

# **Myanmar Awakening and U.S. National Interests**

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Let me begin by stipulating my answers to several questions that have preoccupied us all over the last several years. We have debated whether any change could take place in Burma. Subsequently we debated whether any real change had transpired. Now we are debating whether enough change has taken place to satisfy us, on the assumption that we will decide the future of Burma. What nine separate trips in a little over two years have taught me are: 1) significant changes have already taken place, 2) reforms are real, and although there are certain to be setbacks, the reform trend seems likely to continue and 3) absent further changes the United States will be playing an increasingly marginal role in a fast-paced drama in which almost all other nations have dropped or suspended sanctions to take advantage of growing opportunities.

### **U.S. National Interests**

The questions with which we should be concerned now are:

1. Why should the US be interested in Myanmar? What long term U.S. national interests are involved in Myanmar?
2. What can the United States do now to encourage the emergence of a new, more peaceful, friendly, and democratic Myanmar?

In real estate three things determine value: location, location, and location. The same can be said of Myanmar. It is strategically situated below China, between the emerging mega-nations of Asia --- India and China. Myanmar has become increasingly reliant on China for weapons, official development assistance, and foreign direct investment. If Myanmar were to become a full-fledged client state of China, this would change the regional strategic balance. To avoid overdependence on any one nation, Myanmar officials over the past year have articulated a more omni-directional foreign policy that is equally friendly toward ASEAN, China, India, Japan, and the United States. Beneath the surface, even when the relationship with China seemed most intimate, Burmese nationalism and antipathy toward the growing number of Chinese nationals working inside Myanmar motivated the Myanmar elite (including most especially the military elite) to look outward, first to ASEAN and now to the entire outside world (including the United States).

The United States could safely ignore more than fifty-five million people, living in a resource rich country the size of Texas, located just above the vital Strait of Malacca, as long as Myanmar was consumed by its own internal conflicts and led by a military elite that largely ignored, and was ignored by most of the outside world. As long as the outside world remained more or less uniformly willing to ignore Myanmar, the United States could afford to overlook Myanmar's strategic and economic potential while concentrating almost exclusively on the odious qualities of the Burmese government. The world has changed. China has risen. The United States has pivoted back to Southeast Asia. Myanmar is now simply more accessible in

political and economic terms than it has been for the last 50 years. Will the United States take advantage of the new opportunities or will it miss the boat?

## **Developments in Myanmar**

Domestically driven political developments in Myanmar have created the first real opportunity in fifty years for the outside world to play a supporting role in Myanmar's development. A new constitution is in place (guaranteeing the role of the military), but the first multi-party parliament since 1962 is passing laws and requiring the government to take notice of its views regarding budgetary allocations. Most political prisoners have been freed, press censorship has been partially relaxed, the government is more responsive to public opinion, and the by-election of April 2012 appears to have been free and fair. Aung San Suu Kyi and President Thein Sein are cooperating with one another, even while Aung San Suu Kyi is rebuilding her party, the National League for Democracy, with an eye toward the election of 2015. A process of democratization is well underway in Myanmar but is far from complete. There is remarkable unanimity of opinion inside Myanmar that the process is real and has gone so far that it would be difficult to reverse.

After having been wracked by forty insurgencies since the 1940s, the government of Myanmar has now managed to reach ceasefires with most, but not all, of its armed internal competitors. Exports of natural gas and gems have indicated to the government that it can survive the sanctions regime, but contact with the burgeoning economies around Myanmar have convinced a significant segment of the Myanmar elite to join the race toward a more prosperous modernity. The military remains by far the most powerful sub-elite in the society. The army is not uniformly supportive of the reforms themselves, but as long as President Thein Sein's policies restore Myanmar's respectability, increase domestic prosperity and maintain internal stability, the officer corps remains unlikely to oppose the President's policies overtly as long as the emerging, semi-democratic system does not attempt to take away the military's wealth and privileges.

The economy is expected to expand by more than 5% in 2012. Economic reforms are at least as important as political ones. The dual track exchange rate has been abolished and replaced with a managed float on April 1, 2012. Privatization under the prior government benefitted individuals who were well connected, but under President Thein Sein the "cronies" are less favored, and even the cronies are adapting to the changed political situation. A new foreign investment law was drafted in March 2012, allowing joint ventures as well as 100% foreign ownership, and granting protection against nationalization. With 80% of the world's teak supply, 90% of its rubies, and the tenth-largest natural gas reserves in the world, the economy seems poised for sustained growth if it can gain full access to trade. The negative impact of sanctions fell most heavily on those producing items that could not be readily smuggled. For example, textile production initially fell by 30% and resulted in significant layoffs of textile workers.

Over the past year the price of hotel rooms in Yangon has increased by 50%, and the hotels are filled with Chinese, European, Japanese, and Korean tourists, businesspersons, aid officials, and foundation representatives, all of whom sense that there will be attractive opportunities in Myanmar in a matter of weeks or months rather than years or decades. Only Americans are conspicuous by their relative absence. If Myanmar can maintain its current economic growth rate for several decades and create significant infrastructure connecting itself by road, rail, and pipeline to China and to Thailand, Myanmar will become a land bridge between India, China, and the rest of peninsular Southeast Asia and increased its strategic importance even before its GDP/capita catches up with its economic potential.

### **Human Resource Limitations**

Myanmar, like Indonesia under the early New Order and Vietnam after the initiation of its reforms, seems to be “getting the policies right,” and this should generate significant increases in wealth. There are two very real limiting factors: lack of capacity in government and the absence of a modern university system. Since 1962, top down, military style government predominated. Almost all decisions were pushed up to the very top because of pervasive fears that initiative would result in dismissal. Rule by decree rather than laws governed outcomes. The judiciary disintegrated and the law schools were closed. As a very well informed Myanmar interlocutor remarked, “Judicial reform must start from scratch. The members of parliament cannot draft laws because there are very few trained lawyers to advise them.” A bevy of changes are needed to economic rules and regulations but there is almost a complete lack of persons who know how to write them. As one of the most important advisors to President Thein Sein said to me, “We know we need to change, but we do not know what we need to change or how to change it.” International expertise, especially in the form of resident advisors, is desperately needed in the short run to prevent the economic momentum from being lost.

University education (once the strongest in Southeast Asia) has been decimated by five decades of military rule and starved of resources during sixty years of civil strife. The anti-government movement was repeatedly led by university students and the military reciprocated by closing the universities for long periods of time and dispersing undergraduate students permanently from the main campuses. Rangoon University, once the finest in Southeast Asia, now consists of a large, decayed, empty campus. Weeds grow everywhere among the closed and crumbling buildings and constitute a metaphor for the country’s intellectual capacity. Expenditures have been so low that books, rudimentary equipment for laboratories, IT facilities, and internationally trained faculty are simply absent. In the health sector, the hospitals and medical schools are short of almost everything from decent beds to sufficiently trained staff, from access to the internet to sustainable standards of excellence. Virtually no ambulance services exist (even in Yangon) and there are very high death rates from accidents because of the poverty of emergency room care and procedures. Appropriately focused technical assistance

could have very substantial impact on the lives of ordinary people who are not to blame for past bad government.

## **The Future of Myanmar**

Transitional democracies have often failed in spite of the world's best wishes. Good will is not a substitute for good policy, and tactics are not a substitute for strategy. What we are witnessing in Myanmar is an attempt at top-down transition to democracy. Because of our past sanctions policies and our inability to unravel them rapidly, we are probably going to be unable to play a leadership role in seizing the best chance democracy has ever had in Burma. The Administration cannot move as fast as it would like because it feels that Congress wants to go slowly, but going slowly may result in the missing the moment for reform.

Everyone wants the reforms to succeed and for Myanmar to become a fully democratic and prosperous nation in the shortest possible time period. The problem is top-down transformations are prone to failure. The task of evolving from rule by a narrow military elite to more open forms of government is inherently difficult and requires exceptional leadership throughout the society as well as favorable external circumstances.

There are at least five factors that must be present for a successful top-down transition to democracy.

1. A middle level of strength and confidence within the government. Governments that are too strong, don't reform, and governments that are too weak can't reform. Reforms can be strangled from within by those who had most of the power and derived most of the benefits from the old way of doing things. Successful reform requires that a growing proportion of the old power holders become sufficiently confident and willing to share increasing portions of the wealth and privileges with wider groups in return for the prospect of a more rapidly growing, distinctly richer, more peaceful and more respected society. The proportion of established and emerging elites who have confidence that reforms can bring about a win-win situation must increase with time in order to sustain the reform movement. In Myanmar, holding the U.S. sanctions in place will make it more difficult to increase the proportion of military officers actively supporting democratic reform. Small things, such as allowing access by the Myanmar military to the U.S. military education system, might increase support for democratic reform.
2. An ability to deliver. Political evolution can fail because the benefits of reform take too long to arrive. Failed policies can kill political evolution whereas successes can supply the political space allowing the reform process to continue to unfold gradually. Early successes in economic and social policies create the political oxygen for

subsequent political evolution. Regimes that improve schools, medical care, and economic livelihoods often buy time for the private sector to deliver increases in overall general welfare (see Asia over the last 40 years). Increased delivery of government services, in combination with private sector job creation, can increase the legitimacy of newly minted democratic institutions. Broad sanctions against investment and constrained access to technical assistance from international institutions (such as the World Bank and the International Finance Corporation) will make it more difficult for President Thein Sein (perhaps in collaboration with Aung San Suu Kyi) to improve hospitals and schools and to increase employment among those most hurt by the sanctions. Allowing targeted investment in schools, hospitals, and employment-producing industries such as tourism and small and medium enterprises would enhance the prospects for success and improve the lives of people in the bottom half of the social structure. Unless economic success arrives in time, the political reformers may be chased from power.

3. Institution building. Political transitions can only succeed if, at the elite level, there is a generalized acceptance of new and permanent “rules of the game.” Successful transition from elitist to more popular forms of government require acceptance of the norm that power can be shared and that at some stage the ruling elite may be peacefully replaced by a new government. For this to become possible, those who are in power must become confident that if they lose direct control of the government their lives and property will continue to be safe. Confidence comes from the rules established to protect and regulate rights. In Myanmar this will take time and will require the establishment of a legal framework as well as the creation from scratch of a judiciary that is willing to constrain any arbitrary exercise of power. Encouraging the rule of law, through aid to judicial reform, could play a vital role in establishing firm “rules of the game” for elites and counter-elites alike. Helping Myanmar to redevelop its law schools and judicial system should be among the highest priorities of the U.S. government rather than being prohibited by sanctions against bi-lateral assistance to the government of Myanmar. Under just-issued modifications by the U.S. Treasury this assistance may become possible but only through non-governmental organizations in a country where there are, as yet, no private universities. A tsunami of foreign investment in a country without an adequate legal framework will create a widespread culture of corruption and/or enhance the importance of a select number of crony capitalists who can provide political protection for the foreign investor. It is much less costly for all concerned if early foreign assistance can help Myanmar to get the regulations right initially before large veto groups have become established within the evolving political system.

4. A patient populace. Without a patient populace that is willing to watch and wait for elites and counter elites to accumulate trust and work out their differences, reform can be killed by excesses of popular participation. Although virtually everyone favors the growth of civil society, a political system can be torn apart if it is the wrong kind of participation (see Weimar Germany). For instance, participation in political parties that accept the rules of the game of political competition has a positive impact on the political system. In contrast political parties dedicated to the overthrow of the entire system usually destroy the reform process.

Politics based exclusively on religious and ethnic identities tend to divide rather than unite and the rise of identity based politics tends to kill off reform. Continued progress toward settlement of the ethnic conflicts that have bedeviled Burma since independence must be given the highest priority. No peace; no rapid economic improvement. No peace; no sustainable political reform.

At present in Myanmar reconciliation and realistic expectations seem to be the dominant mood.

The just-released U.S. Treasury regulations should facilitate increased assistance to civil society organizations in Myanmar but care must be taken that the civil society organizations being funded support the reform process. Those with political aspirations can either reform the system or break the machine, and assistance to civil society should be designed to promote civility across ethnic and religious divisions.

5. Favorable Circumstances. If the world economy were to drop into depression and global trade and incomes collapse, this would obviously imperil political evolution in Myanmar. If, on the other hand, reform starts during a long positive global economic cycle, this helps the process of peaceful reform. Global economic prosperity would benefit reform in Myanmar by enabling elites and counter elites to share an expanding economic pie.

## **A Strategy**

First, the current trajectory in Myanmar is positive and the United States should “take yes for an answer.”

Second, we should do everything possible to encourage reform in the short run rather than taking a minimalist position. Targeted sanctions relief could support reform without permanently relaxing the entire sanction regime. Rather than waiting for conclusive proof that Myanmar had become a democracy, the United States should selectively relieve prohibitions against private investment to encourage the democratization process by demonstrating the tangible benefits of reform (such as increased employment opportunities). Likewise, international institutions should be

encouraged to assess Myanmar's social and economic needs and provide technical assistance to Myanmar's reformers in their attempt to create a more modern and open economy. In addition, we should encourage reformist sentiments in the military elite by offering limited access to the U.S. military education system.

Third, private and public support for judicial reform and the rule of law should be given a very high priority. Getting the rule of law established early is vital to the long term legitimacy of the democratic process. Leaving governance questions until "later" is a false economy. Institution-building takes longer than anything else, and in Myanmar the current reform moment has created an opportunity to get things right at the outset on important topics such as environmentally responsible investment codes and mechanisms for controlling corruption.

Fourth, the U.S. universities should be encouraged to provide technical assistance to Myanmar's universities to relieve human resource shortages especially in economics, law, medicine, and engineering. In addition, the United States should encourage its friends and allies such as Australia, Japan, Korea, Singapore, and others to fund scholarships for executive education and degree programs to bring Myanmar back into global society after decades of isolation.

Fifth, above all do no harm. It has been estimated that there are only a few hundred officials and an equally small number of persons in civil society who are implementing the economic and political reforms. When Myanmar becomes "the darling of the donors" aid agencies and NGOs will pour into the country. To satisfy each of their organizational needs the international NGOs will hire away the best and the brightest, thereby damaging the capacity of Myanmar's government and civil society to continue to push the reform process forward. Aid agencies and NGOs alike should be encouraged to cooperate in establishing a coordinating mechanism to control the harmful effects of "the aid rush."