
BURMA IN 2002

A Year of Transition

===== Allen L. Clark
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Abstract

The year 2002 saw a consolidation of power within the ruling State Peace and Democracy Council that resulted in the confidence to free Aung San Suu Kyi from house arrest. This resulted almost immediately in a thawing, but certainly not any significant melting, of relations with the international community with respect to Burma (Myanmar). Despite her release, however, Aung San Suu Kyi has not given her approval for any significant non-humanitarian assistance to be given to the government. Positive developments in the reconciliation process are necessary before any significant lifting of sanctions, and thus overall development in the nation, will be possible; to date it appears that this process will be very slow and deliberate and will be undertaken according to the timetable of the government. In the interim, the economy of Burma teeters close to collapse and Burma continues to be the poorest country in the Association for Southeast Asian Nations (ASEAN) and Asia overall. Despite these problems, the fact that Burma lies at the crossroads of Asia and is being wooed by China, India, Russia, Pakistan, Bangladesh, and several ASEAN members gives the nation recognition beyond its size and economy. The overall future is not clear, but the “Dawn of a New Burma” may be breaking.

Politics

On May 6, 2002, after over 18 months of secret talks, the release from house arrest of Burmese dissident leader Aung San Suu Kyi was announced. This development had been long and eagerly awaited by the international community. Aung San Suu Kyi’s release is largely owing to the efforts of United Nations emissary and Malaysian diplomat Tan Sri Razali Ismail, bolstered by a great deal of personal, behind-the-scenes support from Malaysian Prime Minister Mahathir Mohamad. There can be no doubt that the release of Aung San Suu Kyi marked a dramatic change in the stalemate,

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lasting over a decade, between Burma's long-ruling military State Peace and Development Council (SPDC) and Aung San Suu Kyi's National League for Democracy (NLD). However, her release, though symbolically and to a limited extent politically significant, did not mean that the ruling SPDC has any intention of transferring real authority to the Nobel Laureate and the NLD in the foreseeable future. Rather, her release came largely in response to several key interrelated factors, i.e., (1) a recognition that without the explicit support and concurrence of Aung San Suu Kyi, the government would not be able to increase desperately needed foreign investment, development aid, and international trade; and (2) the quiet pressure for resolution from Burma's partners in the Association of Southeast Asian Nations (ASEAN), as well as from Japan, Burma's largest provider of development assistance. An important additional issue was the International Labor Organization's (ILO) report in 2001, compiled with the cooperation and participation of the SPDC, that led to the expulsion of Burma from the ILO, the first such banning in its history.¹

Perhaps as important as the high-risk release of Aung San Suu Kyi were the SPDC activities that built the foundation for her release, arguably under consideration for over two years, to ensure that the action would not significantly disrupt the SPDC's present and/or future control of the country. Particularly important was the curtailing of the influence of powerful regional and local military commanders and the concentration of government power in the hands of three generals: Senior General Than Shwe, chairman of the ruling council; General Maung Aye, council vice chairman and army commander-in-chief; and General Khin Nyunt, who serves as the council's first secretary and as chief of the directorate of defense services. It is widely accepted that Khin Nyunt was the primary negotiator for the SPDC with Aung San Suu Kyi. Equally important, and indicating the strength of the new government structure, was the formal indictment of the late Burmese leader Ne Win's son-in-law in May 2002.

Since her release, however, Aung San Suu Kyi has been very low key in terms of her activities. She has only visited NLD groups in central Burma (Manadalay, Sagaing, and Monywa), refrained from publicly criticizing the government, and at the government's request, jointly appeared with members of the SPDC at official functions related to infrastructure development projects. Although not officially announced, it appears also that the NLD has dropped its requirement that the SPDC recognize the validity of the 1990 general election—won overwhelmingly by the NLD. Despite small concessions by both sides, negotiations between the SPDC and the NLD have yet to evolve into any meaningful dialogue with respect to the future role of the

1. "ILO Mission to Verify Junta's Promises on Forced Labour in Burma," *Agence France Presse*, September 2002.

NLD in government or the restoration of democracy in Burma. Indeed, it would seem clear from the August 2002 visit of Malaysia's Prime Minister Mahathir Mohamad,² during which he did not meet with Aung San Suu Kyi or members of the NLD, that the SPDC wishes to avoid any outside pressure or heightened expectations of an early political resolution between the SPDC and the NLD.

Aung San Suu Kyi has made it clear that her release, and that of other detained NLD members, is not sufficient for her to change her stance regarding sanctions and other measures taken against the SPDC. The exception to this, however, is that she has been receptive to increases in humanitarian assistance and other social development activities focused on the poor and disadvantaged, including victims of HIV/AIDS. The key role that Aung San Suu Kyi plays in terms of determining and increasing the level of assistance to the poor is certain to reinforce her already high level of support among Burma's impoverished masses.

Of lesser importance, but further reflecting the changes in Burma during 2002, was the death of former President General Ne Win on December 5. Although Ne Win had suddenly stepped aside from the presidency in 1988, after more than 25 years of leadership, it was widely believed that he still retained considerable influence within the government and was opposed to any concessions to Aung San Suu Kyi. Questions about his continued influence and that of his sympathizers were heightened after Ne Win's son-in-law and his three sons were arrested in May 2002, tried for high treason, and sentenced in September to death by hanging. The sentences were appealed, however, on December 17; the appeal was rejected, and at present all four are awaiting execution. It is widely speculated that the death sentences will be commuted to life imprisonment, as the current regime has never presided over an execution and the last person accused of treason was hung in the 1970s, under Ne Win's rule. His passing moots these queries and leaves the SPDC in acknowledged and total control of the nation.

Economic Relations

Despite the relatively dire condition of the Burmese economy, and repeated calls by the international financial community for the government to adopt widespread economic reforms to correct macroeconomic imbalances and increasing discontent among the populace, the SPDC has not moved to rationalize the economy or its own economic policies. Indeed, the government has continued a policy of restricting imports, limiting private-sector activity, and monetizing the budget deficit. The latter issue contributes significantly to the present inflation rate of approximately 35%. The official exchange rate for

2. "Yangon Doesn't Want Reconciliation Help," *Asian Wall Street Journal*, August 2002.

the kyat (Kt) is approximately Kt 6.3–6.7 per US\$, but the unofficial rate is Kt 900 per dollar and it is expected to increase to approximately Kt 1,000–1,100 in 2003.

Government data³ indicate that tax revenues increased by 19.9% during the fiscal year 2001–02 (April–March); however, because approximately 75% of the total economy of Burma is a largely untaxed “gray economy,” the tax base available to the government for domestic programs remains small. This issue is made all the more critical by the fact that approximately 75% of government domestic spending is on highly inefficient and uneconomic state-run enterprises. The end result is a continuing crisis in health and education, rising levels of poverty, and an ever-increasing inflation that further exacerbates an already dire situation.

Burma’s economy continues to be plagued by inconsistent government policies that retard the already-limited levels of foreign investment there. For example, in April 2002, the government placed a ban on foreign trading companies that effectively crippled their access to many markets and supplies. Similarly, fresh import restrictions on essential items such as cooking oil exacerbated an already critical problem by boosting the cost of acquiring critical foodstuffs.

External Relations

Burma continues to enjoy its role, which began in 2001 and continued in 2002, as a strategic player within the Asia-Pacific region. This position stems from efforts by other nations to woo Burma away from its strong relationship with China and into a more nonaligned position within the region. In particular, India, Malaysia, and more recently Russia have attempted to develop closer ties with Burma, while nations such as Thailand and Japan continue to nurture long-term ties, sometimes highly contentious ones, as in the case of Thailand. Because of its strategic proximity to China and India, Burma plays an important role in their mutual attempts to increase their own influence in the region and reduce that of the other.

The Association of Southeast Asian Nations

The beginnings of political legitimacy for Burma can largely be attributed to its membership in ASEAN, an entry spearheaded by Prime Minister Mahathir Mohamad of Malaysia. No less important has been the fact that Burma’s membership in ASEAN opened doors for investment and trade with ASEAN nations that are critical to the nation’s economic development, although the flow has been dramatically reduced in the post-Asian economic crises era. Recent developments in ASEAN, however, do not bode well for Burma’s

3. For selected monthly economic indicators, see Central Statistical Organization, May 2002.

economic development and/or its more rapid movement toward reconciliation. Specifically, at the July economic meeting of ASEAN in Malaysia, member states agreed to allow individual ASEAN nations to liberalize certain sectors of their markets at will, without waiting for unified action. This decision was designed to accelerate the formation of the ASEAN Free Trade Area, but the effect will be to leave countries like Burma behind in the competition for foreign investment. Equally significant is the fact that the decision will allow Burma the option of *not* liberalizing in many areas. The impact on Burma of the loss of ASEAN unity in the economic sphere is unclear, but it certainly will not help this poorest of member states.

China

China remains Burma's "big brother," and Yangon's high level of dependence on China for trade, military assistance, and infrastructure development did not change significantly in 2002 despite the obvious efforts of other nations to play a larger role in development. Economic and trade relations between China and Burma increased steadily in the wake of the 1990s Asian crises, continuing into 2002, where bilateral trade was projected to exceed \$600 million, with approximately 80% being imports and only 20% exports. In addition, China is helping Burma build three hydropower plants in Paunglaung, Mone, and Thaphanseik.

European Union

Although it remains unlikely that the European Union (EU) will alter its present negative stance against Burma, recent EU Troika visits in March and September clearly reflected a heightened level of diplomatic exchange following the release of Aung San Suu Kyi. The meetings continued to stress several points: the need for progress in reconciliation talks between the SPDC, the NLD, and ethnic minorities; concerns over the continued and increasing large-scale production of opium; issues of forced labor and human rights; and accession and/or ratification of conventions on anti-terrorism, chemical weapons, and transnational organized crime. Nevertheless, the EU has stated several times that it stands ready to respond positively and proportionally to sustained improvements in the political climate of the country, and there are numerous signs that the government is heeding these messages. This can be seen, for instance, by permitting the continued release of political detainees and also the establishment of an ILO liaison office, albeit on a schedule that lags behind that desired by the EU.

Russia

Burma bolstered considerably its geopolitical importance in the region when in May, Yangon and Moscow announced they had approved a draft coopera-

tion agreement for the construction of a center for nuclear studies. The agreement calls for a \$150 million program to design and build a research nuclear reactor with a thermal capacity of 10 megawatts; two laboratories; a nuclear silicon alloying installation, as well as the support infrastructure, including an installation for the disposal of nuclear waste and a waste burial site. Russia will deliver the nuclear fuel. Through offering to participate in the nuclear project, Russia undoubtedly hopes that its involvement will raise its regional relevance with respect to other nations with an interest in Burma.

Japan

Japan continues to be the largest Overseas Development Assistance (ODA) donor to Burma, primarily in the areas of humanitarian assistance and infrastructure development. Four days after the release of Aung San Suu Kyi, Japan renewed its ODA to Burma and on May 11 signed an agreement to provide \$28 million for repair of the Baluchaung hydroelectric generating facility in Kayah State—a project interestingly classified as humanitarian aid⁴—and approximately \$7 million for upgrading medical equipment at hospitals in Yangon. Simultaneously, however, Tokyo stated that it would no longer extend yen loans to Burma because of its failure to repay past loans.

Thailand

Relations between Burma and Thailand, particularly along their mutual border, continue to be tense, with on again-off again closures as a result of cross-border shelling, as each country's military attempts to deal with ethnic insurgents and drug trafficking in the area. Nevertheless, 2002 saw a major effort on the part of Prime Minister Thaksin Shinawatra of Thailand to further normalize relations between the two countries. Thaksin sent Foreign Minister Surakiart Sathirathai on an official visit to Yangon in August, following the removal of Thai Army Chief General Surayud Chulanont from the border area, where he had a reputation as being tough in dealing with border disputes. Thailand's increasing dependence on Burma for gas is widely believed to have played a major role in Bangkok's efforts to maintain better relations with Burma.

United States

The United States, like most nations, noticeably toned down its rhetoric leading up to and following the release of Aung San Suu Kyi, and although the U.S. State Department has been consistent in saying that sanctions will remain in place, there has been limited movement and improvement in bilateral

4. Donald M. Seekins, "The North Wind and the Sun: Japan's Response to the Political Crises in Burma, 1988–1998," *Journal of Burma Studies* 4 (1999).

relations. Particularly striking was the May 2002 meeting, within days of the release and the first such high-level meeting since 1988, between Colonel Kyaw Thein of the central committee and Burma's Ambassador to the United States U Linn Myiang, and then-U.S. Assistant Secretary of State Rand Beers, a narcotics specialist, and Deputy Assistant Secretary of State Matthew Daley. The discussion examined how Burma could come into compliance with U.S. narcotics control guidelines. Additionally, the United States Agency for International Development announced plans to spend \$1 million, largely through non-governmental organizations (NGOs) working in Burma, on a limited program on Burma's HIV/AIDS crises. In September, Burma agreed to allow the United States to search for remains at four crash sites where C-47 cargo planes had gone down in 1944 and 1945. On August 1 in Brunei Darussalam, Burma signed the U.S.-ASEAN Joint Declaration for Cooperation to Combat International Terrorism, which includes cooperation with the United States to improve intelligence, information sharing, suppression of terrorist financing, and border and immigration control. In the aggregate, these activities represent a rather remarkable list of relations when considered against the last decade of virtual isolation between Burma and the United States.

Civil Society, Gas, and Economics

Critical to the Burmese economy is the sale of gas to Thailand, which agreed to purchase a minimum of 230 million standard cubic feet a day in 2002, increasing to 260 million cubic feet in 2004. Revenues from the sale of gas are the major foreign exchange earner for the government and virtually the sole support of the economy. The importance of these gas exports was certainly a major consideration in the government decision to release Aung San Suu Kyi. Specifically, Burma and the major companies operating within its oilfields were faced with the fact that for the first time, cases against Unocal Corporation were going to trial in both state and federal courts in the United States, in *Doe v. Unocal*⁵ and *Roe v. Unocal*.⁶ All cases prior to these had been dismissed at a preliminary stage. In the *Doe* and *Roe* cases, Burmese villagers have alleged that the Yandana pipeline Unocal built with the Bur-

5. Two cases are set for trial in the Central District of the California Federal District Court: *John Doe I, et al. v. Unocal Corporation, et al.*, Case No. CV 96-6959-RWSL and *John Roe III, et al. v. Unocal, Inc., et al.*, Case No. CV 96-6112-RWSL.

6. Two cases are also set for trial in the Superior Court of the State of California for the County of Los Angeles, Central District: *John Doe I, et al. v. Unocal Corp., et al.*, Case No. BC 237980 and *John Roe III, et al. v. Unocal Corporation, et al.*, Case No. BC237679. The complaints allege that, by virtue of Unocal's participation in the Yandana pipeline project, the company is liable under California law for alleged acts of mistreatment and forced labor by the government of Burma.

mese military as contractors and security had significant sociocultural impacts on the surrounding community, including forced labor, murders, rapes, and torture. Should liability be imposed based on tort theories of knowledge of harm and vicarious liability, the significance will not be just to the operator but also to all third parties involved in the project, including Thailand. The combination of these actions, the increasing impact of civil society outside Burma, the results of the ILO study, and the impending threat of the loss of gas markets/producers would seem to have been a major impetus, along with many others, that resulted in the release of Aung San Suu Kyi.