

# ALTSEAN



ALTERNATIVE ASEAN NETWORK ON BURMA  
campaigns, advocacy & capacity-building for human rights & democracy

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## BURMA'S ECONOMY: MISMANAGEMENT AS USUAL

- **Following the nominal transition to civilian rule, the regime maintains the State Peace and Development Council's (SPDC's) oppressive economic policies.**
- **The military continues to control the bulk of the budget, with no improvement in transparency. One quarter of the 2011-2012 budget is designated for the military. Additionally, the "Special Fund" law grants the Commander in Chief of the military access to unlimited discretionary funds without having to be accountable.**
- **The regime maintains a dual exchange rate system in order to siphon off funds into private accounts, starving the national budget of official revenue and inflating the fiscal deficit.**
- **A process of privatization that began in late 2009 has facilitated the transfer of key economic assets in the hands of cronies while lining the pockets of regime officials. The privatization has resembled a "fire sale" to cronies that include those blacklisted by various governments. Meanwhile, economic competition remains severely constricted.**
- **Despite the suspension of the Myitsone dam project, numerous large scale infrastructure projects continue to spur tensions in ethnic areas, cause massive displacement, and threaten the environment. The projects are not subject to public oversight and provide little benefit to local communities or the economy as a whole.**
- **As a result of increased foreign investment through large scale infrastructure projects, the fall of the US dollar, and the dual exchange rate system, the kyat has inflated in value, hurting export-oriented sectors.**
- **The regime continues to confiscate land and ignore the property rights of Burmese citizens in favor of foreign investors and cronies.**

### Economic mismanagement continues under 'new' regime

Contrary to the regime's rhetoric of substantial economic reform, the Burmese economy remains hostage to the same oppressive and misguided economic policies that have stunted its development for decades. This includes high levels of corruption,<sup>1</sup> low levels of economic freedom,<sup>2</sup> weak rule of law, limited workers' rights,<sup>3</sup> and a dual exchange rate system that limits transparency in budgetary accounting.<sup>4</sup> The cosmetic changes to economic policy under Thein Sein's regime mean that Burma's population will have to continue bearing the burden of the regime's mismanagement, neglect, and plundering of resources.

Economic policy is controlled by the same actors, suggesting that significant policy change cannot be expected.<sup>5</sup> The legislature and cabinet are still dominated by former State Peace and Development Council (SPDC) officials and nearly one quarter of the budget is allocated to military spending.<sup>6</sup>

<sup>1</sup> Transparency International (26 Oct 10) Corruption Perceptions Index 2010

<sup>2</sup> Heritage Foundation (Jan 11) 2011 Index of Economic Freedom

<sup>3</sup> Mizzima News (13 Oct 11) Gov't must put new labor organization law into practice: opposition; Irrawaddy (07 Jun 11) "Burmese Chamber of Commerce Threatens Crackdown on High-Paying Factories."

<sup>4</sup> WSJ (06 Aug 09) Burma Isn't Broke; Heritage Foundation (Jan 11) 2011 Index of Economic Freedom

<sup>5</sup> Economist Investigation Unit (Jun 11) Country Report: Myanmar (Burma) June 2011

<sup>6</sup> Irrawaddy (02 Mar 11) Burma Allocates ¼ of New Budget to Military

Additionally, the “Special Fund” law grants the Commander-in-Chief of the military access to unlimited discretionary funds without accountability.<sup>7</sup>

Despite opening foreign exchange counters in Rangoon, offering depositor’s insurance for small savings accounts, temporarily lowering export taxes and interest rates on loans the regime has not taken any serious steps towards reforming the long standing structural problems that plague the Burmese economy.<sup>8</sup>

Meanwhile, the regime has accelerated a corrupt process of privatization and the development of large scale infrastructure projects that have the potential to make ordinary Burmese worse off than before as a result of displacement, environmental destruction, and armed ethnic conflict. These serious threats to food security and livelihoods are likely to cause a surge in the flow of displaced and impoverished Burmese to neighboring countries. The main beneficiaries of these schemes and projects are the high-ranking regime officials, their cronies, and foreign investors, namely Indian, Russian, Thai, and Chinese firms.

### Dual exchange rate facilitates the looting of national coffers

The Burmese economy continues to utilize two exchange rates: the official and the black-market rates. The official exchange rate pegs the US dollar at approximately 6 kyat per US dollar, grossly overvaluing the local currency which currently trades in the black market (effectively the actual market exchange rate) at around 830 kyat per US dollar. The regime records revenues using the official rate while siphoning off funds into accounts controlled by senior military officials.<sup>9</sup>

On 23 August, Public Accounts Committee Secretary Maung Toe announced that Burma would run a 2.2 trillion kyat (US\$3.2 billion) deficit in the 2011-2012 fiscal year.<sup>10</sup> However, the deficit number is based on revenues taken in at the official exchange rate. If the approximately US\$3.6 billion in revenues were recorded at the market exchange rate, the deficit number would be insignificant or nonexistent.<sup>11</sup> The distorted exchange rate severely limits transparency in the regime’s already opaque fiscal accounts and is a leading cause of the regime’s mounting fiscal deficit.<sup>12</sup>

Market rate: 1 US dollar = 830 Kyat  
Official rate: 1 US dollar = 6 Kyat

For every dollar earned from resources:

Market rate (\$1 x 830)	K 830
Sent to national accounts	K 6
Kept by military leaders*	K 824

\*Signatories of these accounts are Sr Gen Than Shwe, Vice Sr Gen Maung Aye, and Gen Tin Aung Myint Oo (current VP).

### Privatizations: Cronies reap, public weeps

The regime continues to use privatization to transfer state assets to businesses affiliated with top military leaders. In effect, the state monopoly sells off its assets to a private monopoly.<sup>13</sup> The privatization process has been highly corrupt, with hardly any open bidding in the sale of state assets worth billions of dollars.<sup>14</sup>

<sup>7</sup> Irrawaddy (04 Mar 11) Than Shwe Grants Himself Power to Access 'Special Funds'; AP (04 Mar 11) Myanmar democracy group slams military fund; AP (04 Mar 11) Myanmar democracy group slams military fund; Irrawaddy (04 Mar 11) Than Shwe Grants Himself Power to Access 'Special Funds'; DVB (07 Mar 11) Politicians decry military budget

<sup>8</sup> Irrawaddy (20 Sep 11) Burmese Banks to Open Bureaus de Change; Sean Turnell (Jul 11) Reform and its Limits in Burma's Fiscal State

<sup>9</sup> Sean Turnell (Jul 11) Reform and its Limits in Burma's Fiscal State

<sup>10</sup> Irrawaddy (23 Aug 11) Burma to Run US \$3.2 Billion Deficit

<sup>11</sup> Sean Turnell (Jul 11) Reform and its Limits in Burma's Fiscal State

<sup>12</sup> WSJ (06 Aug 09) Burma Isn't Broke; Irrawaddy (23 Aug 11) Burma to Run US \$3.2 Billion Deficit

<sup>13</sup> BEWG (Jun 11) Burma's Environment: People, Problems, Policies; Economist Investigation Unit (Jun 2011) Country Report: Myanmar (Burma) June 2011; Irrawaddy (22 Jan 10) Junta puts more state-owned properties up for sale

<sup>14</sup> Sean Turnell (Jul 11) Reform and its Limits in Burma's Fiscal State

- **Late December 2009:** The SPDC awarded a major contract for the construction of two dams for hydro-power plants to Htoo Trading, owned by the regime's favored crony Tay Za. Htoo Trading became the first private Burmese company to be awarded such a contract in the hydro power sector.<sup>15</sup>
- **21 January 2010:** Htoo Trading subsidiary Information Technology Central Services began selling SIM cards for 800 MHz CDMA mobile phones, for which they have exclusive rights.<sup>16</sup>
- **22 January 2010:** The SPDC's privatization commission announced the privatization of more than 100 state-owned buildings and factories, including former Supreme Court buildings and the Inspector General's Office in downtown Rangoon.<sup>17</sup>
- **26 January 2010:** SPDC Energy Ministry officials announced the privatization all the regime's 256 gas stations across Burma by 31 March.<sup>18</sup> Three days before the announcement, Tay Za established the Fuel Oil Importers and Distributors Association (FOIDA) to oversee the privatization.<sup>19</sup> Tay Za is chair of the FOIDA, while Aung Thet Mann, son of then third ranking SPDC member Gen Thura Shwe Mann, is vice-chair.<sup>20</sup>
- **1 February 2010:** Weekly journal The Voice reported that the regime will hand over the operation of three Rangoon port terminals to private enterprises.<sup>21</sup> About 90% of Burma's imports and exports come through Rangoon's ports.<sup>22</sup>
- **3 February 2010:** Weekly journal 7 Days reported that Myanmar Airways International would sell 80% of its shares along with corporate control over management to Kanbawza Bank. Kanbawza Bank owner Aung Ko Win is on UK and EU sanctions lists and was close to then SPDC Vice Sr Gen Maung Aye.<sup>23</sup>
- **May 2010:** The regime gave four cronies, Tay Za, Zaw Zaw, Nay Aung, and Chit Khaing, the right to operate private banks.<sup>24</sup>
- **10 June 2010:** Some 250 newly privatized petrol stations opened throughout Burma. The main owners of the new gas stations were the SPDC Army-controlled Union of Myanmar Economic Holdings, the junta-sponsored USDA, and companies run by regime cronies such as Tay Za's Htoo Trading and Stephen Law's drug empire-financed Asia World.<sup>25</sup>
- **April 2011:** The regime sold 291 state-owned properties for US \$800 million. Many of the properties were sold to regime cronies Tay Za, Steven Law, Zaw Zaw, and Chit Khaing.<sup>26</sup>
- **August 2011:** Four companies with connections to the regime, including E-Lite Tech owned by Tay Za and Asia Media Link and International Group of Entrepreneurs owned by Union Solidarity and Development Party leader Aung Thaung's sons, were given the right to sell four million GSM phones and to construct communication bases throughout the country.<sup>27</sup>

<sup>15</sup> Irrawaddy (04 Jan 10) Tay Za granted electricity contract; Irrawaddy (07 Jan 10) Regime Privatizing to Retain Control of Resources; Xinhua (05 Jan 10) Myanmar encourages private companies to implement hydropower projects

<sup>16</sup> Mizzima News (22 Jan 10) Businesses accuse Htoo Trading of unfair monopoly

<sup>17</sup> Irrawaddy (22 Jan 10) Junta puts more state-owned properties up for sale

<sup>18</sup> Reuters (26 Jan 10) Myanmar to privatise fuel retailing -energy official; DPA (25 Jan 10) Myanmar to privatize all fuel stations by March, source says; Mizzima News (25 Jan 10) Junta to privatize oil industry; DVB (26 Jan 10) Burmese junta to privatise gas stations

<sup>19</sup> Reuters (26 Jan 10) Myanmar to privatise fuel retailing -energy official; DPA (25 Jan 10) Myanmar to privatize all fuel stations by March, source says; Mizzima News (25 Jan 10) Junta to privatize oil industry; DVB (26 Jan 10) Burmese junta to privatise gas stations

<sup>20</sup> Reuters (26 Jan 10) Myanmar to privatise fuel retailing -energy official; DPA (25 Jan 10) Myanmar to privatize all fuel stations by March, source says; Mizzima News (25 Jan 10) Junta to privatize oil industry; DVB (26 Jan 10) Burmese junta to privatise gas stations; Irrawaddy (27 Jan 10) Burmese Tycoon Takes Over Fuel Imports and Sales; Xinhua (27 Jan 10) Private enterprises to run fuel filling stations in Myanmar

<sup>21</sup> Reuters (08 Feb 10) Myanmar to privatise Yangon port facilities; WSJ (18 Feb 10) Myanmar Moves to Privatize Key State Enterprises; Irrawaddy (06 Feb 10) Burma Sell Off Echoes Russia's Carve Up by the "Oligarchies"; DVB (09 Feb 10) Sweeping privatisation in Burma continues; Xinhua (01 Jan 10) Myanmar to privatize port terminals handling business

<sup>22</sup> Reuters (08 Feb 10) Myanmar to privatise Yangon port facilities; Irrawaddy (06 Feb 10) Burma Sell Off Echoes Russia's Carve Up by the "Oligarchies"; DVB (09 Feb 10) Sweeping privatisation in Burma continues

<sup>23</sup> WSJ (18 Feb 10) Myanmar Moves to Privatize Key State Enterprises; Mizzima News (03 Feb 10) Burma's national airline sold to private bank; Irrawaddy (03 Feb 10) Western-sanctioned Kanbawza Bank Buys Airline; Xinhua (03 Feb 10) Myanmar Airways International To Be Privatized; Flightglobal (10 Feb 10) Myanmar's MAI set for ownership change as Singaporeans exit

<sup>24</sup> Xinhua (17 May 10) Myanmar to grant giant private entrepreneurs to run banks; Irrawaddy (19 May 10) Six Burmese Businessmen Seek Private Banking Licenses; DVB (20 May 10) Burma's banks set for a shakeup; Irrawaddy (31 May 10) Four Businessmen Granted Private Bank License

<sup>25</sup> Irrawaddy (10 Jun 10) Private Gas Stations Open in Burma

<sup>26</sup> Myanmar Times (04 April 11) Govt property auction nets K800b

<sup>27</sup> Irrawaddy (01 Aug 11) Govt. Cronies to Distribute GSM Phones

- **August 2011:** The regime's privatization of the liquid petroleum gas (LPG) market did not lead to a normalization of LPG prices. The four crony-owned companies given the rights to sell LPG have kept prices artificially high.<sup>28</sup>

## Development profits earned from labor exploitation and human rights abuses

Between April 2010 and January 2011 Burma received US \$19.4 billion in Foreign Direct Investment (FDI) - over a 60 fold increase from the 2009-2010 fiscal year when the country received US\$302 million. The majority of the new investment was the result of oil, gas, electricity, and mining projects.<sup>29</sup> These investments were capital intensive and increased the market value of the kyat without trickle down benefits to the general Burma population. Wealth remains concentrated at the top while locals living near project sites have not had access to skilled jobs.<sup>30</sup> As a result, the Burmese people receive few benefits and are left to deal with inflated currency, increased violence, and environmental degradation associated with large-scale infrastructure projects.

## SEZs and large scale development projects perpetuate abuses

On 27 January 2011, the SPDC enacted a Special Economic Zone (SEZ) Law to provide incentives for foreign investment in Burma with a particular focus on manufacturing, processing, and information technology sectors.<sup>31</sup> The regime also facilitated foreign investment in many large scale power, petroleum, and infrastructure projects.<sup>32</sup> The continued development of these projects led to numerous human rights violations, environmental degradation,<sup>33</sup> and an increase in tensions between the regime and ethnic armed groups.<sup>34</sup>

In November 2010, Italian-Thai Development signed an US\$8 billion contract to develop a large scale infrastructure project in the Tavoy SEZ.<sup>35</sup>

- **January:** it was reported that property values in the Tavoy area increased ten fold within a month of the launch of the port, thereby increasing the pressure on locals in the area to move.<sup>36</sup>
- **February:** It was reported that Ital-Thai Development forcibly relocated 3,000 locals living in 11 villages near the Tavoy SEZ.<sup>37</sup>
- **February:** Local fishermen expressed concerns over the Tavoy project's negative influence on their ability to fish in the area.<sup>38</sup>
- **Late February:** Workers in the Tavoy SEZ went on strike to protest poor working conditions, long working hours, low wages, and unequal pay with Thai workers.<sup>39</sup>
- **June:** Italian-Thai Development President Premchai Kanasuta admitted that the Tavoy project would displace over 10,000 people.<sup>40</sup>
- **Early October:** Local administrators coerced plantation owners in the Tavoy SEZ to sell 123 acres of their land to the regime for little compensation.<sup>41</sup>

In Arakan State the building of the Shwe oil and gas pipelines has been accompanied by numerous cases of land confiscation, forced labor, arbitrary arrests, and torture.<sup>42</sup> China National Petroleum Corporation has the right to buy gas from natural gas fields off Arakan State and build the 1,800-km pipeline to

<sup>28</sup> Myanmar Times (10 Oct 11) Privatized LPG not market rate: traders

<sup>29</sup> Economist Investigation Unit (Jun 2011) Country Report: Myanmar (Burma) June 2011

<sup>30</sup> "Myanmar Kyat Exchange Rate Issue" U Mynt,

<sup>31</sup> Myanmar Times (14 Feb 11) SEZ law sparks industrial zone interest, but not for all; Mizzima News (17 Feb 11) Burma passes special economic zone law for investors.

<sup>32</sup> Economist Investigation Unit (Jun 2011) Country Report: Myanmar (Burma) June 2011

<sup>33</sup> BEWG (Jun 2011) Burma's Environment: People, Problems

<sup>34</sup> "Sold Out: Launch of China pipeline project unleashes abuse across Burma"

<sup>35</sup> Mizzima News (10 Nov 10) Thai engineering giant signs Tavoy port deal

<sup>36</sup> Myanmar Times (03 Jan 11) Foreign investment will impact property market

<sup>37</sup> Myanmar Times (14 Feb 11) Dawei development stirs debate

<sup>38</sup> Myanmar Times (14 Feb 11) Dawei development stirs debate

<sup>39</sup> Xinhua (23 Feb 11) Myanmar absorbs 3.56 bln USD of foreign investments in 3 months

<sup>40</sup> Straits Times (08 Jun 11) Myanmar port to displace 10,000 people

<sup>41</sup> Mizzima News (07 Oct 11) Authorities of Dawei deep seaport threaten land owners to sell at low price

<sup>42</sup> Earth Rights International (March 2011) The Burma-China Pipelines: Human Rights Violations, Applicable Law, and Revenue Secrecy

transport it to China through Burma. Local farmers have lost land and livelihoods as a result of the project. Burmese laborers work on the Shwe pipeline project as unskilled hard-labor with an average pay of US\$3 per day. The project has provided scant job training or stable employment for local workers.<sup>43</sup> In February, 30 workers on the Shwe pipeline were fired after complaining that they were being paid half of what they were promised in addition to not being paid for working overtime.<sup>44</sup> Land confiscation has also been widespread as a result of the project. [See below *Land confiscation continues*]

In January 2011, it was reported that the Tigyit coal mine in Taunggyi Township, Shan State, run by Thai and Russian companies, had led to the displacement of at least 321 inhabitants of two villages. Each displaced villager was compensated with less than US\$20.<sup>45</sup>

### **Land confiscation continues**

The 2008 constitution identifies the state as being the ultimate owner of all land in Burma. Antiquated laws give the regime the right to take over any land that it believes is being utilized unproductively.<sup>46</sup> As a result, local people are extremely vulnerable to land confiscation. Moreover, the Tatmadaw have carried out land confiscation to build training camps and barracks as well as for income generating projects.<sup>47</sup> Given that 70% of the population lives in rural areas and engages in the agricultural sector,<sup>48</sup> land confiscation severely undermines people's ability to sustain their livelihoods. Land confiscation has been well-documented over the years and continues to run rampant under the 'new' regime. In the second session of Parliament, and despite all evidence to the contrary, regime ministers denied the practice of land confiscation with Defense Minister Lt Gen Hla Min claiming the Tatmadaw had never confiscated land.<sup>49</sup>

#### **Land confiscation for military use:**

- Between 2000 and 2011, it was estimated that the Tatmadaw had confiscated 5,328 acres of land, mostly tea farms, in 10 townships in Shan State alone. The confiscated land was used to expand Tatmadaw military camps and to support their livelihoods.<sup>50</sup>
- From December 2010 to May 2011, the regime's Navy confiscated over 1,000 acres of land on Kywe Thone Nyi Ma Island, Yebyu Township, Tenasserim Division. A further 3,000 acres of land had also been marked for further confiscation. No compensation was provided. The land was to be used to for military training and barracks construction.<sup>51</sup>

#### **Land confiscation for infrastructure projects:**

- In October 2009, approximately 200 acres of land was confiscated on Rambree Island, Arakan State to make way for the port of the Shwe Gas project's construction of an onshore gas terminal complex.<sup>52</sup>
- In October 2010, Tatmadaw IB 144 confiscated land for the construction of the Shweli dam in Namhkam Township, Shan State. Chinese companies Hwarname and Hydro China Khwemin Engineering hold the contract for the dam's construction.<sup>53</sup> Asia World's construction of the road leading to the Shweli dam site also led to land confiscation with minimal or no compensation to locals.<sup>54</sup>

#### **Land confiscation for commercial use:**

- Since 2007, it was estimated that 3,598 acres of land had been confiscated in the Hukawng Valley Tiger Reserve in Kachin State to make way for the Yuzana Company's bio-fuel plantation project, forcing formerly self-employed locals to turn to wage-labor for their livelihoods.<sup>55</sup>

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<sup>43</sup> Shwe Gas Movement (Sep 2011) Sold Out: Launch of China pipeline project unleashes abuse across Burma

<sup>44</sup> Shwe Gas Movement (Sep 2011) Sold Out: Launch of China pipeline project unleashes abuse across Burma

<sup>45</sup> DVB (11 Jan 11) Major coal mine 'poisoning rivers'

<sup>46</sup> Burma Environmental Working Group (Jun 11) Burma's Environment: People, Problems, Policies

<sup>47</sup> Ta'ang Students and Youth Organization (October 2011) Land Confiscation Report – Working Paper

<sup>48</sup> US Institute of Peace (Jun 10) The Economy of Burma/Myanmar on the Eve of the 2010 Elections

<sup>49</sup> NLM (02 Sep 11) Second regular session of First Amyotha Hluttaw continues for ninth day

<sup>50</sup> Ta'ang Students and Youth Organization (Oct 11) Land Confiscation Report – Working Paper

<sup>51</sup> Human Rights Foundation of Monland (Aug 11) Burma's Navy Attacks on Civilians' Livelihood

<sup>52</sup> Shwe Gas Movement (Sep 11) Sold Out: Launch of China pipeline project unleashes abuse across Burma

<sup>53</sup> Palaung Women's Organization (Oct 11) Still Poisoned: Opium cultivation soars in Palaung areas under Burma's new regime

<sup>54</sup> Palaung Women's Organization (Oct 11) Still Poisoned: Opium cultivation soars in Palaung areas under Burma's new regime

<sup>55</sup> Kachin Development Networking Group (Aug 10) Tyrants, Tycoons and Tigers