



Advancing Myanmar's Transition: A Way Forward for U.S. Policy

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In January 2012, an Asia Society delegation visited Burma/Myanmar to engage in a Track II dialogue with the Myanmar Development Resources Institute (MDRI), a newly created, independent think tank based in Yangon. The MDRI participants in the dialogue include advisors with a mandate to provide policy advice in the areas of political, economic, and legal affairs to President Thein Sein and his government. The goal of this informal dialogue is to establish an ongoing channel of communication between experts from both countries and to explore opportunities to advance U.S.–Myanmar relations during a particularly fluid and fragile period of transition in Myanmar.

The Asia Society group includes specialists in the areas of political affairs, rule of law, democracy building, economic development, and environmental sustainability. In addition to the Track II meetings with presidential advisors, our group held in-depth discussions with senior officials in the following ministries: Foreign Affairs, Culture, Commerce, Environmental Conservation and Forestry, Health, Science

and Technology, Education, and Information. Our group also met with business leaders; members of civil society; representatives from the National League for Democracy (NLD), including Aung San Suu Kyi; and a wide array of community activists, including minority nationalities.

This effort builds on the work carried out by Asia Society's Task Force on U.S. Policy toward Burma/Myanmar, as well as seminal meetings convened by Asia Society in New York in September 2011 that brought together for the first time policy makers from Myanmar, the United States, and the broader international community to informally discuss prospects for reform in Myanmar.

This report provides our assessment of the nature of the changes that are under way in Myanmar and the challenges and vulnerabilities that the country faces. We conclude by recommending measures that the United States can undertake at this critical moment to encourage, support, and advance the institutionalization of sustainable democracy in Myanmar.

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Background

In fall 2009, Asia Society established its Task Force on U.S. Policy toward Burma/Myanmar in response to the United States' new policy direction for relations with Myanmar, which moved the United States away from previous efforts to isolate the country's ruling generals, balancing economic sanctions with engagement and initiating efforts to expand channels of communication with the military leadership at higher levels of authority.

In March 2010, Asia Society published the Task Force's report, *Current Realities and Future Possibilities in Burma/Myanmar: Options for U.S. Policy*.² Acknowledging that Myanmar was potentially embarking on a political transition with elections scheduled in November 2010 and the formation of a new government in early 2011, the report explored the daunting challenges that lay ahead, put forward a range of possible outcomes in this transition, and suggested how U.S. policy might respond to different developments in the immediate term and over a period of 5–10 years.

After disappointingly flawed elections in Myanmar in November 2010, the establishment of the new government at the end of March 2011 was generally greeted—both at home and abroad—with little expectation that it would bring about meaningful change. Although opposition leader Aung San Suu Kyi had been released from nearly eight years of detention just after the elections, her party, the National League for Democracy, had boycotted the elections and was being ostracized by the new government.

The inaugural address by Myanmar's new president, Thein Sein, was remarkable for its frank acknowledgment of the country's grave economic, social, and political problems and for his stated intention to address them seriously. However, his words were by and large dismissed as window dressing designed to curry support

from the international community for the new quasi-civilian government.

Several months into his tenure, having engaged an advisory council of civilian experts in economic, political, and legal matters, the president introduced a series of economic policy reforms, and the parliament began debating wide-ranging legislative reform. In August, the president met with Aung San Suu Kyi while she was attending a national workshop on macroeconomic reform in the capital of Naypyidaw. This historic meeting marked the beginning of a process of reconciliation between the government and its most serious political opponents, eventually leading to changes in the election laws that enabled the NLD to re-register as a political party and compete in the by-elections to be held on April 1, 2012.

At the same time, the president and the parliament pledged to address the deep-seated grievances of the country's minority nationalities, beginning with new efforts to resolve differences with "cease-fire" groups that had been alienated by the previous military regime in the lead-up to the elections and completely disenfranchised from participation in the new government. The president's abrupt and unexpected decision in mid-September 2011 to suspend construction of the Chinese-financed Myitsone Dam at the headwaters of the Irrawaddy River in the Kachin State, citing public concern about environmental dangers, caught the world's attention.

During this period, Asia Society—as a follow-up to its Task Force report—began to explore the idea of a Track II dialogue with the president's civilian advisors who are providing advice and formulating policy options in the areas of political, economic, and legal affairs. A preliminary round of discussions was convened in New York in September 2011, and the inaugural meeting of this effort was held in Yangon in early January 2012. The goal of the

² The report is available at <http://AsiaSociety.org/BurmaMyanmarReport>.

dialogue is to establish an ongoing and informal channel of communication to advance U.S.–Myanmar relations during what is shaping up to be an extremely fluid and fragile period of transition in Myanmar.

What has changed?

A cadre of former generals who were key figures in the previous military regime is leading Myanmar's new parliamentary government. A handful of them who now occupy top positions in the government seem to have undergone a metamorphosis, becoming forward-leaning advocates of democracy, free enterprise, and the expansion of individual freedom. They have begun to use their new positions of authority to rebuild the country's economic and political institutions.

There is also a handful of former generals in the new government who used their previous posts in the military regime to amass large personal fortunes through corrupt business deals. These generals, who also hold significant positions in the new government, appear to harbor concern that economic reform, in particular, could pose serious risks to their business interests, and they are attempting to retain control of the areas of the economy essential to these interests. The "reformers," however, have nevertheless managed to seize the initiative with new legislation and policies, building momentum for change.

The determination of the reformers, punctuated by bold political moves, has, in turn, begun to energize significant parts of the population, particularly in urban centers. The promotion of democratic values by the new leadership and relaxation of the country's draconian press controls have encouraged open discussion of political concerns and ideas, public debate about national interests and policy, and rapid expansion of community activity that was previously prohibited.

When the president credited public opinion as the driving factor behind his decision to suspend construction of the Myitsone Dam, people took courage that the new government was concerned about the national interest, not just the fortunes of the military elite. Private journals have become lively purveyors of news and opinion as censorship begins to relax. Even the official press now publishes real news from time to time, and officials in the Ministry of Information are said to be seeking advice on how to transform the government's media outlets into reputable news organizations.

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The president has also gained wide public support by reaching out to the country's iconic opposition leader and encouraging the NLD to join the parliament and help guide the transition, a move that was previously unthinkable. Aung San Suu Kyi, for her part, has taken a calculated risk that joining the political process will allow her to promote the democratic process more effectively from the inside than from outside. While a number of her party colleagues have grave reservations about her decision, the majority is applauding her. This trend has been reinforced by the prominent 88 Generation Students Group, a pro-democracy movement, and other political activists who, upon their release from prison in January 2012, pledged to support the NLD in its quest for parliamentary seats in the April 1 by-elections.

While these developments have brought widespread hope in Myanmar for a democratic

and more prosperous future, the suddenness of the former generals' transformation has also left people wary. They know that the reins of power are still in the hands of the same people who ruled the country with an iron fist for decades, and they fear that the tide might reverse itself just as quickly. They are aware that divisions in the leadership remain, and that the sprouting political and economic reforms are still far from certain.

What are the key challenges ahead?

Myanmar's fragile political transition is still in its infancy, and reformers face major challenges to their efforts. The country has lived for generations under authoritarian rule in which a single leader at the top handed down major decisions and the structures of government were run under military command. The new government is now taking direction from a variety of sources in both the executive and legislative branches.

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Ministers and other senior officials are now being tasked with making monumental decisions on the basis of very little information about various subjects at hand. Parliamentarians are formulating and passing new laws without full consideration of their potential impacts. Ministries are overwhelmed by the sheer volume of policy and legislative changes being heaped on them. They are not yet organized to take responsibility at working levels for implementing the changes and tend to await instructions from above. Most of the old systems and practices are still in place, causing severe contradictions between decisions at the top and implementation on the ground. The absence of organizational capacity and expertise within the government is

one of the greatest obstacles to reform, particularly the reforms that require technical expertise.

Economic progress will be essential to the success of political reform. The reformers believe that popular support for the political transition can be consolidated only if real improvements in quality of life can be delivered to the country's poverty-struck masses and struggling middle class. They fear that if the country's economic decline is not arrested and reversed relatively soon, it will lead to widespread dissatisfaction and instability, threatening a return to harsh security measures. Unfortunately, as the reformers pursue macroeconomic reforms of the banking, fiscal, and currency systems, they are realizing how very difficult it will be to untangle and correct the deeply flawed and corrupt systems that have underpinned the military economy for decades.

Moreover, their early attempts at economic reform are constantly being sabotaged by those who have a vested interest in retaining corrupt practices. In its attempts to produce a transparent national budget, the parliament is discovering that inadequate official accounting and the confusion of multiple exchange rates make this a difficult, if not impossible, task.

Because decades of military rule deliberately inhibited and prevented the development of nongovernmental institutions, civil society and the business community are still woefully unequipped to support and promote democratic governance. Although civil society groups are rapidly organizing, people remain unsure of their relationship to the government and whether the old instruments of security and surveillance are really receding. The situation is further complicated as the business community is dominated by corrupt military cronies who control large segments of the country's wealth and economy. The absence of a reliable body of economic law and legal structures acts as a substantial deterrent to foreign investors. While investor-friendly legislation is now

under consideration in the parliament, its implementation and institutionalization are still distant.

There are two potential spoilers in the government: the corrupt remnants of the old order and the government party, the Union Solidarity and Development Party. The interests of the first group are threatened primarily by economic reforms that could inhibit their opportunities for raking in payments from trade and investment. The second group is likely to see its interests threatened by a resurgent NLD. Both groups could easily find common cause.

So long as the reformers continue to enjoy wide popularity and the support of uniformed military leaders, these two groups are unlikely to be able to organize an effective reversal of the transition, although they will certainly use every opportunity to protect their interests. However, if the reforms falter and there are signs of instability, both groups can be expected to press for a return to more authoritarian control. The key to their power will rest with the military leaders.

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Reconciliation with minority nationalities remains elusive. The president and the parliament have taken important steps to address the remaining differences with the former cease-fire groups in a larger political context, ultimately agreeing to meet all of them collectively, once various issues have been addressed and agreed in bilateral negotiations. However, there appears to be a bifurcation of this effort within the government, with one set of negotiations headed by the railway minister, who is taking a more comprehensive approach, and another set headed by a member of parliament, which has failed to

reach much accord beyond simple cease-fires. In the case of the Kachin State conflict, the second set of negotiators has not even been able to reach a simple cease-fire, and in fact, it seems complicit in thwarting the president's order for the army to stand down. Some believe that the negotiators in the Kachin case may have personal interests in securing valuable resources from the Kachin and are colluding with Chinese financial backers. In any case, the differences between the cease-fire groups and the government are long-standing and very complex. Each is somewhat different. Their resolution will not be achieved quickly and must be addressed in stages, as the president is proposing. Their ultimate resolution will be essential to the success of the country's transition to democracy.

A complicating factor in the reform process is China's role as the country's largest foreign investor. During the past 10 years, the enormous influx of Chinese money into large infrastructure projects designed to channel energy and resources into China has created the impression among Burmese citizens that China has been raiding the country's wealth by handing corrupt State Peace and Development Council (SPDC) generals and their cronies huge payoffs for facilitating Chinese projects. Fairly or unfairly, China has become associated in the public mind with corruption of the army, the economy, and the environment. The reformers are addressing this problem by pledging that, while current agreements to provide oil and gas to China and Thailand will be honored, future energy projects will be dedicated to providing energy to Myanmar and not its wealthy neighbors. They are also forging new environmental and investment policies that will require proper attention to ecological and social impacts before large infrastructure projects can be undertaken.

Many in Myanmar, both inside and outside the government, are setting their sights on 2015—when the next national election will be

held—calculating that this is the period of time in which the gains of reform must be advanced and institutionalized to the point at which it will not be possible to revert to authoritarian rule.

Those in government recognize that civil servants must be trained and equipped to implement reforms effectively. Those in business are anxious to gain access to a Western business model that can help address the country's endemic corruption and bring more order to the economy. Young people are urgently seeking education in political science, government, and economics so that they can take part in the political transformation and help consolidate democratic reforms. They look to 2015 as an opportunity to expand the civilian component of the parliament and to begin challenging military control of the political system. They all believe that assistance from Western governments is needed in order to consolidate the reforms.

What should/can the United States do?

The most urgent task for the United States and the broader international community is to empower the International Monetary Fund (IMF) and the World Bank to help Myanmar's leaders with macroeconomic reform and economic development strategy.

At the conclusion of its recent Article IV mission to Myanmar, the IMF released a statement outlining the current state of economic reform there and recommending a wide array of further steps needed to correct structural impediments to economic growth.³ The United States must ease its restrictions on IMF activity in Myanmar to allow it to advise and assist with these adjustments. We welcome the decision of Secretary of State Hillary Clinton on February 6 to grant a partial waiver to these restrictions, enabling the IMF and the World Bank to provide assessments and technical assistance.

The World Bank should also be allowed to help with a development strategy. In contrast to the SPDC years, when the IMF and the World Bank were considered hostile agents of Western detractors, those organizations are now being welcomed as partners essential to the country's economic reform and prosperity.

The United States and the international community must provide a rapid infusion of assistance to higher education and technical training to fill the capacity gaps created by the decades of neglect and the deliberate dismantling of Myanmar's higher educational institutions. Unlike some underdeveloped countries emerging from decades of harsh authoritarian rule, Myanmar's citizenry has tremendous intellectual capacity and can be expected to respond quickly and positively to new educational opportunities. For this effort to be most effective, there should be as much coordination as possible among donors to avoid the "fire hose" effect, which would only overwhelm the current weak educational institutions and create more chaos than capacity building. A coordination mechanism on the ground in Yangon, perhaps organized by donor embassies and United Nations agencies, would be one way of approaching this. The United States, for its part, could deploy the vast resources of its large universities to begin filling the urgent needs for technical training and education, especially in the fields of political science and economics.

The Naypyidaw government urgently needs advisory assistance to support the policy and legislative reforms that are under way. For example, a mechanism that could provide ready access to information on international experience and best practices across the spectrum of changes being contemplated should be a priority. The presidential advisors are seeking international assistance to build an

³ See "Statement at the Conclusion of the 2011 Article IV Mission to Myanmar," International Monetary Fund, press release no. 12/25, January 25, 2012, accessed February 10, 2012, <http://www.imf.org/external/np/sec/pr/2012/pr1225.htm>.

independent capacity for research and analysis, with the goal of eventually developing a policy think tank focused on long-term and strategic policy frameworks. Asia Society plans to marshal private resources in the United States and internationally to assist with the immediate task of developing a pool of international expertise to advise on policy and legislative best practices. With special emphasis on the rule of law, this effort will seek to promote legal reform that takes into account traditional values, political and economic governance, and judicial structures that offer universal access to justice. We also hope to empower this group to conduct strategic environmental assessments for sustainable economic development and investment in infrastructure.

The United States should respond positively to requests from Myanmar's parliament for inter-parliamentary exchanges and discussions to help the country develop effective structures and procedures to strengthen the legislative branch. Currently, there are only a few legal experts in the upper and lower houses of parliament, and there is almost no experience with parliamentary procedure. Not only would such exchanges give them the benefit of U.S. legislative experience, they would also provide a rare opportunity for direct interaction with an important element of the country's new governing mechanism, including former military leaders.

The U.S. government must urgently address its myriad financial sanctions on Myanmar to ensure that they are not working at cross-purposes with public and private assistance efforts. While those aspects of the financial sanctions aimed at inhibiting corrupt economic activity should be retained, they should be modified to ensure that they do not prevent legitimate financial transactions essential to the development of a vibrant private sector, that they allow wider assistance for

capacity building, and that they contribute positively to the transformation of Myanmar's banking and financial system. The draconian application of the current financial sanctions regime is having a serious negative impact on legitimate economic actors in Myanmar who are struggling to institute reforms. They are also impeding Americans who are working to assist in the reforms.

As U.S. Senator John McCain recently suggested, the April 1 by-elections will be a fair litmus test of whether it is time to revisit U.S. trade and investment sanctions. Although trade with the United States was not of significant economic importance to Myanmar before the sanctions, easing the trade sanctions gradually could help develop certain sectors of the economy as they begin to expand. Investment sanctions should also be eased gradually as the macroeconomic structures are reformed and anticorruption measures are put in place.

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It will be important for donors, including the United States, to coordinate activities in order to avoid overwhelming Myanmar's weak institutions with a plethora of duplicative assistance programs. This should be done in consultation and coordination with the government in Naypyidaw. Australian, Japanese, Chinese, Korean, Indian, and ASEAN contributions to economic reforms and development in Myanmar will be critical.

Conclusion

Since embarking on a new course of engagement with the government of Myanmar in September 2009, the United States has been consistent in communicating three key requirements that must be met for bilateral relations to move forward: (1) engaging in tripartite dialogue in support of national reconciliation, (2) releasing political prisoners, and (3) allowing fair and inclusive elections. Myanmar's new government has made progress on the first two requirements. The third will be tested in the coming weeks as groups begin to organize and carry out political campaigns across the country.

To insist on solutions to all of the country's problems before sanctions can be eased would be self-defeating.

This moment of change offers an important opportunity for increasing U.S. support for Myanmar's reform process. Indeed, Secretary Clinton's visit to Myanmar in early December 2011—the first such visit by a U.S. secretary of state in five decades—provided a major boost to those in the country favoring reform. Moreover, the upgrading of bilateral diplomatic relations following the most significant release of political prisoners by the new government in early January 2012—which included prominent leaders of the 88 Generation Students Group—has demonstrated to the government of Myanmar that the United States is ready to react quickly to concrete reforms. Secretary Clinton's decision in February to grant a partial waiver of U.S. restrictions on assistance by international financial institutions to Myanmar marks the beginning of a relaxation in economic sanctions. These moves by Washington have sent a message to the people of Myanmar that the United States is working

to encourage the process of democratization during this period of transition.

Whether the reforms currently under way in Myanmar are considered fragile or reversible should not be cause for hesitation—they will only become institutionalized and irreversible if the international community provides support at this critical moment. Some of Myanmar's new leaders are trying to move decisively in the direction of democracy, free enterprise, and the protection of human rights, which the United States has been advocating for decades. To insist on solutions to all of the country's problems before sanctions can be eased would be self-defeating.

Given the government of Myanmar's long history of authoritarian rule and systematic violations of human rights, caution is in order. But this is not the time to wait for change to unfold. How Myanmar's transition plays out is a story that has not yet been written. The United States should continue to actively test the new government's credibility and commitment to reform while doing all that it can to advance democracy and development in Myanmar.