore, it is very difficult to draw a clear picture with regard to Myanmar’s economic performance. Realistic numbers have been brought forward by the Economist Intelligence Unit, who have combined proxy measures with published economic growth rates. According to these figures, moderate economic growth returned to Myanmar in 2005 and continued in 2006. The growth is driven by the increasing global demand for energy, which has pushed up the price of natural gas. Myanmar currently exports gas to Thailand in sizeable quantities, and new projects are planned with Chinese, Indian and South Korean partners. Myanmar is not a large recipient of foreign direct investment. The country is regarded as a highly risky destination for foreign direct investment, and a difficult location for doing business. Foreign direct investment is overwhelmingly directed at the gas and oil sectors, with very little invested in industry, and even less in agriculture.

12 | Sustainability

Environmental protection is completely subordinated to the overall goal of economic development. Given the low stage of economic development, Myanmar has not established a Ministry of the Environment. However, there have been some achievements during the period under review. Some observers argue that destructive logging and the vast timber trade on the Chinese-Myanmar border, which was responsible for an alarming rate of Myanmar’s deforestation, has been stopped, after international pressure made both China and Myanmar block the illegal border trade. However, since the junta does not control portions of the border areas, and with the high levels of corruption that currently exist, it is likely that the illegal trade will continue.
The education system is in disarray. In certain rural areas, government schools do not exist at all. Moreover, schools are mostly poorly equipped and usually lack basic teaching materials such as benches, tables and books. Even though education is supposed to be compulsory and free, parents are compelled to pay unofficial allowances, such as enrollment fees for their children or financial contributions for the maintenance of school buildings. In some areas, more than 50% of all children drop out of school before they even finish the primary level, which means that they completely fall through the state-run education system.

The national universities usually face similar problems; moreover, access to tertiary education is highly restricted and often subject to political loyalty to the regime. The entire education system suffers from insufficient funding, with annual education budget allocations at only about 1.2%. Myanmar also lacks private institutions that could make up for this deficit.
Transformation Management

I. Level of Difficulty

In terms of structural differences that shape the transformation process, the level of difficulty can be considered very high. The level of trust between different ethnic and religious groups and political actors is very low. Deep-seated prejudices and suspicions have prevented the military generals and the democratic and ethnic opposition from reaching a compromise about the structure of a future state. Whereas the ethnic groups favor the model of a federal state, the military generals favor a unitary state. Myanmar’s military governments have not worked out the rules for a free market economy; besides, the military leaders in Myanmar continually break and pervert these rules for their own benefit. In view of deteriorating economic and social conditions, it has become increasingly difficult to reach a consensus about the future of the state.

Due to the longevity of military rule in Myanmar, 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.

Of all the countries in Southeast Asia, Myanmar is probably the most deeply split, with the most polarized society and political elite. Even though several cease-fire agreements between peripheral insurgency groups and the Burmese government have contributed somewhat to the de-escalation of majority-minority conflicts, there remains a lot of conflict potential. While the democratic opposition acts peacefully, the government seems to believe that the only reliable method to prevent social and political conflicts within Myanmar from escalating, and to avert the outbreak of violent anti-government protest, is repression.
II. Management Performance

14 | Steering Capability

The military regime subordinates all reform strategies to the individual interests of the generals of the military junta and to the overall goal of regime survival. Decision-making is erratic and is not guided by interest in the common welfare of its people, but rather by the individual interests of the leading generals. The social costs of economic policies such as inflation and the profligate squandering of natural and finances resources are very high. Policy coordination does not occur.

A vivid illustration of the inefficient and often mysterious decisions made by the military junta is the sudden relocation of the capital from Yangon to the country town of Pyinmana in November 2005. Without long preparations, the entire civil service had to move to the new capital, although the infrastructure there was not in place. The reasons for this move are rather shadowy; some assume that astrological prophecies are behind it, and some even suppose that the move was prompted by Than Shwe’s desire to isolate the government and protect it from possible threats, such as a popular uprising or an invasion from outside.

This kind of decision-making also did nothing to inspire confidence in the international community, which still refuses to ease its sanction regime. Although the government has been given a lot of advice on how to reform the economy, without the help of international financial institutions, including the provision of adequate resources, Myanmar’s ability to address macroeconomic issues, such as exchange rate parity, remains extremely limited.

15 | Resource Efficiency

The military government uses the country’s resources to consolidate its own position instead of for the common good. A large portion of funds either goes to the clients of the regime, or is allocated for the modernization of the army’s equipment. Around 30% of the government budget is allocated to the modernization of military equipment. These funds are not available for desperately needed investments in the education or health sectors. Public services remain inadequate, and this inadequacy stands in the way of further developmental progress. Deregulation is essential for economic progress in key
industries, especially in the lucrative energy sector, but such deregulation is unlikely to occur, because the skimming of profits from these sectors is the financial backbone of the military junta. The revenues from gas deals with China and India give the military junta the financial resources they need, although Western sanctions have attempted to cut off funding to the military regime.

On the one hand, the military junta seems to be quite capable of coordinating its policies and subordinating all political objectives to the imperative of securing regime stability. On the other hand, feuds between different military cliques, as well as the increasing degree of autonomy of regional commandos, seem to render coordination increasingly difficult, thereby further contributing to the fragmentation of government policies in Myanmar.

The government has made no effort to curtail corruption, which is endemic in Myanmar. According to Transparency International, Myanmar is one of the most corrupt states in the world. The ruling elite has cultivated a system based on bribery in order to stay in power. There is no capable independent judiciary that could remedy these abuses.

16 | Consensus-Building

Myanmar’s military has been defending its power with authoritarian means for the last 45 years. It crushed street protests in 1988 and prevented a civilian takeover of government after the 1990 election. Since then, the government has withstood any form of pressure from both domestic and international forces. It has brutally suppressed all dissent and thereby created deep-seated mistrust within the opposition of democratic and ethnic groups. The military sees itself as the only force that has the ability to rule the country and prevent it from falling apart. Its xenophobic reactions to external pressure, combined with its deep mistrust of the opposition and ethnic groups, leaves no room for a bargained transition to some form of democracy. In order to gain international credibility among Western and Asian governments, the military junta is trying to write a new constitution and manage the transfer to constitutional rule. Yet the military has completely monopolized the whole process and does not take into account the views of the democratic opposition or some of the ethnic minority groups. The constitutional drafting process is heavily scripted, since the military defined the principles of the new constitution beforehand. Moreover, the main opposition party, the NLD, and the Shan National League for Democracy are not participating in the drafting process. Both parties were invited by the military, but declined to take part because their demands were not fulfilled. Since the fall of Khin Nyunt, the military junta has tried to divide and weaken the opposition.

In the border areas, the cessation of hostilities between the central government...
and the armies of around 20 ethnic groups since the late 1980s has opened up channels of communication and built relationships among long-standing enemies. Nation-building efforts made some progress. The cease-fire agreements are, however, primarily military accords concerned with troop movements and a temporary division of authority. While former insurgent groups have been accorded various degrees of freedom with their “special regions,” no real progress has been made on resolving the underlying political issues and large areas, particularly in a ribbon along the Thai border, have remained mired in low-level armed conflict and subject to brutal counter-insurgency campaigns. The peace talks between the government and the Karen National Union (KNU), the largest of the remaining insurgent armies, are still ongoing.

Opium cultivation and drug trade in the country illustrates the complexities of consensus-building between the authoritarian regime and the minority groups. Drug production and trafficking is linked to the minority groups of the Shan State (the Wa and Kokaing groups), who profit from this business. After the dissolution of the Communist Party in 1989, these groups negotiated cease-fires with the central government, which allowed them virtual autonomy in local affairs, including the narcotics trade. Since 1989, the military has refrained from intervening in local affairs. The narcotic trade has provided profitable rent-seeking possibilities for the military generals, who are disinclined to follow the routes of drug production syndicates.

In view of pressure from the international community, the military government finally initiated a major drug eradication program in 2000, which promised to eradicate opium cultivation in 2005 – a target that could only be achieved with the help of the ethnic minority groups. The United Wa State Army finally supported this program, and both parties have undertaken concerted efforts to eradicate opium cultivation over the last few years. For the peasants of the Shan State, however, the cultivation and the sale of opium are a question of poverty. Consequently, alternative income sources have to be found. Since foreign investments and trade are extremely restricted, and government capacity to accelerate development is limited, alternative methods are hard to find. Leaders of the Wa rebel group have already stated that they will return to the cultivation of opium if eradication efforts do not succeed. Consequently, the production of methamphetamines has grown considerably. The decline in opium production has only resulted in a market shift from opiates to amphetamines (ya ba, or amphetamine type stimulants, also called ATS).

The government has shown no interest in initiating any meaningful steps toward reconciliation between military and democratic (Burman) opposition, or between the majority population of ethnic Burmans and the ethnic minority people. Talking about past injustices or perpetrators of human rights violations is anathema.
17 | International Cooperation

Myanmar’s membership in ASEAN in 1997 was intended to signal to the international community that the country was giving up its isolation and that it was willing to cooperate with the outside world. However, Myanmar’s membership in ASEAN created immense difficulties for the regional organization. The United States and the European Union, which had been opposed to Myanmar’s admission into ASEAN, criticized the organization’s tacit acceptance of the country’s human rights record. The European Union even went a step further and declined to take part in a number of joint conferences, in order to boycott Myanmar’s participation.

After the renewed detention of opposition leader Aung San Suu Kyi, the United States and the European Union strengthened existing sanctions. The ASEAN states have since become increasingly vocal against the regime in Myanmar and have demanded the release of Nobel Laureate Kyi, abandoning their traditional non-interventionist stance. Confronted with mounting pressure from some ASEAN states, the military government in July 2005 decided to forgo the ASEAN chairmanship for 2006. In 2006 and 2007, Myanmar has come under intense pressure from the United States and the international community. Two visits of UN special envoy Gambari in 2006, intended to encourage democratic reforms and foster the relationship between Myanmar and the international community, did not lead to the desired results. In January 2007, the United States sought to enact a UN Security Council resolution that urged the junta to release political prisoners and to hold a dialogue with democracy groups and ethnic minority groups; however, China and Russia vetoed the resolution because they did not come to the proposed conclusion that Myanmar is a threat to international and regional security.

As a member of the Association of Southeast Nations since 1997, Myanmar’s relations with other Southeast Asian nations have significantly improved since the early 1990s. Relations with Thailand improved in 2005 and 2006, when the Thai government of Prime Minister Thaksin Shinawatra followed a policy of “talk business, not politics.” On the other hand, governments in Singapore and Indonesia increasingly viewed Myanmar as a problem in ASEAN’s relations with Western governments. While the Indonesian president offered assistance to the junta to re-initiate a process of reconciliation between government and opposition, Myanmar’s most powerful neighboring state, the People’s Republic of China, supports the junta openly. Relations with Beijing remained close in 2005-2007, not least because China is one of Myanmar’s main trading partners and a prime source of armament and weapons for the Burmese military.
Strategic Outlook

In its transition to democracy and a market-based economy, Myanmar has taken more steps backward than forward in recent years. The past few years have shown that even mounting outside pressure on the regime has not led to democratic transition, but rather to more xenophobic and erratic reactions from the military junta. However, there must be fundamental changes in baseline conditions before a credible process of transformation can even begin. Above all, the military regime has to free its political prisoners, end human rights abuses and allow gradual reforms to take place. The military generals would need to permit some form of participation and allow political parties to run in a future election.

Although some analysts have hoped that the roadmap to a “disciplined democracy” would bring about this liberalization, recent events have called these thoughts into question. The military completely dominates the constitutional drafting process, which is proceeding at a glacial pace. The current basic principles of the draft constitution also make it clear that the military will continue to play a decisive role in future politics. Even if the military completes the constitutional drafting process, it is questionable whether it will take the next step and hold a referendum on the new constitution and free elections. Moreover, it remains doubtful whether the democratic opposition and ethnic groups will participate in the general elections, since they have not participated in formulating the general rules of the game and their leaders continue to be detained. Aung San Suu Kyi is likely to remain under house arrest until the military regime has restructured the regime and consolidated its position. The military will only relax its control if it is certain it will maintain its future grip on power. To this end, the military has created the Union Solidarity and Development Association (USDA), which could be used as a vehicle for the military in the upcoming elections. It is officially registered as a social organization and claims a membership of 22 million people, but it will likely become a legal political party to compete in future elections. The association continues to extend its influence in the political sphere and has organized mass rallies in support of the roadmap. The prospects for a transition to genuine democracy are rather slim.

For this and other reasons (i.e., long term mismanagement, lack of FDI even if there is a transition to democracy, and the lack of a formal banking sector), a significant recovery of Myanmar’s failing economy is also highly unlikely. The country can only hope that the Southeast Asian region will continue to recover from the effects of the Asian economic crisis and that the windfall of energy
profits will continue. Without these external conditions, Myanmar’s fundamental economic deficiencies (high inflation, budget and trade deficits) will exacerbate the economic situation.

The past few years have also shown that external pressure on Myanmar only leads to a hardening of the military’s stance. However, the pressure on Myanmar will only increase if the ASEAN charter currently under debate permits critical engagement in other countries’ affairs.