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# DAMAGE TO HUMAN CAPITAL AND THE ECONOMIC FUTURE OF BURMA

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—MYA MAUNG—

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*Burma's political transition in 1988 raised world hopes of those who desired to discern a change toward healthy growth and progress after three decades of political oppression and economic regression. Mya Maung reviews events in Burmese history, particularly since 1988, and reveals the extent of social and economic damage to Burma. He concludes that a somber view of Burma's future emerges as a result of the damaging effects of three decades of military dictatorships.*

Most writings on the economic future of Burma tend to emphasize *potential* economic growth predicated on the introduction of economic reforms. This growth is based on Burma's richness in natural resources, and the actual and potential flow of capital and technology into Burma. The following analysis takes a critical look at this optimistic view and argues that Burma's future economic development looks bleak in light of the enormous damage inflicted upon Burma's human resources and economic institutions.<sup>1</sup>

The nature and functioning of the Burmese society, polity, and economy constitute a nightmare state, sharing the common characteristics of repression, retrogression, and reclusion with other totalitarian regimes around the world. The main retrogressive agent of the Burmese economy since 1962 has been the managerial incompetence of the central powerholders, comprised of fairly uneducated and tradition-bound military leaders. The role of non-economic factors in the process of economic development is a conceded fact among most developmental economists. Some even argue that economic development is a state of mind<sup>2</sup> and that human capital, defined generally as "social capability"

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1. This study is an outgrowth of a lecture delivered in Ottawa at the Burma Seminar sponsored by the Canadian Friends of Burma and Canadian Institute for International Co-operation in March 1991. I wish to express my thanks to the above organizations and the following: Professors H.T. Patrick of Columbia University and James Bradford De Long of Harvard University; Boston College, School of Management Dean John Neuhauser, Finance Department Chairman Hassan Tehranian, and other faculty members of the Finance Department; and Harn Yawngghwe, colleague and publisher of *Burma Alert*, who provided the data on direct foreign investments in Burma.

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or "state of technology," is the most important determinant of economic growth.<sup>3</sup> Burmese military rule has intensified barriers to modernization and has damaged the most important determinant of economic growth—the human capital or social propensity to develop.

### Three Decades of Totalitarian Government

The salient features of modern totalitarianism can aptly describe Burmese political developments since General Ne Win seized power in 1962. In attempting to create a utopian state, the *Burmese Way to Socialism*, Ne Win took Burma back to the dark ages of malevolent Burmese despots. The single-party state of the Socialist Republic of the Union of Burma, which existed from 1974 to 1988, was at best an imitation of the communist models of Russia and China. Its failure was instantaneous:

No one believe[d] its creed; everyone evade[d] the discipline. [Yet the result was powerful in its repression], for the imitation...extend[ed] to torture, censorship, prison camps, and secret police...<sup>4</sup>

The legacy of Ne Win continues today with added twists. After the military coup of September 1988, the ideology of the *Burmese Way to Socialism* and the single-party state was ostensibly abandoned. It was replaced by the old, authoritarian, despotic system of government with the creation of the militarized state of Myanmar, the new name of Burma. The nineteen military commanders of the State Law and Order Restoration Council (SLORC), supported by a nationwide network of military tribunals, have suspended political rights and rule Burma today with unchecked force.

Burma in the 1980s repeated the patterns of development in the 1970s, with rapid economic deterioration despite apparent economic reforms. Mass revolts in 1988 were crushed by killing thousands of demonstrators. In September of that year, the Burmese army staged a fake military coup in the name of saving Burma. The resulting military junta promised to hold a "free and fair election" and introduce a multi-party system. In the economic arena promises of "legalization of trade" and an "open-door economy of Myanmar" were intended to resuscitate the dying economy and attract foreign capital. Two years later, multi-party elections were held on May 27, 1990. The National League for Democracy (NLD), the main opposition party led by Daw Aung San Suu Kyi, won by a landslide. However, since then the SLORC has reneged its promise to surrender political power to the democratically elected civilian government.

2. Lawrence E. Harrison, *Underdevelopment is a State of Mind: The Latin American Case* (Lanham, Md.: University Press of America, 1985), 1.

3. James Bradford De Long, "Quantifying the 'Protestant Ethics'," *The Fletcher Forum of World Affairs* Vol. 13, No. 2 (Summer 1989): 232.

4. Michael Walzer, "On Failed Totalitarianism," in *1984 Revisited: Totalitarianism in Our Century*, ed. Irving Howe (New York: Harper & Rowe Publishers, 1983), 118.

They have imposed a "catch 22" by requiring a perfect constitution to be drawn up before power is transferred, and securing the arrest and sentencing of all opposition leaders, including thousands of NLD members and several winners of the election. The military regime has claimed legitimacy to govern Burma based on recognition by the United Nations and the world community. It has established a martial state with economic and military aid from foreign powers, particularly China, which has entered into major arms agreements with the SLORC.

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Ne Win's basic strategy for protecting his throne was to cultivate loyal rather than able men. The Burmese call this method *lukawn lutaw*—good man first and smart man second.<sup>5</sup> The use of this method today can be discerned in the fact that, of the nineteen SLORC military commanders, only three members hold the equivalent of a college degree, namely a degree from the Defense Services Academy. With the exception of Director of the Directorate of Defense Services Intelligence, Major General Khin Nyunt (who attended Rangoon University) and two other members, the remaining leaders of the SLORC did not finish high school. Chairman of the SLORC, Senior General Saw Maung, has an eighth grade education, while the infamous Rangoon military commander, Major General Myo Nyunt (not a member of SLORC, but a powerful figure), completed the fifth grade. The impacts of this strategy of rewarding loyalty rather than ability will be discussed subsequently.

The military chiefs of the security administrative councils of villages, towns and districts, known as the People's Councils in socialist Burma and the Law and Order Councils in Burma today, enjoy special access to goods distributed by the government. They have amassed enormous wealth at the expense of the impoverished urban workers and rural peasants.<sup>6</sup>

The xenophobia, *Myanmah*, and obsession with the purity of the Burmese race, *Bamah*, which Ne Win cultivated during the twenty-six years of his military dictatorship, remain a current means of control. These weapons have been deployed vehemently by the SLORC to legitimize a government whose authority to govern is not derived from the consent of the people. For example, in a cartoon published recently in the only newspaper, the official *Working People's*

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5. Retired Burmese army officer (name withheld), *Thuelo Lu or That Type of Man* (Koln, West Germany: Committee for Restoration of Democracy in Burma, 1988).

6. For a detailed discussion, see Mya Maung, *The Burma Road to Poverty* (New York: Praeger Publisher, 1991).

*Daily*, a wise teacher's response to a pupil's question on the meaning of patriotism was:

In the Five Codes of Conduct, there is one requirement which says 'Protect and defend your race' ... Getting married to our kind does not contaminate the race...but if one marries a foreigner, half-breeds will result and the Myanmar race may eventually become extinct...that's the basis of what we call 'patriotic spirit.'

The cartoon was designed to discredit Daw Aung San Suu Kyi, the charismatic, foremost opposition leader, who has been under house arrest since July 1989.<sup>7</sup> In reality, it is virtually impossible to determine the pure racial stock of Myanmar because of a history replete with intermarriages across racial and ethnic lines. Ironically, the fabricated Five Codes of Conduct with its racial slur indicts the racial background of the ruling military elite.<sup>8</sup>

### Governance by Force and the Suppression of Freedom

The most important and common feature of dictatorial regimes is the total control of society by a person or a group of persons under the rule of force. "Structural power" is a prerequisite to this total control. Structural power refers to control over security, production, finance, and information substructures.<sup>9</sup> Control of the knowledge or information substructure represents the major means to destroy actual and potential political foes, while control of the other substructures form the economic basis to sustain political power. Total control necessitates suppression of the freedom of expression and thought, and the right of private ownership. These suppressions, together with the triumph of patronage over merit, have resulted in a degeneration of the character of Burmese society.

For twenty-six years, Ne Win's military regime passed thousands of arbitrary laws against the freedoms of knowledge, information, and dissent. After seizing power in 1962, the new leaders immediately passed and enforced the 1963 Law to Protect National Unity by which all political organizations were abolished. In 1964 a law of sedition against the state, called the Law for Law and Order, was passed prohibiting "freedom of assembly by ... more than five persons," thereby labelling such assembly a disturbance of state tranquility. In 1964 the

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7. Daw Aung San Suu Kyi is the winner of three consecutive human rights and peace prizes: the Rafto and Sakharov Prizes for 1990 and the 1991 Noble Peace Prize.

8. For example, not only Ne Win himself, but also the top military commanders of his original Revolutionary Council Government and his military intelligence directors are Sino-Burmans. Major General David Abel, Minister of Trade and Minister of National Planning and Finance in the Cabinet of the present military regime, is a Euro-Burman of Portuguese descent. The Director of the Directorate of Defense Services Intelligence and Secretary No. 1 of SLORC, Major General Khin Nyunt, considered to be the most powerful among the military rulers of Burma today, is alleged to be a Sino-Burman.

9. See Susan Strange, *State and Markets* (London: Printer Publishers, 1988).



Press Registration Act, permitting freedom of press by legal political organizations, was repealed; all private press was abolished and newspaper owners and journalists were jailed. Since then, the only newspaper in Burma has been the *Working People's Daily*. By the mid-1970s, all writs of the British legal system, *habeas corpus*, *mandamus*, prohibition, and *quo warranto* had been completely abolished.

Ne Win's legacy continues under the present military regime of Saw Maung. Soon after the military coup of 1988, Order 2/88 and Notification 8/88 were passed, prohibiting freedom of "assembly by more than five persons" and requiring the submission of all publications to the state. In 1989, Orders 1/89 and 2/89 were passed to create military tribunals which were empowered to arrest and sentence anyone found guilty of causing divisiveness within the state or the Burmese army. In fact, the July 20, 1990 house arrest of Daw Aung San Suu Kyi, for her exercise of freedom of speech and dissent, was made by invoking the 1975 Law to Protect the State from Destructionists.

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Burma today represents a world ruled by force and intimidation. This was poignantly depicted recently in the *Working People's Daily* by a cartoon of an ancient fable, the "Turtle and the Two Mythical Burmese Ducks," from the 550 Buddhist stories of *Jatakas*.<sup>10</sup> A turtle suffering in a shallow pond was rescued by two flying mythical Burmese ducks. The turtle was flown away, hanging by its mouth from a stick carried by the ducks, to a safer pond of bountiful water and tranquility. The rescuers told the turtle not to speak to them. The talkative turtle could not refrain from opening his mouth and dropped to his death. The moral of this tale is that harm (arrest and death) will come to the turtles (political parties) who speak to or against the ducks (the SLORC government of Saw Maung).

The primary targets of the suppression of information and knowledge in Burma have been students, intellectuals, and Buddhist monks, or *thangahs*. Arresting and killing dissident students, journalists, and Buddhist monks have been regular rituals of the military rule in Burma during the last three decades. Since March 1988, army crackdowns against students and young Buddhist monks have increased at an accelerated rate. Some three to four thousand student refugees and dissident monks are now housed along the Thai border and in Thailand, facing detention, deportation, and starvation. Colleges were

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10. *Working People's Daily*, 30 October 1990.

closed for three years in central Burma. They were reopened in May 1991 only after the government forced parents, teachers, and students to sign a contract stipulating the cessation of protest against the ruling military regime, with arrest and further punishment as the only alternative. In October 1990 hundreds of sacred monasteries at Mandalay and elsewhere were invaded by soldiers and hundreds of monks were beaten and arrested.

Control over the economic bases of structural power arises from a state's internal and external monopoly of society's natural, productive, and financial resources. This is a traditional heritage of Burmese polity, dating back to the absolute "ownership of everything" by Burmese kings including the life, head, and hair of his subjects. From 1962 to 1964, the Revolutionary Council Government of Ne Win promulgated fourteen major economic laws and created the Socialist Economy Construction Committee, empowered to take over the assets of all enterprises, including former government enterprises. Examples of these laws are the Agricultural Produce Procurement Act of 1962, the 1963 Tenancy Act, the 1963 Law to Protect the Construction of a Socialist Economy from Opposition, the 1963 People's Corporation Act, the 1963 People's Banking Act, and the 1964 Demonetization Act. By the end of 1964, all foreign and private enterprises were nationalized and complete state control over domestic and foreign trade was instituted. The 1963 Law to Protect the Construction of Socialist Economy from Opposition was used to arrest thousands of black marketeers and opposition figures. The present military regime has kept this legacy of total state control of the economy, despite its slogans and policies regarding legalization of trade.

This insecurity of both life and property has acted as a disincentive for the Burmese people to save or accumulate wealth. It may be considered as one of the greatest cultural obstacles to the past, present, and future economic development of Burma. It has deepened traditional Buddhist belief that acquisition and accumulation of material wealth are impermanent, illusory, and the cause of sufferings. As the Anglican missionary to Burma, Bishop Bigandet, observed more than one-hundred years ago:

When a man has made some profit by trading, or any other way, he will almost infallibly bestow portion of his lucre in building a *kiaong* [kyawn or monastery], or feeding the inmates of a religious house for a few months, or in giving general alms [alhu] to all the recluses of the town. Such liberality, which is by no means uncommon, has its roots, we believe, in a strong religious sentiment, and also in the insecurity—nay, the danger—of holding property to a large amount.<sup>11</sup>

"The insecurity...of holding property" refers not to the profound philosophical tenet of the impermanent nature of things, according to the Buddhist doctrine,

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11. Bishop P. Bigandet, *The Life or Legend of Gautama: The Buddha of the Burmese*, Vol. II (London: Trubner & Co., 1880), 309.

*dhama*, but to the mundane reality of the insecurity or danger of losing one's possessions, including physical existence, to the absolute owner of everything—a Burmese king.

### Degeneration of Burmese Society

The military rulers' strategy of rewarding loyalty rather than ability has had damaging impacts on society. For one, it hampered the development of a work ethic in the Weberian and Jeffersonian sense; for another it reduced the social propensity to develop and innovate.<sup>12</sup> The ethics of "diligent in work and sober in pleasure" are dissipated in a socialist state where loyalty, connection, and party affiliation command greater rewards than ability and diligence. The result has been an enormous brain drain as many competent entrepreneurs, professionals, and intellectuals fled and continue to flee Burma. Discrimination against educated civilians in favor of uneducated, loyal soldiers and commanders resulted in the massive unemployment of college graduates as well as a decline in the quality of education.

Burma's centralized command economy has had a predictably damaging effect on daily life; giant black markets, long lines at state distribution shops with empty shelves, and shabby living quarters for workers (in contrast to the modern villas of top party officials and military commanders) are the norm. The net results of societal inequities between the powerful elite and the disenfranchised populace are rampant corruption and economic stagnation. The worst consequence of these socio-economic ills is the degeneration of the moral character of the society to the point where an individual's mere physical survival supersedes any other higher values of human existence.

Greed, anger, and delusion have become the dominant forces of life in the nightmare state of Burma. The damaging impact of fear on moral values and social character was aptly diagnosed by Daw Aung San Suu Kyi:

It is not power that corrupts but fear. Fear of losing power corrupts those who are subject to it. Most Burmese are familiar with the four *a-gati* [*a-gati tayar laypar*], the four kinds of corruption...Perhaps, the worst of the four is *bhaya-gati*, for not only does *bhaya*, fear, stifle and slowly destroy all sense of right and wrong, it so often lies at the root of the other three kinds of corruption.<sup>13</sup>

Fear is not limited to the people who live in an environment of mistrust, insecurity, poverty, and corruption. It also emanates from those who hold power, and fear losing it.

As personal security and morale are systematically destroyed by the military

12. De Long, 229-241.

13. Daw Aung San Suu Kyi, "Freedom From Fear," (Privately published and distributed paper, 20 July 1991).

rule of force, reliance on the supernatural and the animistic worship of spirits, *nats*, rather than the sacred Buddhist teachings, *dhamas*, has increased. As a result, astrologers are doing a booming business in the streets of Rangoon and across Burma. As one Burmese remarked jokingly, offerings of food and drinks by the people to the spirits have been so bountiful recently as to cause *Ma Nell Lay*, literally "small child spirit" representing all deceased children, to become *Ma Nell Gyi*, "large spirit."

### Burma's Economic Decline under Military Management

On December 11, 1987 the Socialist Republic of the Union of Burma under the military dictatorship of Ne Win officially gained the degrading status of being one of the forty-one least developed countries in the world. The three criteria of the United Nations for granting this unenviable status were a country with less than \$200 per capita income, less than 10 percent contribution of manufacturing to the gross domestic product (GDP) and less than 20 percent national literacy.<sup>14</sup> Other data also indicate Burma's continuation on the road to poverty since the military coup of September 1988.

Burma, once considered to be the "Rice Bowl of Asia," has become the "Rice Hole of the World." Burma's economic retrogression may best be illustrated by the consecutive decline of the export of rice, which the Burmese refer to as "the golden fruit of the Golden Land." Burma's annual export of rice averaged 3.5 million tons in the 1930s and 1940s under the British rule, 1.5 million tons in the 1950s under the civilian government of U Nu, and less than 500,000 tons during the last three decades under the military rule. Burma's share of the world's total rice exports dropped from between 26.9 and 30.5 percent in the 1950s and early 1960s, to an average of less than 5 percent in the 1970s and 1980s. From 1988 to 1991, the annual export of rice averaged less than 25,000 tons, while the annual trade deficit averaged more than \$275 million.

In the original report of the Ministry of National Planning and Central Bank of Myanmar, the real GDP growth rate for 1987-1988, 1988-1989 and 1989-1990 were given as negative 4.2 percent, negative 11.4 percent, and positive 7.4 percent respectively. The stated 7.4 positive growth of real GDP for 1989-1990 was inaccurate due to the government's underestimation of the inflation rate at 30 percent, rather than a more realistic rate of 60 percent. The 1991-1992 *Report on the Financial, Economic and Social Conditions of the Union of Myanmar* revised the real growth rate of GDP to 5.6 percent. This would give an average annual GDP growth rate of negative 4 percent and a per capita GDP growth rate of roughly negative 6 percent (population growth rate being 2 percent) for the 1988-1990 period.

With respect to its structure and function, the economy of Burma since 1962 may best be described as a cancerous double-dual economy. As in the Sino-

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14. The last criterion was not met by Burma. Burma in 1987 remained a literate country, as it has been for many generations, but had become one of the poorest nations of the world.



Soviet centralized command economies, total state control of the economy by the military commanders in Burma created a large traditional sector of production co-existing with a small modern sector, and forced the co-existence of a widespread black market economy with a nominal official economy. It is the latter that caused Burma's degeneration into one of the least developed countries in the world by the end of 1987; it was also the catalyst for the political upheaval of 1988.

Both internally and externally, the giant black market became the economic lifeline for the ruling military elite and the populace alike. The reason for the tremendous magnitude of the black market, considered one of the largest in the world, lies both in the military managers' inability to plug the loopholes associated with a system of direct controls, and the need to allow the black market to provide the people with basic necessities that the state cannot supply. Some experts estimate its value and volume to be greater than official external trade figures, while others estimate it at 85 to 90 percent of the official trade.<sup>15</sup> Throughout military rule, the military managers have had to wear blinders to the existence of this resilient market for their own benefit and survival. They, along with black market kingpins and high-ranking government and party officials, have been the main beneficiaries of this economy.

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The close ties with China and Thailand that the SLORC has established since 1988 are basically economic in nature. For its survival, the Burmese economy continues to depend heavily on the import of Chinese and Thai goods, and the export of its agricultural, fishery and forest products, as well as opium from the Golden Triangle. For three decades, all basic necessities in the way of manufactured goods have been supplied by illegal border trade with Thailand and China. The only thing that has changed since the so-called legalization of border trade by the SLORC has been the opening of ten tax-collection centers along the borders with China and Thailand. In fact, private export of rice, teak, oil and gems are banned, being reserved as exports of the state.

The single most important evidence of the military control of Burma's riches and enterprises is the giant enterprise called the Union of Myanmar Economic Holdings Limited, owned and operated by Defense Services personnel, veterans, and military regimental organizations. It is reminiscent of the Defense Services Institute and the Burma Economic Development Corporation which

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15. See Harry Kramer, "Poor Rich Land," *Wall Street Journal*, 3 August 1976; and Saburo Takamura and Suguru Mouri, *Border Trade: Southeast Asian Black Market* (Tokyo: Kobundo Publishers, 1984).

were owned and managed by military commanders, including Brigadier Aung Gyi, in the 1950s and 1960s. This giant military capitalist venture was established by law on February 19, 1990 with an initial capital of kyat (K) 10 billion (roughly \$1.5 billion), or close to 10 percent of Burma's GDP in 1990, and serves only the welfare of the generals, their military associates and their families.<sup>16</sup> Apart from this giant military corporation, which is classified as the State/Private Joint Venture (JVC) No.9, there are eight other similar military JVCs under the direct control of the Directorate of Procurement and Ministry of Defense of the SLORC which deal with agriculture, fisheries, trade, construction, hotels and medicines.

The SLORC government has imposed a number of stringent rules, regulations, and restrictions on private traders engaging in external trade. There are strict licensing requirements imposed upon private traders. Nineteen categories of trade goods are specified by the Ministry of Trade for which licenses, which are issued for a fee and must be renewed yearly, are required. Additional licenses are demanded for each consignment. The military government has further restricted border trade by banning the export of sixteen important products, including rice, teak, cotton, maize, gems, and rubber. Even where trade has been sanctioned by the state, private exporters and importers cannot deal freely in foreign exchange except through the Myanmar Foreign Trading Bank.<sup>17</sup>

The Foreign Investment Commission chaired by Major General David Abel, the Minister of Trade and Minister of Planning and Finance, has the sole power of granting all trade concessions and joint ventures to foreign firms. According to the Foreign Investment Law of November 30, 1988, which went into effect in May 1989, foreign companies may invest and form either wholly-owned or joint-venture firms with a minimum capital contribution of 35 percent in various sectors of the economy. However, foreign investment is allowed only outside the twelve areas primarily reserved for the state under the State Economic Enterprises Law, which was activated on December 6, 1989. The twelve areas reserved for the state enterprises by the Article 6, Chapter II of the State Economic Enterprises Law are:

1. Extraction and foreign and domestic sale of teak.
2. Generation and conservation of forest excluding firewood forests generated by villagers for their own use.
3. Exploration, production and trading of oil and natural gas and manufacture of oil and natural gas products.
4. Exploration, extraction and exportation of pearls, jade and gems.
5. Culture of fish and prawns in hatcheries reserved for government research purposes.

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16. The Government of the Union of Myanmar, *Ministry of Trade Notification No. 7/90* (Yangon 1990).

17. Not only private traders and citizens, but tourists with a two-week tourist visa are currently warned to heed the Foreign Exchange Control Regulations which stipulate "a maximum imprisonment of three years and... a fine" for illegal conversions of currency.

6. Postal and telegraphic communications.
7. Air and rail transportation.
8. Banking and insurance businesses.
9. Radio and television broadcasting.
10. Exploration, exploitation and exportation of metals.
11. Electricity generation excluding those permitted by law to private individuals and cooperatives.
12. Security and defense industries as may be notified by the government from time to time.<sup>18</sup>

The Ministry of Trade and Foreign Investment Commission dictates and controls joint ventures formed in all other areas. These were propagandized in the *Working People's Daily* as "the SLORC's economic endeavors paving the way with flowers—56 joint-ventures [formed]." As of May 1991, the government reported that 4,000 JVCs between the State, domestic and foreign business firms had been formed to perpetuate state capitalism. Most of these joint ventures are the same old cooperatives and state enterprises renamed and reorganized under the dictates of the state.

### The Role of External Aid, Trade, and Investment

By 1974, the Burmese economy was on the verge of collapse and Ne Win's military dictatorship was at stake. Without the massive external pump-priming of the economy by the Western democracies, led by the United States and the United Nations development agencies, the economy of Burma would have collapsed. In contrast to Western public financing of Ne Win's military regime, private firms from the West and Asia have been financing the present military dictatorship.

More than 200 foreign firms from around the world have entered into trade, investment, and joint-venture agreements with the SLORC. Of the foreign firms operating in Burma, seventy-six are Thai (more than 90 percent of which deal in teak), thirty-three Japanese, twenty-eight Singaporean, fourteen from Hong Kong, thirteen Korean, ten American, and seven Australian.<sup>19</sup> Based upon the data supplied by the Foreign Investment Commission, total foreign direct investments in Burma for 1989-1990 to 1990-1991 amounted to \$655 million. Sectorally, energy topped the list with \$317 million (almost 50 percent), followed by mining with \$106 million (16 percent), hotel and tourism with \$101 million (15 percent), fisheries with \$77 million (12 percent), food stuffs and beverages with \$37 million (5.5 percent) and the rest were invested in industry and livestock sectors. Thailand headed the list as the largest investor followed

18. "The State Economic Enterprise Law," *Working People's Daily*, 11 September 1990, 3.

19. Most of these firms were required to pay signature bonuses in foreign exchange up front to the military ministers in charge of the various ministries. These were as high as \$5 million in the cases of US Amoco and Petro-Canada. The estimated total value of signature bonuses runs as high as \$55 million in 1989-1990 alone.

by the United States, Japan, Netherlands, United Kingdom, Republic of Korea, Australia, Canada, Hong Kong, Singapore, and Bangladesh. The Netherlands (Shell) and United States (Amoco, Unocal, Coca-Cola, and Pepsi-Cola) are the largest investors in oil and beverages, while Thailand is the dominant investor in mining and fisheries.

Of all the external sources of financing, China's role in giving both economic and military assistance is the most crucial to the SLORC's survival. China, which has historically shifted its alliances with Burma according to changing tides of domestic and world politics, has become the SLORC's most important ally. Reminiscent of the symbiotic relations established in the early 1960s, an era the Burmese called *swemyo pauk hpaw* (relatives born together), has dawned once more on Burma, causing a frenzy of diplomatic exchanges and signing of amicable pacts. Not only are Chinese goods and personnel flooding the major urban centers, but between 1990 and 1991 China reportedly entered into arms agreements with the SLORC worth \$1.4 billion.<sup>20</sup> As the second largest arms supplier in the world, China's economic interest in resource-rich Burma casts a dark shadow over future democratization of Burma.

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Apart from these private capital inflows, Japan and the UN agencies, especially the United Nations Development Programme (UNDP), have funded the projects of SLORC, despite the withdrawal of aid from Western democracies after 1988. As of 1991, there are nineteen Japanese loan projects totalling almost \$900 million, 20 percent of which has already been disbursed. The average funding of various projects by the United Nations for 1989 and 1990 was \$15 million, with a projected funding of \$40 million for 1991-1995 period.<sup>21</sup> All of this external funding of SLORC seems to indicate that human rights considerations are more often than not secondary in importance to the profit motivation.

It is likely that new private foreign capital inflow into Burma will come to a halt soon. According to the recent update of "Rating Risk in the Hot Countries" prepared by the Economist Intelligence Unit, and International Country Risk Guide,<sup>22</sup> Burma ranked 125th among 129 countries of high political, financial, and economic risk—only one notch safer than Iraq.

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20. See for detail, Bertil Lininer, "Peking's Diplomatic Priorities Benefit Junta: SLORC Salvation," *Far Eastern Economic Review*, 3 October 1991, 24.

21. See Harn Yawngwe, *Burma Alert*, Vol. 2, No. 8 (Quebec: privately published paper, 1991): 5.

22. *Wall Street Journal*, 20 September 1991.



### The Failure to Liberalize

The impact of the present military regime's so-called open economy on Burma's economic future has been assessed in a dichotomous vein. Although there seem to be very few positive appraisals of the military regime's human rights record or of the regime's ransom of Burma's resources, some authors and interested trading partners praised and welcomed the opportunity to invest and exploit the untapped natural resources that have remained latent for nearly thirty years.

The classic, positive view of the benevolent impact of the military's economic policy for Burma is represented by the recent articles and works of Robert Taylor. His writings have been used extensively by the Saw Maung regime as an authoritative account of the *Burmese Way to Capitalism* and its beneficial effect for Burma. Taylor writes:

The government's policies since the 1988 coup have begun the process of opening up Burma's economic system to one more similar to its ASEAN neighbors. With the help of the United Nations Development Programme and other agencies, privatization and other liberalization programs are being implemented. Foreign investment is again possible and real economic growth could be rapid. The army and the successful parties at least seem to agree on this.<sup>23</sup>

These observations and projections for Burma's future economic growth belie the real nature of state capitalism. In light of Burma's thirty-year neglect of modernization and depressed technological state, it is more likely that Burma will face economic crises than experience rapid economic growth.

One other view regarding the potential economic benefits for Burma under the policy of an open economy stresses the emergence of Burma as the center for international rivalry among the developed economies of the Asian countries, or the Asia-Pacific Dynamism.<sup>24</sup> This view also emphasizes the important role which Japanese foreign aid could play in bringing about short-term gains to all sides by generating foreign exchange and therefore "sufficient goods to satisfy the urban population who can afford them."<sup>25</sup> This view neglects to consider the low absorptive capacity and productivity of the structurally unchanged economy of Burma and therefore is erroneous.

The change needed to regenerate the damaged technological base of the economy will not occur merely by virtue of foreign investment or the sale of

23. Cited in Permanent Mission of the Union of Myanmar to the United Nations, Press Release No. 19/90.

24. David I. Steinberg, "The International Rivalries in Burma: The Rise of Economic Competition," *Asian Survey* Vol. 30, No. 6 (June 1990): 600-601. See also, Richard W.A. Vokes, "Burma and Asia-Pacific Dynamism: Problems and Prospects of Export-Oriented Growth in the 1990s," in *Myanmar Dilemmas and Options: The Challenge of Economic Transition in the 1990s*, eds. Mya Than and Joseph L.H. Tan (Singapore: Institute of Southeast Asian Studies, 1990), 221-227.

25. Steinberg, 600.

Burma's resources, even when such investment or sale involves the comparatively more developed ASEAN countries. Neither the terms of trade nor world market conditions favor Burma's potential for rapid economic growth. This view is consistent with that of many observers who correctly saw the Saw Maung regime's nominal liberalization program as a political ploy for the fortification of military might to sustain its illegitimate government. As J.R. Saul wrote:

U Ne Win, Myanmar's ruler, and his generals, have reduced the richest country in Southeast Asia to such an impoverished state that, with a few hundred million dollars of hard currency per year, the system can be run and enough will be left over to fill the generals' pockets. Until the repression of 1988, these funds were a combination of foreign investments [foreign aid] and drug money. Some people in Washington [also Thailand and other ASEAN countries] believe that opening up Myanmar to foreign investment represents an opportunity for political liberalization. They are wrong. Foreign investment is the single most important element keeping the generals in power with their repressive policies and support of the drug lords.<sup>26</sup>

Indeed, the military regime has made purchases in the free and fluid world arms market using funds not only from the private foreign investments, but also from taxes collected from border traders, bribes from drug traffickers, and funds from some international agencies.

### Continued Economic Regression

In spite of the SLORC's success in attracting private foreign capital and investments, and in capturing foreign exchange for use in military fortification, the recurring problem of hyperinflation plagues the economy today. It is being brought about by a host of inept monetary measures such as phenomenal pay hikes, increased procurement price for paddy, massive real estate loans to various civil servants sympathetic to the military government, and deficit financing of the military build up. These programs were financed primarily by pumping new money into circulation without a concomitant rise in productivity. The result has been double and triple digit inflation rates and accompanying price increases for the majority of basic necessities.

Domestic rice prices, which were kept below K 20 per *pyi* for good quality rice by government subsidies in 1989 and 1990, have now been superseded by a rapid increase in price to K 25 per *pyi*. The problem of escalating rice prices is bound to get worse by early next year in light of the August-September flood that inundated more than 400,000 acres of rice fields in the Irrawaddy Delta, the rice belt of Burma.<sup>27</sup> Lately, not only rice but also other basic food prices, those

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26. J.R. Saul, "Drugs, Torture—and Western Cash," *The New York Times*, 18 April 1990, A8.

of cooking oil and meat, have risen at double and triple digit rates. The deterioration of Burma's foreign trade is reflected in the average annual trade deficit of over \$275 million since 1988. It resulted in the US dollar's black market foreign exchange rate climbing to K 120 per US dollar in September 1991, compared to K 70 in 1990.

In his speech on the state of the Burmese economy delivered at a meeting held on May 21, 1991 at the Ministry of Trade, the Chief of Intelligence and the Secretary No. 1 of the SLORC, Major General Khin Nyunt, assessed the fundamental cause of inflation in Myanmar as follows:

Why have prices risen? The JVCs (joint-ventures) are importing commodities which will earn much profit for them. They are giving priority to exporting goods which will fetch high prices in foreign markets. It is found that they are opening markets with the aim of earning a lot of profit for themselves...They do not seem to cooperate for the good of the country but there are a large number of greedy persons involved in the work for importing commodities fetching good prices only for becoming rich overnight.<sup>28</sup>

This attribution of the cause of inflation to the exorbitant profit-seeking motives and greed of private businessmen is nothing new. Blaming and punishing the capitalist profit-mongers and black marketeers for causing inflation were regular occurrences in Ne Win's Burma. This theory of inflation is not only flawed in its logic but also reflects a basic lack of understanding of the economic principle of supply and demand among incompetent military managers. To put it simply, prices have been rising at a rapid rate in Burma due primarily to shortages of goods relative to the needs of the people under the impact of inept economic measures and tight controls imposed by the military government.

The *Bangkok Post* reported that in a speech to senior officials at the Military College in Rangoon on May 24, 1991 Senior General Saw Maung, Chairman of SLORC, attributed the increase in prices to the lifting of martial law in some parts of Burma. Ironically, in Rangoon where martial law is still in effect, the prices have been skyrocketing as well.

The main factor responsible for the hyperinflation has been the injection of new currency into circulation for the primary purpose of financing the escalating government deficit. For example, currency in circulation rose from K 8 billion in 1987-1988 to K 27.5 in 1989-1990, representing a growth rate of nearly 250 percent. Likewise, government deficit grew from K 5.27 billion in 1987-1988 to K 15.816 billion in 1989-1990, representing a growth rate of over 200 percent.<sup>29</sup> Newly issued money was used by the SLORC to appease the impoverished masses and to sustain its political reign. The SLORC sought to increase the procurement price of rice offered to farmers, to finance phenomenal pay hikes

27. *Working People's Daily*, 30 August 1991, 6-7.

28. "Firm Action Will be Taken Under Martial Law," *Working People's Daily*, 22 May 1991, 2.

29. "Economy Grows 5.6% Claims Burmese Junta," *Bangkok Post*, 30 May 1991, 6.

for loyal civil servants, army officers and military commanders, to face-lift Rangoon and other central cities by widening roads and constructing parks, to advance many mortgage loans to loyal civil servants for settlement in new satellite towns, and most important of all, to add new divisions to the Burmese army.

Burma's richness in natural resources is not a constant factor which can guarantee a bright economic future, especially since population has been increasing at an annual average rate of two percent during the last three decades. This increased ratio of population to land, in conjunction with the rapid depletion of natural resources that are being put up for sale to foreign investors without stimulating real domestic capital formation, is going to be an additional factor for the perpetuation of the Burmese road to poverty.

### Conclusion

The two most devastating damages inflicted upon Burma by the past and present military regimes are the deterioration of the work ethic and the disincentive effect on the social propensity to save or accumulate wealth. As Daw Aung San Suu Kyi aptly diagnosed:

A revolution that aims at changing official policies and institutions with a view to an improvement in material conditions has little chance of genuine success. Without a revolution of the spirit, the forces that had produced the inequities of the old order would continue to pose a constant threat to the process of reform and regeneration.<sup>30</sup>

The economy of Myanmar is besieged by the same old problems which plagued the past military command economy. It is infested with rampant corruption, bribery, black marketeering, hyperinflation, and mass unemployment generated by contradictory measures of privatization without a relinquishment of the tight economic controls maintained by various arbitrary laws, regulations, and notifications. This has been directly acknowledged by Major General Khin Nyunt:

...directors appointed by the Government for JVCs...have a lot of weaknesses. There have been malpractices as a result of unscrupulous acts by some members of the board of directors... Therefore, it is not only on the part of traders and private entrepreneurs that the prices of commodities are rising... The service organizations connected with trade matters such as import and export work, services sector and collection of taxes are taking bribes according to their ranks....<sup>31</sup>

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30. Suu Kyi, "Freedom From Fear," 3.



In spite of the SLORC's success in attracting private foreign capital and investments so far, the same old economic maladies of the past military command economy—exacerbated by the recent flood of August-September 1991—have plagued the Burmese economy, putting Burma at risk for another cycle of political uprising and ruthless repression.

Whether or not the present developments in Burma will lead to the severance of the military stranglehold of power and the restoration of democracy and human rights in Burma is far from certain. The award of the 1991 Noble Peace Prize to Daw Aung San Suu Kyi will definitely keep popular demand for "freedom from fear" alive and will generate further international pressure for restoration of democracy in Burma. What is certain is that the enormous damage inflicted upon the human capital of Burma by three decades of military dictatorship will remain the largest obstacle to future economic development of Burma.

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31. "Firm Action Will be Taken," 2.

