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From Sanctions to Engagement

The Need for a New Policy Towards Myanmar

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After close to two decades of sanctions against Myanmar, it is time to acknowledge that this strategy has not done much to promote positive development in Myanmar. Instead, it has rather served to strengthen the regime, thwart economic development, and isolate Myanmar from any Western political influence. What is now needed is a comprehensive and long-term strategy of pro-engagement, aiming to encourage and reinforce positive political and economic development.

It is increasingly clear that sanctions are a blunt, ineffective, and in many cases, counter-productive foreign policy tool. A number of researchers have evaluated the success rate of sanctions, with some putting it at about one third, while others go as low as five percent. Judging from the past 20 years, nothing seems to indicate that the sanctions against Myanmar would offer any different result.

Historically, sanctions have tended to be most effective when a number of conditions are met: there is a relatively modest goal, the target country is economically weak and politically unstable, there is substantial trade conducted with the target country, and the sanctions are imposed quickly and decisively.

Of these conditions, Myanmar only fulfils one for certain; being economically weak. The current sanctions are not multilaterally enforced, which is likely to continue in the future, as neither China nor ASEAN seem willing to impose sanctions. Neither have the sanctions been swift nor decisive, having been in place, in one form or another, for close to 17 years.

Unrealistic Goals

In regards to the stated aims, neither the U.S. nor the EU sanctions can be said to be modest. On the contrary, they are overly ambitious, with the U.S. Burmese Freedom and Democracy Act of 2003, for example, calling for "substantial progress toward implementing a democratic government." The stated purpose of the sanctions seems to stop at nothing less than regime change, essentially calling for the ruling State Peace and Development Council (SPDC) to abolish itself. Unsurprisingly, the regime has, so far, not complied.

Whatever leverage the West might have had in terms of cutting trade has certainly been lost by now, with not much to show for it. The reality is that the regime will continue to have regional trade partners to turn to, effectively undermining any sanctions – smart or not – that the West throws at them. It is extremely unlikely that Myanmar's regional neighbors will join the sanctions, given ASEAN's current strategy of engagement and the regional power of balance, with China and India as the main players.

Although democratic reform would be a godsend for the country, it is not realistic to hope for it in the near-term. The SPDC has been firmly in power for over 20 years, adding to over half a century of continuous military rule. Despite the uprisings of 2007, and several ongoing, low intensity ethnic conflicts, Myanmar is as politically stable as ever. The regime has recently advanced a highly criticized and deeply flawed election with the purpose of embedding the current regime in a constitutional framework, under the auspices of their self-proclaimed roadmap to democracy. Given the current conditions, it is safe to assume that no reform will take place without the cooperation of the regime.

A sobering comparison can be made to the sanctions against Libya, implemented by the UN in 1993, with the clear aim of making the country hand over two suspects in the Lockerbie bombing. The sanctions were multilateral, threatened to cut off trade with major trading partners and had a clear, and realistic intention. Libya was also ready to negotiate more or less immediately although it took some seven years for a deal to be finally worked out.

Overview of the Sanctions

The sanctions against Myanmar are extensive and have been imposed by several Western countries such as Australia, New Zeeland, Canada, the U.S. and the EU. They range from visa restrictions on senior military officers to suspension of all bilateral aid, other than humanitarian assistance.

The most extensive sanctions are imposed by the U.S. and the EU. The U.S. imposed sanctions on Myanmar in 1993 starting with an arms embargo that expanded in 1997 to include all new investments. Following this, the U.S. has also banned imports from Myanmar with the exception of teak and gems which originate from Myanmar, but has been processed in another country. The Burma Freedom and Democracy Act further restricted financial transactions, froze the assets of financial institutions and extended visa restrictions on officials in 2003. In 2008, the U.S. also imposed a ban on jadeite and rubies which were mined in Myanmar.

The EU adopted its common position on Myanmar in 1996, which has since been continuously renewed. The sanctions include an arms embargo prohibiting the sale, supply, transfer, and export of arms and equipment that could be used for internal repression as well as technical assistance. They also prohibit financial services to some state controlled companies and freeze any assets of the individual members of the Government of Myanmar. The sanctions have also suspended all non-humanitarian and non-development programs, with the exception of programs related to good governance, human rights, education and healthcare. In 2007 the EU imposed further sanctions introducing a partial trade embargo on timber, metal and precious stones. In addition to the sanctions, the EU has also excluded Myanmar from its Generalized System of Preferences (GSP) since 1997, under which developing countries get preferential tariffs in the EU in order to boost export revenue and reduce poverty.

In stark contrast to the strict sanctions imposed by the EU and the U.S., ASEAN has instead focused on engagement with the Myanmar government, and included the country as a member in 1997. ASEAN's aim has been to encourage economic reforms in the country with the intention that it would also promote democratic and political change.

Besides the bilateral sanctions, Myanmar is also the target of campaigns carried out by western NGOs, which has included a boycott on tourism and companies whose dealings with Myanmar is not covered by the current sanctions, as well as lobbying for the EU to implement even tougher sanctions.

Additionally, there are no International Financial Institutions (IFI) currently engaged in Myanmar. The World Bank has suspended its economic aid and has not provided the country with a loan since 1987, neither is the IMF nor the Asian Development Bank (ADB) providing any technical assistance.

A Flawed Logic

The logic behind economic sanctions is inherently flawed. In theory, sanctions will put enough economic pressure on the population so they in turn will turn on their government – thereby leading to the desired change, to the benefit of either the population, the country behind the sanctions, or both. However, this presupposes the ability of the population to hold their government responsible. In the case of extremely authoritarian regimes such as the SPDC, this is an unreasonably heavy burden to put on an impoverished population. It also assumes that the population has an economic margin where upon pressure can be applied. Again, this is clearly not the case in Myanmar.

Furthermore, there is also a deeply troubling ethical aspect of applying sanctions against authoritarian regimes; in order to reach the desired effect, sanctions are essentially pressuring innocent people in order to get to a regime which these people have neither control over, nor are responsible for. Even if the intended goal is to the benefit of the population, hurting them in order to help them is troubling to say the least. As it stands now, the sanctions are only managing to apply the hurt, but utterly failing at providing help.

It has been widely documented that comprehensive sanctions, and especially economic sanctions, imposed on military regimes are often both counter-productive and harmful for the civilian population. In the case of the multilateral comprehensive sanctions against Iraq, the effect was disastrous for the civilian population, causing among other things, an increase in child mortality rate due to a lack of purified water and undernourishment. Another detrimental effect was a reversal of advances in education and literacy. A UNDP field office report stated that because of the sanctions, the country had gone from being "relative affluent to massive poverty." In the end, the sanctions did not succeed at all in overturning the regime, which was instead done by military intervention.

Not only do the sanctions have an effect while being implemented, but there is also a risk of lingering consequences even after they have been lifted. This was seen, for example, in Burundi where regional economic sanctions caused commerce and industry to grind to a halt, resulting in high unemployment and sinking incomes, which further aggravated the humanitarian effects of the civil war.

Rather than weakening authoritarian regimes, sanctions instead run the risk of having the opposite effect as well as providing the regime with a propaganda instrument easily used to rally the population against the country behind the sanctions. Additionally, sanctions can conveniently also be used by these regimes as a scapegoat for any internal policy failures, pushing any chance of real progress even further away.

Smart Sanctions Might Not be So Smart After All

One might be tempted to think that what is needed is rather a restructuring of the sanctions: a refinement of the scope to avoid hurting the population, and getting Myanmar's regional neighbors onboard in order to guarantee their effectiveness.

In order to avoid the dire humanitarian consequences of comprehensive sanctions, smart sanctions claim to resolve this by targeting the ruling elite and other beneficiaries by freezing their assets, limiting their ability to travel, and only applying financial sanctions rather than trade sanctions. Limited trade sanctions against specific goods, such as the EU ban on timber, gems and minerals, could also be said to be smart as the intention is to target sources of revenue for the regime. Essentially, the idea behind smart sanctions is to discourage an undesirable behavior by pressuring the regime economically and politically.

In theory, limiting the pressure to only apply to the regime might seem like a good idea. In practice however, financial sanctions will inevitably also have an effect on trade, thereby limiting the available resources. As the ruling elite will first and foremost make sure to look after their own interests – and distribute the available resources accordingly – any pressure on the regime will thus be distributed down onto the population. Another point to note is that sanctions increase the incentive of smuggling; a practice commonly run by the ruling elite or people connected with them, as well as criminal organizations, which in the end usually provides the regime with an alternative, and off-budget, source of revenue.

Finally, neither does smart sanctions do away with the issue of a stigma, which makes legitimate businesses shy away from the country because of the bad PR associated with it, or because of uncertainties regarding the current sanctions as well as the potential for future sanctions that would cover their specific trade. For example, several European banks have simply refused to deal with Myanmar altogether just so they do not have to bother with the sanctions, even though these dealings wouldn't necessarily fall under the sanctions.

The Effect of the Sanctions

If we look at the actual effects of the sanctions, it is clear that they have failed to achieve any of their stated aims. Nobel Laureate Aung San Suu Kyi has indeed been released but this has likely more to do with the passing of the recent election, after which the regime no longer sees her as a threat. There are still over 2,000 political prisoners held in prison. The new constitution and the recent elections also bear witness to the firm intent of the regime to stay in power, rather than implementing good governance or any sort of democratic reforms.

Although Myanmar has been able to replace the trade lost to the West with regional trade partners, the effects of the sanctions on the ground have been substantial. Following the start of the U.S. trade sanctions in 2003 for example, the garments industry more or less collapsed, leaving several thousand of workers with no jobs, many of whom ended up in the sex industry in Thailand. The EU ban on imports of gems and lumber has also forced businesses out of the country. The cutting and setting of gems, which used to be done in Myanmar, is now done in Thailand where they are then legally imported to the EU as the ban only affects the raw material. The only real effect being the loss of jobs, causing economic deprivation and to deny legitimate Myanmar businesses income from selling value added products.

One must also consider the effect of withholding foreign investments and trade from the country, although this is by its very nature purely hypothetical reasoning. Nevertheless, it is safe to assume that western investments and access to two of the world's largest markets is likely to have made a substantial difference to the Myanmar exporting industry over the years.

On a political level, the sanctions have only served to entrench the regime even further, as well as given it a scapegoat for the economic hardship and its own incompetence of doing anything about the situation. The uncompromising attitude of the EU and the U.S. towards Myanmar has also driven the country into the arms of the Chinese, who have a substantial geostrategic interest in the region and are only too happy to pick up the where the West left. If the EU and the U.S. have any intention of countering the growing Chinese influence in the region and promoting western political ideals, then the policy towards Myanmar has carried us in the completely opposite direction. By choosing not to interact with Myanmar, the West has excluded itself from any sort of actual influence it could have had through political, economic and social engagement.

An Alternative Approach – Engagement as a Means of Bringing Positive Change

So far the Western policy towards Myanmar has been to push for a desired outcome through the enforcement of negative sanctions; the idea being to get the regime to implement democratic reforms through economic pressure on the country as a whole, including a largely innocent population – essentially a classic case of stick strategy. What have been completely missing so far are the carrots. As argued above, the standard version of economic sanctions as a foreign policy tool is corrupt, both empirically and ethically; running a high risk of severe consequences for the population but without any substantial chance of success.

The potential for democratic reform in Myanmar in the near-term is slim to say the least, and by now it should be clear that economic and political pressure on the regime has not led to any progress to speak of. Bearing this in mind, the West should instead consider alternative approaches which would work better given the actual circumstances.

It is undisputable that the root cause for the widespread poverty and the dismal economic situation is the ongoing economic mismanagement by the military regime for the past 50 years. To give an idea of the lack of economic development, the share of agriculture of GDP in 1938 was 48 percent. Seventy years later that share was 43 percent and employing more than half of the labor force.

Economic engagement is by no means a magic bullet and one should not expect for there to be any substantial political improvement towards democratic reform. However, that does not entail that such a strategy is of no benefit at all. On the contrary, an increase in investments would provide people with much needed jobs, fight poverty and foster a middle class with political interests and ambitions. If there is to be any hope for political change in Myanmar in the long term, these are much necessary prerequisites.

Development Aid / Official Development Assistance

The western isolation of Myanmar also shows itself in the amount of Official Development Assistance (ODA) the country receives each year. In 2007, ODA was US$4 per capita. For 2008 this increased to US$11 largely because of the international relief aid after the Cyclone Nargis. Even then, it is still dwarfed by the ODA to Myanmar's regional neighbors. Per capita, Vietnam received US$29, Cambodia US$46, and Laos US$68, all in 2007.

The problem is not only limited to insufficient aid, but is also tied in with the fact that neither the World Bank, the International Monetary Fund (IMF) nor the Asian Development Bank (ADB) are currently assisting Myanmar in any way, which has been a core factor concerning capacity building in the three countries mentioned above. What is needed is thus not only increased ODA to a level that actually corresponds to Myanmar's needs, but a comprehensive approach that includes help and assistance from IFIs, such as the World Bank and the IMF, together with FDI.

The rural sector in Myanmar is currently stretched to the breaking point, with rising household indebtness and an increasing number of landless relying on seasonal farm work. During the off-season however, there is little casual wage employment for them to partake in. Increased economic engagement would do much to relieve this situation by providing non-agricultural jobs for the landless.

Myanmar is also in dire need of international assistance in order to improve and reform the agricultural sector; providing credit to farmers, introducing modern aid such as fertilizers, pesticides, and water management, and facilitating land reform. Given the SPDC's incapability of running the country, this is not likely to be done without structural aid from International Financial Institutions.

Foreign Direct Investment (FDI)

A telling comparison can be made to Vietnam, another repressive and undemocratic regime in the region, but with a quite different approach to economy. It has had a comparable level of poverty in the recent past but has, since the mid-eighties, embarked on a path of economic reform, with an annual GDP growth of 6-8 percent for the past decade.

In 1995, FDI to Myanmar was US$280 million. In 2008, it was roughly the same, at US$283 million. During the same period, FDI to Vietnam grew from US$1,780 million to US$9,579 million. This is not in any way intended as a defense of the regime in Vietnam, but rather a sober comparison to a country which although it has an undemocratic regime, does not have an impoverished and starving population. FDI is obviously not the whole picture here, but it should serve as food for thought in regards to what approach would be the best for the Myanmar people, of which 32 percent fall below the national poverty line, according to its own official data.

Besides providing jobs and salaries, western FDI would also carry with it a number of positive side-effects, such as increased economic, social and cultural contact with the West. An inflow of knowledge, capital and skills would provide Myanmar with a chance to develop the competitiveness of both its industries as well as its work force.

Myanmar has for example begun to belt out a substantial number of IT technicians per year, with the hope of establishing a viable IT sector. However, focus has so far been on quantity rather than quality, which has limited the competitiveness of the sector compared to its neighbors. With foreign investments, these technicians would likely get a chance to refine and improve their knowledge, thereby also increasing their competitiveness in the region.

Tourism

Working in tandem with official sanctions, several NGOs have advocated a tourism boycott against Myanmar. Although certainly carried out with the best of intentions, advocating against tourism has been counter-productive as it mainly damages Small and Medium Enterprises (SMEs), such as taxi drivers, souvenir sellers and guest house owners, and, to a lesser extent, government-owned companies.

Recently, NLD spokespersons have also acknowledged as much – with western NGOs following suit – and is no longer discouraging tourists to visit the country, nevertheless with the caveat that package tours still ought to be boycotted. The reason being that these tours rely on resorts and hotels built and owned by the regime, thereby supporting them financially. Although this is likely to be true to some extent, it is blind to the fact that these hotels also provide much needed jobs and income to ordinary Myanmar people, and that tourists are likely to spend money on non-government owned business as well.

Neither is it a zero-sum game, where package tours compete and "steal" tourists from non-government businesses. Rather, they are attracting a specific segment of tourists who are unlikely to have stayed at alternative venues in Myanmar. Instead these tourists would have chosen a package tour in Thailand or elsewhere. The potential for the tourism sector to grow is also likely to be substantial, given the number of tourists that visit the region each year. Thailand, for example, receives 16 times as many tourist annually compared to Myanmar, and Vietnam about 4 times as many.[1] Not only does this deprive Myanmar of much needed income, but also of the positive effects from social and cultural interaction with the global community.

Environmental Aspects of Engagement

As mentioned above, the EU sanctions currently ban the import of timber, gems and metals from Myanmar. However, this has not had much of the intended effect as the regime has little problem finding regional trade partners. The ban also does not include finished products, which means the refining industries have only relocated to the bordering countries, thereby withholding revenue from Myanmar businesses.

The SPDC Northern Command also acquires a substantial amount of off-budget revenue from illegal logging in northern Myanmar, much of which is carried out in an environmentally harmful and unsustainable way. Although exports of illegal timber have decreased since 2005, it is estimated that it still accounts for about 50 percent of timber exports from Myanmar to China. This improvement has lit-

[1] Based on pre-Cyclone Nargis data as there was a significant drop in tourists to Myanmar that year (2008).

tle to do with the sanctions however, but is rather the effect of tougher Chinese policies on their logging companies in Northern Myanmar. It is clear that the ban on timber has had little effect on neither regime revenue nor promoting sustainable forestry or mining practices. On the contrary, the West has instead lost any possibility it might have had of influencing environmental policies for the better.

From an environmental perspective, the fundamental problem of the current sanctions is that they focus solely on limiting sources of revenues for the regime, but ignore the adverse effect on the environment that the increase in illegal logging will have. Rather than preventing the regime from profiting from natural resources, an alternative approach would instead focus on providing a carrot to implement more sustainable and just practices, to the benefit of the local population and the environment. By engaging, and allowing for trade in these goods, it would open up for increased transparency into these sectors, and potentially also provide a channel of influence to the regime.

Another benefit of opening up trade is also the accountability of western companies to consumers in their home markets, with regards to human rights and environmental impacts, which isn't really the case when it comes to Chinese companies operating in Myanmar. By focusing on *how* business is conducted, rather than trying to preventing it from taking place at all, we stand a much better chance of helping the Myanmar people.

Time to Reconsider – A Policy of Engagement

It should be abundantly clear by now that the policy of sanctions against Myanmar has failed to bring about any sort of democratic reform, have hit the population substantially harder than the regime, and have contributed to the general stagnation of the Myanmar economy, to the benefit of noone but the regime. To be clear, the repression of political and civil liberties in Myanmar is unacceptable. However, it is also painfully clear that imposing sanctions on the country has not made things much better.

Rather than stubbornly carrying on with a policy of sticks only, it is time to take a step back and reevaluate the situation. We need to acknowledge the fact that there is no stepping around the regime, and that a strategy of engagement is much more likely to lead to any improvement, both politically and economically. As much as Myanmar needs external engagement, it also needs internal commitment. Without political engagement however, there is little we can do to support any such tendencies within the regime. Essentially, the alternative approach is to encourage an ending of an undesirable behavior rather than discouraging a continuation.

If the West is serious about helping Myanmar, there needs to be a comprehensive approach, including an abandonment of sanctions, an offer of structural and technical aid, and the promotion of foreign investments, trade, tourism and educational exchanges. Positive engagement and proactively supporting businesses that take a social and environmental responsibility is likely a much better bet for the Myanmar people. Improving the economy and integrating the country in the global economy would serve to build up and strengthen the middle class, which in turn will provide people with the economic preconditions of engaging the regime politically, thereby promoting democratic reform from within.

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