

PERSPECTIVE

RESEARCHERS AT ISEAS – YUSOF ISHAK INSTITUTE ANALYSE CURRENT EVENTS

Singapore | 28 August 2018

Myanmar's Political Past Limits its Economic Present

*Nick J. Freeman**

EXECUTIVE SUMMARY

- Some critical capacity constraints and legacy effects have been creating significant economic headwinds for Myanmar's economy since the National League for Democracy (NLD) took power in April 2016.
- The international business community's hopes to profit from a 'frontier market' have given way to a more guarded and pragmatic stance.
- Myanmar's development partners will likely 'soldier on' with their current support for economic reform and development in the country, even if their relationship with the government has on occasion been testy.
- The belated promulgation of the Myanmar Sustainable Development Plan in March 2018 is a welcome move in the right direction, though implementation will present challenges.

** Nick J. Freeman is Associate Fellow at ISEAS –Yusof Ishak Institute*

INTRODUCTION

The scenario was an alluring one to buy into. After years of sanctions and economic mismanagement, Myanmar's much-criticised military had decided to scale back its role in politics, if not wholly return to barracks, and a new and popular government would be established under the leadership of a Nobel Peace Prize laureate and former prisoner of conscience. Although inexperienced in matters of governance, the new government would receive considerable technical support from the international development community. In addition, the international business community would re-engage with a country it had had relatively little to do with since before the Second World War. The parasitic actions of a small handful of 'cronies' would be gradually replaced by a far more inclusive economic growth programme, and the country's close (indeed unique) proximity to the global growth poles of China and India boded well for future prospects. Sure, there would be various hiccups and 'speed bumps' along the way, but rarely do the stars align so well for a country seeking to make a – somewhat belated – bid for modernity. And the precedents set by neighbouring Thailand, Malaysia, Vietnam and other fellow ASEAN members illustrated how such a bid could be pursued successfully.

That was then, but this is now. Two years and counting into the term of the new government, and inevitably perhaps, a much more nuanced picture has emerged. The latest figures from UNCTAD show that FDI inflow numbers are up and most economic forecasters predict healthy GDP growth forecasts for Myanmar in the coming years.¹ The forward-looking Purchasing Manager's Index showed an eight-month period of manufacturing growth up to May 2018.² Some of this can be attributed to the lifting of economic sanctions and the initial response that one would expect when an economy first 'opens up'. But few pundits are advocating 'going long' on Myanmar in the same way that they did about Vietnam in the 1990s. Why exactly is that?

The answer is that a cocktail of factors have served to make Myanmar's current economic situation, and its future economic prospects, less rosy than many had anticipated. The first of these stems from the legacy effects of half a century of socio-economic mismanagement by the previous military leadership, albeit with some marked improvement during the 2011-16 tenure of President Thein Sein. Addressing these legacy issues will take time, and cannot be accomplished with the stroke of a pen, or as an automatic function of a change in political leadership – even a highly effective and competent one.

The National League for Democracy (NLD) government that came to power in 2016 inherited a decidedly distorted economy. Those distortions were multiple and significant. The profile of 'Myanmar Inc.' had been one dominated by a relatively small number of family-owned conglomerates that leveraged their connections with the military leadership to enjoy unique business privileges. A mixed bag of state-owned and military-owned enterprises also operated, alongside a large number of (formal and informal) small businesses run by those without access to the corridors of power. As a consequence of economic sanctions, the size of the foreign-invested sector had been modest, while the international development community – with all of its subsidized products and technical assistance services – was obliged to keep its distance.

There was also a substantial ‘black economy’ around natural resources and narcotics, with the attendant ills of smuggling, illegal finance and labour migration. A not insignificant proportion of Myanmar’s labour force worked, and continues to work, outside of the country, remitting their income to family members, often using informal remittance services that were, and are, outside of the regulated financial sector.

Myanmar’s financial sector has been dominated by a fragile, illiquid and inefficient banking sector composed of both state-owned and private banks that have not had the capacity, or the volition, to serve the primary macro-economic purpose of financial intermediation. Some privately-owned banks are the financial components of family-owned conglomerates, oriented towards related party lending. State-owned commercial banks have often been used as delivery mechanisms for state policies, and have only served to distort the market. Debt financing has been available only to a privileged few, while other banking and non-bank financial products have simply not existed. The country’s first-ever stock exchange, the YSX, only became operational in March 2016, 20 years after it was first conceived. It is currently home to just five listed firms and virtually no new money has been raised on the exchange since it opened its doors. Companies seeking to raise equity finance as would seem to be better off seeking listings on exchanges outside the country or other pools of funds located overseas. Sanctions long made these options nearly impossible.

The other major legacy effect of prolonged military rule in Myanmar has been the weak institutional capacity of key government institutions overseeing the economy. Officials staffing these agencies, accustomed to a military ethos of ‘command-and-control’, lack some of the skills and experience to first encourage and then oversee a robust, equitable and competitive economy. One of the biggest errors that Western states in particular have made is to assume that with the changing of the composition of the legislative wing of the government, as evidenced by the NLD’s assumption of the helm in 2016, the executive wing of the government would also be transformed. But the many current members of parliament in Myanmar are extremely young, while members of the executive wing of government are both much more experienced and not always sympathetic to the reforms that the NLD leadership wishes to pursue.

Placing a premium in personal loyalty, Daw Aung San Suu Kyi leads a cabinet largely comprised of neophytes when it comes to wielding high-level executive power in government. The pool of capable NLD candidates for ministerial roles is surprisingly shallow, as the advanced age of some ministers makes clear, and there is little sign that a younger cadre of future leaders is being groomed for office by the ruling NLD. Observers are left sensing that the current government is out of its depth, not in full control of the levers of power, and operating mostly in a reactive mode, rather than pursuing a proactive and strategic game plan.³

While it would be incorrect to suggest that the economy has been given low priority by the NLD-led government, Daw Aung San Suu Kyi has given the highest priority to the pursuit of peace, albeit with limited results. With some notable exceptions, Myanmar’s economy has largely enjoyed benign neglect in recent years, largely operating under its own organic momentum. Economic reforms have been timid, and slow to be enacted, and as a consequence

many unhelpful distortions persist. The so-called economic dividend of shifting away from a military-run government has not been forthcoming, particularly in the states and regions outside of the main growth poles of Yangon, Naypitaw and Mandalay. Some observers believe that this will cost the NLD votes in the next national polls, scheduled for late 2020, if citizens opt to convey their disappointment in not having seen sufficient tangible improvement in their livelihoods since 2016. If so, we might expect to see some of the political parties associated with Myanmar's numerous minority ethnic and religious groups doing better at the ballot box in 2020, galvanized in part by a feeling that they have not received the kind of inclusive treatment that they had anticipated from an NLD-led government.

The NLD's years in power have not dented the sense of alienation that prevails in some of the poorest states and regions. Even outside of the conflict zones and contested areas, the institutional capacity of government agencies (outside of the military) is even weaker than that found in central Myanmar. This makes any hope for a more inclusive economic growth trajectory across the whole country, including poorer states and regions like Kachin and Chin States, hard to envisage. Armed conflict is in some areas due in large part to, or at least exacerbated by, economic incentives. For the military, ongoing conflict serves as a useful justification for maintaining high levels of defence spending. For those resisting, the control of territory can be a lucrative exercise, whether in terms of illicit trade, mineral extraction, taxes, or other avenues of income generation.

While virtually all of the economic sanctions that were previously imposed on Myanmar have been lifted, these have been replaced in large part by the spectre of international reaction to the events in Rakhine State concerning the Rohingya population. The disconnect between how this development is perceived by most within Myanmar and those outside of the country is remarkably stark, thereby making the search for a resolution difficult to achieve.⁴

From a purely economic standpoint, the crisis in Rakhine State – and now in the refugee camps in Bangladesh – has served to do two inter-connected things. First, numerous potential foreign investors have had to think twice about the reputational risks of going ahead with projects in Myanmar. They must ask themselves how that will be perceived by activist shareholders, institutional investors and customers, and how it will be portrayed by the media and civil society pressure groups. Indeed, the scale of foreign investment inflows into Myanmar after the NLD took the helm had been relatively disappointing even before events in Rakhine State became a crisis. While numerous business delegations came and went, actual commitments and disbursements have been modest.⁵

Second, and partly as a result of the above point, it is likely that Myanmar will have to place greater reliance on China as a source of capital than would otherwise be the case. The recent debate around the proposed Kyaukphyu port and Special Economic Zone project is just one example of how China's economic presence in Myanmar, along with any strategic agenda that it may have, is the source of not inconsiderable popular concern.⁶

For foreign investors and development agencies alike, issues around political risk are just as important as those of economic fundamentals, particularly in 'frontier markets' like Myanmar.

Political aspirations and economic prospects are rarely mutually exclusive. The wrong policy decisions, the lack of decisions, or just the misguided implementation of policies can rapidly mutate into undesirable economic outcomes. In this context at least, benign neglect may seem more attractive for Myanmar. But such neglect is not a sustainable proposition in the long run, given the logistical, infrastructural and utilities-related weaknesses of the country after years of economic mismanagement and skewed public spending. At present, Myanmar generally does not provide an adequately robust and reliable host country environment for businesses – formal or informal, from smallholder farmers to large conglomerates, whether private or state-owned, foreign-owned or domestic – to become more productive and regionally competitive.⁷ And without that, the creation of jobs and improved incomes are extremely hard to deliver, as the obstacles are too great, and the perceived risk-adjusted returns too little.

Rectifying this will require investing considerable outside financial and technical assistance to Myanmar; a process that entails building up local institutional capacity and technocratic skills so that a cadre of capable policy-makers and astute implementing agencies can begin to institute the reforms necessary to untangle and replace the ill effects of decades of poor governance. And the international development community has been broadly ready to introduce its tool kits full of subsidized products and technical assistance. Its members have, however, arguably not helped their cause by adopting a relatively lead-footed approach at times, demonstrating a perennial inability to coordinate and agree on the best policy approaches to advocate for, and adopting a condescending tone that has not gone down well, most notably with ‘The Lady’.

Unfortunately, a considerable proportion of the good will that Myanmar enjoyed in recent years has been nibbled away. The political capital that once existed is greatly diminished. But this is not to suggest that all is forsaken for Myanmar’s surprisingly resilient economy. In retrospect, the euphoria surrounding Myanmar’s recent political transition was overly bullish, with unrealistic expectations that great leaps could be made in a relatively short time. The experience of the first two years of the NLD government has illustrated that this will not be the case. It will take time and considerable effort for Myanmar to deliver improved incomes and livelihoods for its citizens, as ‘easy wins’ have proven elusive.

Myanmar’s economic progress will require not only patience, resilience and fortitude, but also the development of an effective long-term strategic plan and a willingness to leverage the necessary skills and resources to deliver on the plan. It is in this context that the recently released Myanmar Sustainable Development Plan (MSDP) has been widely welcomed.⁸ The World Bank asserts that the MSDP

... lays out a comprehensive and prioritized policy reform agenda, offers the much-needed unifying and coherent roadmap for reforms for the country. It seeks to translate the government’s 12-point economic plan [of 2015] and sector plans into a clear set of policy priorities, and [is therefore deemed to be] ... a significant step forward.⁹

Few pundits anticipate the NLD losing the 2020 election, even if its majority may be reduced somewhat. This means that the NLD has the rare political luxury of having longer than most democratically elected governments to deliver on its economic and other pledges. One can only hope that this longer ‘runway’ to attain economic ‘take-off’ is used wisely, and not squandered. A good indicator of this will be whether the pace and extent of economic reform picks up, and whether the depth of those reforms is increased, congruent with the policy priorities set out in the MSDP.

¹ For example, see the World Bank’s ‘Growth Amidst Uncertainty’, Myanmar Economic Monitor, May 2018. The World Bank anticipates GDP growth rising slightly, to 6.8% in the 2018/19 fiscal year, compared with 6.4% in 2017/18 and 5.9% in 2016/17, but also cautions that “risks to the baseline outlook have intensified”.

² See: Nikkei Myanmar Manufacturing PMI, press release of 2nd July 2018. ‘June PMI signals unchanged manufacturing operating conditions’
<<https://www.markiteconomics.com/Survey/PressRelease.mvc/338706a3ee784e71abd1cce2785e412d>>.

³ For example, see Thomas Kean, Clare Hammond and Hein Ko Soe, ‘An overdue appointment: What went wrong at the Ministry of Planning and Finance’, *Frontier Myanmar*, 14th June 2018
<<https://frontiermyanmar.net/en/an-overdue-appointment-what-went-wrong-at-the-ministry-of-planning-and-finance>>.

⁴ If the military deliberately incited and/or exacerbated the humanitarian tragedy towards the Rohingya in order to create an anvil by which to beat the NLD government, and to drive a wedge between Daw Aung San Suu Kyi and the international community, then such a strategy has worked remarkably well.

⁵ For example, see Jason Koutsoukis and Kyaw Thu, ‘Myanmar’s Waiting for the Investment that Never Came’, Bloomberg Business News, 9th July 2018. <www.bloomberg.com/news/articles/2018-07-08/myanmar-s-waiting-for-the-western-investment-that-never-came>.

⁶ There has been considerable concern in Myanmar that debt funding of the Kyaukphyu port project, to be constructed by Chinese firms, could result in the kind of scenario that played out in Sri Lanka with the Hambantota port project. See Thompson Chau Htin Lynn Aung, ‘Myanmar to Trim Kyaukphyu Cost but Drops Annan’s Strategic Review Suggestion’, *Myanmar Times*, 13th July 2018. <www.mmtimes.com/news/myanmar-trim-kyaukphyu-cost-drops-annans-strategic-review-suggestion.html>.

⁷ One possible exception is the garment sector, despite its volatility and thin margins.

⁸ The MSDP comprises of three main pillars and five goals. Goal 2 is “economic stability and strengthened macroeconomic management”, and goal 3 is “job creation and private sector led growth”.

⁹ World Bank, Myanmar Economic Monitor (May 2018), p. 2.

<p><i>ISEAS Perspective</i> is published electronically by:</p> <p>ISEAS - Yusof Ishak Institute</p> <p>30 Heng Mui Keng Terrace Singapore 119614 Main Tel: (65) 6778 0955 Main Fax: (65) 6778 1735</p>	<p>ISEAS - Yusof Ishak Institute accepts no responsibility for facts presented and views expressed.</p> <p>Responsibility rests exclusively with the individual author or authors. No part of this publication may be reproduced in any form without permission.</p> <p>© Copyright is held by the author or authors of each article.</p>	<p>Editorial Chairman: Choi Shing Kwok</p> <p>Editorial Advisor: Tan Chin Tiong</p> <p>Managing Editor: Ooi Kee Beng</p> <p>Editors: Malcolm Cook, Lee Poh Onn, Benjamin Loh and Ng Kah Meng</p> <p>Comments are welcome and may be sent to the author(s).</p>
--	---	--