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International Responses to Myanmar's Transformation

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Introduction

The transformation of Myanmar marks perhaps one of the least predicted international developments in the past twenty years. The new government that came into power in 2011 introduced sweeping political and economic reforms. The first stage of the transition focused on expanding political freedoms. Most political prisoners were freed and media censorship was abolished. The opposition leader Aung San Suu Kyi was released from house arrest in 2011 and later elected to the parliament in the 2012 by-elections. The government gave priority to the economic development during the second stage of the reform. Myanmar reformed the foreign exchange system and amended the Foreign Direct Invest-

ment Law. The international responses to Myanmar's reforms have been largely positive and in many instances enthusiastic. Western governments acknowledged and supported the reforms by easing or lifting sanctions on Myanmar. The change in Western policy about Myanmar also opened doors for expanded trade and investment opportunities with the rest of the world. Myanmar's reemergence on the international stage has led to varied responses from Asian countries, among which China and Japan play major roles.

Reflecting its dramatically enhanced international status, Myanmar has just hosted the World Economic Forum for East Asia, the largest international meeting held in the country in recent history,

which brought 900 leaders in political and business sectors from more than 50 countries. This was simply unthinkable in early 2011. This brief reviews the international responses to Myanmar's reforms and their implications for Myanmar's political and economic development. In doing so, it specifically focuses on the role of the U.S., China and Japan.

The United States

The change in the U.S. engagement with Myanmar can be understood through the changes introduced to its sanctions regime on Myanmar. Since 2011, U.S. sanctions on Myanmar have been eased substantially as a response to Myanmar's political liberalization and as an inducement for further reform. Sanctions in most sectors, except GSP withdrawal and arms embargo, have been eased or suspended to a great extent.¹ Yet the current easing of sanctions is the result of presidential waivers and all basic legislation on sanctions on Myanmar remain intact. Therefore, there is a technical possibility that sanctions can be swiftly restored should reforms in Myanmar backslide or a major political catastrophe occurs. The U.S. used to maintain a comprehensive sanctions regime on Myanmar but is now moving toward a targeted sanctions regime based on Specially Designated Nationals (SDN) list maintained by the U.S. Treasury's Office of Foreign Assets Control. As SDN is emerging as an important framework for economic cooperation with Myanmar, governments and businesses will need to take serious risk assessments when engaging in bilateral cooperation or business transactions involving the country. The suspension of the import ban and investment restrictions by the U.S. pre-

sents an unprecedented economic opportunity for Myanmar and foreign investors, but the nuances and technical details of the new sanctions regime call for attention to its remaining restrictions and related business risks.

It is difficult to judge whether the sanctions against Myanmar were successful in attaining their aims. Although US policy makers have insisted that harsh sanctions led to Myanmar's change since 2011, the true extent of the effectiveness of international sanctions on Myanmar has been constantly in doubt. Historical experiences and academic research show that sanctions are often ineffective in achieving the policy change in the target country. The general academic consensus is that economic sanctions only have limited effectiveness as a foreign policy tool (Drezner 2003). The criticism is that economic sanctions have negligible impact on the target country's policies while inflicting far-reaching harm on the citizens of the country. The import ban on products from Myanmar, for instance, did very little harm to the military junta but caused the shutdown of garment factories and massive layoff of garment workers. It is often the case that the purpose of sanctions might be aimed less at affecting the target country's policy but more to express disapproval with its policy or to appease the domestic public sentiment that calls for sanctions. In these cases, the question as to whether the sanctions achieve their stated aims may be inconsequential. The U.S. sanctions against Myanmar, likewise, was driven more by moral and symbolic motivations in response to the domestic sentiment that called for an American "punishment" of the military junta for violating human rights and repressing pro-democracy movements, rather than any realistic policy considerations (Hufbauer *et al.* 2009). From the perspective of academic research, the sanctions against Myanmar were unlikely to achieve their stated goals. The reasons

¹ EU has been quick in suspending and lifting all the sanctions on Myanmar. EU reinstated the tariff preferences for Myanmar in June 2013.

abound. The goal of the sanctions was a regime change from a dictatorship to a democracy. The U.S. sanctions against Myanmar were put in place gradually from 1989 to the 2000s thus unable to take advantage of an element of surprise. Last but not least, China played a significant role as a sanctions buster, reducing the effectiveness of the sanctions. It should be noted that while the U.S. and the West argue that the sanctions and international isolation brought about Myanmar's reforms, ASEAN, which pursued a policy of engagement with Myanmar, says engagement, not isolation, led to its reform.

China

China has strengthened its position in Myanmar over the last two decades due largely to Myanmar's isolation from the West. China has developed into a dominant trading partner and foreign investor. One of China's main interests in Myanmar is to secure a safe supply of energy for China's rapid economic growth. In the 2000s, China forwarded the China Western Development plan which attempted to develop infrastructure in its Western inland regions. The purpose of this policy was to resolve the widening development gap between the inland and coastal areas and to develop the minority regions in the West. One strategy for achieving these goals is to transport gas and crude oil from Myanmar to China by pipelines. The natural gas pipeline, which is currently under construction starts at the gas field of Shwe on the coast of Rakhine State and reaches Kunming in China's Yunnan Province via Kyaukphyu, Pyin Oo Lwin, Lashio and the Chinese border. The pipeline has a total length of 1,330 km's. China is also building a crude oil pipeline in parallel with the aforementioned route, beginning at Kyaukphyu and reaching Kunming, with a

total length of about 1,200 km and a yearly transport capacity of 12 million tons. Both the natural gas and crude oil pipelines are slated to be completed by early 2013. China is also building a petroleum terminal that transports oil that is imported from the Middle East and Africa via the deep-sea port at Kyaukphyu, and in addition plans to build a Special Economic Zone (SEZ) around the port, with focus on the petrochemistry industry.

Another important component of China's Myanmar policy is its plan to build numerous hydroelectric power plants in the northeastern region of Myanmar and transmit the electricity to China. There are currently 48 electric plants under construction in Myanmar including 45 hydroelectric plants, two coal thermal plants, and one gas thermal plant. Once these plants are complete, Myanmar's energy capacity will increase about tenfold over its current 3,413 MW. Chinese corporations are known to be involved in 35 of these projects. According to International Rivers, as of October 2012 there were 203 "sinohydro dams," hydroelectric power generation projects with Chinese corporations as implementing agencies, with 29 of these in Myanmar. Most of the electricity generated by these Myanmar projects are said to be transmitted to Yunnan Province.

China's engagement with Myanmar has been relatively low-profile since the Thein Sein government came to power. Most of its activities since 2011 seem to be a continuation of what China has started during the pre-reform era. Although the dominant position of China in Myanmar has been challenged, China is and will continue to be one of its most important trade partners, investors and aid donors. China is expected to continue its numerous infrastructure and development projects across the country although its modus operandi will have to adapt to new political

sensitivities of the Myanmar government as well as public scrutiny. It will also have to face international competition in natural resource development, infrastructure development, foreign aid, and market share for consumer goods.

Japan

Japan was the largest aid donor to Myanmar until 1987. Since then Japan had lost its influence over Myanmar after it participated in the U.S.-led economic sanctions. Japan has been engaging Myanmar aggressively since the onset of the reforms with offers of sizable debt relief and foreign aid. It has already achieved early successes in securing infrastructure development deals and is emerging as one of the most significant donors. Japan has made large-scale and swift announcements of its plan to provide a bridge loan for Myanmar's JPY 326 billion debt to Japan, USD 900 million in loans and arrears owed to the World Bank and ADB, and its plan to provide JPY 600 billion of ODA over three years to all the Mekong region countries including Myanmar. Japan is clearly competing with China, which has claimed a first-mover status in Myanmar.

The expansion of Japan's cooperation with Myanmar could be understood as one way to extricate itself from of its long-running recession through export and foreign investment. Japan's external economic policy has traditionally focused on strengthening relationships with emerging economies, and Southeast Asia has a special place in its overall strategy. The Japanese government in the 2000s has been leading infrastructure projects in Asia, including the Mekong region, pouring ODA and private-sector funds into these projects. Foremost among these are the Com-

prehensive Asia Development Plan (CADP) and the Greater Mekong Subregional Economic Cooperation Program (GMS), which includes Myanmar.

Japan wants to bring Myanmar into its regional production network. Thailand has been a traditional destination for Japanese FDI, while Vietnam became a leading emerging market since the 1990s. In contrast, Myanmar has remained largely unexplored. Compared to its past emphasis on direct aid to the Mekong region countries to improve investment conditions, it recently pursued varied efforts to reduce the service link costs between domestic Japanese companies and those abroad by improving not only the infrastructure but the distribution system. Myanmar had been left out of these efforts, but with its emergence as the next promising market in Asia through reforms and newly open doors, Japan has promised large-scale aid. In the mid- to long-term, Japan wishes to incorporate Vietnam and Myanmar into its ASEAN production network, in addition to strengthening Thailand's role as the hub of that network. To this end, it has been aggressive in giving aid for improving Myanmar's infrastructure for facilitating industrialization. Leading examples of these aid projects include the development of the deep-sea port and special economic zone in Thilawa and the improvement of Myanmar's transportation network.

Japan's strategy in Myanmar is partly motivated to check the expanding influence of China and Korea in the Mekong region, and by extension, Southeast Asia. The major part of Japan's Mekong development aid policy was initially focused on a project-based approach but changed in the 2000s to focus on region-wide connectivity, which seems to be a response to China's increasing influence following the Asian financial crisis. Japan also seeks to strengthen its economic coopera-

tion with the less-developed countries of Cambodia, Laos, and Myanmar to fend off Korea's increasing economic engagement in these countries.

Implications

The general elections of 2015 are expected to be a watershed moment in Myanmar's reforms. If there are no major disruptions to the political landscape formed by the April 2012 by-elections, it is expected that the military and the National League for Democracy (NLD), the opposition party, will maintain their cooperative relationship. The challenges faced by the new government and the NLD—the latter of which is new to its seat at the table—are further complicated by the fresh conflicts with the Kachin armed group and the Rohingya and anti-Muslim incidents in the country. It seems that complete lifting of sanctions against Myanmar by the US will depend on such domestic political circumstances in Myanmar.

Myanmar's reforms are now widely considered as irreversible. In the absence of major political catastrophes, international businesses will start expanding in Myanmar and more development assistance programs will be introduced. If the U.S. is proactive about lifting the sanctions against Myanmar, the investment environment is expected to improve even more. Once such external constraints are removed, domestic factors such as inadequate government capacity and poor infrastructure, and national reconciliation with minorities are expected to be more serious obstacles to improving the economic situation in Myanmar.

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