

## Episode 09 - Myanmar in a PodShell Myanmar's Economy: Back to the past?

**Richard Horsey, Jared Bissinger: Myanmar in a PodShell 9: Myanmar's Economy – Back to the Past? Eds.: Hans-Bernd-Zöllner, Tim Schröder, Rodion Ebbighausen.**

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*Rodion: Welcome to Myanmar in a PodShell. Today's topic is "Myanmar's Economy: Back to the Past?".*

*I would like to discuss the topic with **Richard Horsey**, who is a widely published political analyst and has been a close observer of Myanmar for over 25 years. He specializes in the politics and political economy of the country, the situation in Rakhine state, as well as armed conflict and the illicit economy. Since 2009, he has been adviser to the International Crisis Group (ICG). He is a fluent Burmese speaker and holds a PhD in psychology from the University College of London.*

***Jared Bissinger** is a development economist who focuses on private sector development and labor markets. He has worked extensively in the Asia Pacific region, especially Myanmar, and has authored dozens of global and national level reports on the private sector, the business environment and the labor markets. So thank you for joining us today.*

*Let's start with the discussion.*

*Soon after the coup from February 2021, economic experts predicted an economic collapse of Myanmar. I would like to know, did this collapse happen and what does economic collapse actually mean?*

**Richard:** It's an interesting question because as you hinted, it depends very much on how we define a collapsed economy. Myanmar does not have a modern developed economy. In many ways the Myanmar economy has been collapsed for many decades.

So in the period of reforms, which started after 2011, there was an attempt to develop a more

modern economy, more integrated into the world. The first bonds and T-bills were issued by the central bank. The first debt ratings were starting to be put together.

But this was an economy that was still running very much on cash, with banking penetration quite low, with loans quite low, no real business loans had ever been issued in Myanmar. So mortgages were issued, loans for buildings, apartment buildings were issued. No loans had been issued to build a factory or develop a business. In a sense, it wasn't the kind of modern developed economy which can suddenly collapse.

An enormous part of the economy was in the informal sector operating beyond the bounds of macroeconomic policy, and an awful lot of illicit economy as well. A lot of unrecorded trade, a lot of drug and hardwood smuggling, illicit casinos etc.

All of this creates an environment in which we're not facing a situation like Argentina or a debt crisis or when a country just kind of suddenly falls off an economic cliff.

At the same time, from a different perspective, yes, the economy was massively damaged by the coup. It sucked all of the confidence out of the business environment. It drove away foreign investment, it caused huge capital flight and was the end of major development assistance as well, which had been a significant contributor to Myanmar's budget.

So coming on the back of already crisis from the effects of the global COVID-19 pandemic, the coup was a real economic catastrophe and especially for the poorest people in the country

who are facing really unimaginably difficult odds.

*Rodion: Jared, do you have the same perception?*

**Jared:** Well, yeah. I mean, I think if you look at the macro level, you really don't need to go much further than looking at what happened to GDP in 2021. It fell by 18%. That's really a pretty dramatic statistic.

It's important to also keep in mind that it's not just a single crisis that's affected Myanmar. This is coming on top of the crisis that was COVID-19 that already had some pretty significant effects on the economy and on key sectors. For Myanmar's economy, it's really been a double crisis. I think, unfortunately, the effects of the coup are going to be much more significant and long lasting.

Every country in the world has experienced COVID-19, and in a lot of places that has led to a crisis. But the coup in Myanmar is, as Richard pointed out, going to have this longer term effect on confidence. And you're already seeing that. You're seeing a pretty dramatic drop in investment. You're seeing a lot of people leaving the country. You're seeing jobs being destroyed, estimates of 3 million jobs or full time equivalent jobs that have been destroyed. So a really significant effect on the economy.

There is a particular concern about collapse in some of the key facilitating sectors. Things like banking, telecommunications, power. These are things that businesses and people throughout the economy depend on. And these sectors have really done pretty poorly.

You're looking at a pretty big drop in electricity production. The banking sector now has just been decimated by the coup. Telecommunications, obviously, has been a source of tension, obviously, because that's how people in the resistance are communicating. And so it's been targeted for political reasons, and that has had a pretty significant impact on the sector. And of course, in the facilitating sectors, when you see

changes like what you're seeing now, that has a carry-on effect.

And all this is made worse by what's happening in the global economy, the growth in fuel and commodity prices crisis like what you're seeing in Ukraine right now, which is only furthering the growth and cost of things like fuel, and that's leading to costs of transportation etc.

And that's really just adding to the crisis that you're seeing in Myanmar. What you saw was a pretty dramatic collapse immediately after the coup, there has been some degree of stabilization, especially in the last six to nine months in some limited sectors. And again, it's very limited. You have seen some degree of rebound, but it's really set against overall a pretty significant collapse in the last 15 months.

*Rodion: Given your observation that Myanmar's economy has not been like a modern economy and not been so deeply integrated in world economy like many others, would you say that this creates a certain kind of resilience to a total collapse? The economy has shrunk, a lot of people lost their income, and poverty is on the rise. But people seem to somehow muddling through. Would you say that this is an accurate observation or would you say that this is misleading?*

**Richard:** I think we should be cautious about the extent to which ordinary Myanmar people can muddle through in this situation.

It's true that there have been crises in different parts of Myanmar for decades and that people have survived in one way or another through different coping mechanisms.

But if we look at what the main coping mechanisms have been, they may not be available today in the way that they once were.

The first thing is that this is not a localized crisis. This is not Cyclone Nargis which affected one part of the country while leaving other parts of the country unscathed. This is a crisis that has affected the entirety of the country, so there is no place to hide. There's

no other opportunities you can move to within the country. Family in different parts of the country can't help you. Across the country there's been this huge impact.

But also because of the hangover from COVID-19 globally, it means that labor migration, which has been one of the other key coping mechanisms over the years, is also not available.

The Thai economy may recover. Tourism may pick up. It may become a source of significant jobs for Myanmar people again. But that recovery has been much slower than most people expected. And at the moment, it's having difficulty absorbing the numbers of Myanmar workers who are already in Thailand.

The illicit economy was already kind of saturated. It will always absorb more people, but it's not that lucrative for the people at the bottom rung.

And the rural economy, which has sustained people at least in basic food and so forth... You're right that at the moment the rural economy seems to be holding up even in the face of a very difficult situation with shortages of fertilizer, very high prices of inputs that are mostly imported. But how long can this go on? I'm not sure. I think the crisis could be building up there as well.

But the bottom line on this is what does muddling through look like to an ordinary, poor family? What it looks like is skipping meals, not sending your children to school, children not having a balanced, sufficient diet...

It looks like stunting over years. It's a silent emergency which will come across in stunted children with intellectual challenges, difficulty at school in the years to come, not as a wave of sudden hunger in the coming months. And that kind of crisis is just as damaging as a famine. But it's not as visible and it doesn't energize the same local and international responses.

So I think it's a much more serious situation than most people in Myanmar have faced. And

it affects a different set of populations that have not been as deeply affected in the past.

*Rodion: Thank you. How would you describe Myanmar's economy a bit more in detail? You said it's not a kind of modern economy, but it was like a pre-modern economy and it just evolved after 2011 into something more modern. One of the authors of this podcast, Hans-Bernd Zöllner, always says he would describe it as a "Dana economy". And why does he say that? Because people tend to donate a lot of their income to the monasteries and the monks. And there is a kind of second business cycle because the monks and the pagodas, they give back teaching, they give food. So maybe Jared, you can start explaining what is different or what was different about Myanmar's economy and how did this economy function before 2011?*

**Jared:** Myanmar's economy certainly changed quite a bit from 2011 until 2021. And some of the more obvious ways you can see this are in things like investment patterns and trade patterns. There were some really tangible changes. Telecommunications is a great example. Back in 2012, the exchange rates got harmonized. There used to be many exchange rates and they got brought together into one exchange rate and so changing money went from something that you had to do, kind of in the back alley almost, to something that was official and formal. You saw a dramatic wave of investment come in that's really been unlike anything you've seen in the past in Myanmar. It's been different in scale. It's been different in degree of sort of international engagement, technological depth.

Beyond just that, you've seen a lot of institutional development over the course of the last decade. You've seen a move towards a greater rule of law across the economy. More openness.

Trade, for example, used to be heavily regulated before 2011. And from the period 2011 to 2021 really was liberalized quite a bit. And so you've seen an economy that's changed in a lot of different ways. And

generally speaking, pre-COVID, people were significantly better off than they were in 2011.

That said, you've seen a lot of regression in the last 15 months. As Richard mentioned in his earlier comments, a lot of the challenges you're seeing they're almost silent health issues, education issues... People skipping meals is a huge challenge. That all combined with prices that have gone up pretty dramatically, one estimate that I was looking at a week or two ago is saying that food prices may have gone up as much as 40%. That's a real challenge for a population that is already spending the majority of their income on food. The average person is spending over half of their household income on food. So it's pretty significant.

And are there are their fallback mechanisms, things like the social systems that are run through monasteries, monks? Yes, absolutely. They definitely provide a degree of resilience. But certainly I don't think they're enough to compensate for the overall decline that you've seen in the last 15 months, which has really been significant. But they help provide some degree of resilience that's really needed in this time.

**Richard:** I would just say that we shouldn't forget that the social safety net provided by the monasteries is, as Jared said, it's quite sensitive to economic conditions. I mean, there are always rich people who will donate. But it has much more depth than that. And it relies on a broad base of donations.

In 2007, when economic difficulties related to fuel price increases and subsequent food price increases put the squeeze on the monasteries at that time, you had this sort of double hit of reduced donations and economic difficulties. The monasteries couldn't cope, and the abbots responded with a political move. Actually, that was what set off the so-called Saffron Revolution really. There was this feeling that monasteries and the services they provided were getting to breaking point. They're at breaking point again. It's potentially worse now.

The difference is the Sangha has a different position now than it did in 2007. It's a much more divided Sangha. It's a much more cautious Sangha in terms of how it navigates the current political situation. And so we haven't yet seen the monasteries really transition from trying to manage a crisis to going out on the streets and demanding something different. But the conditions are rather similar.

*Rodion: Why is that? Why do you think the Sangha is much more cautious? Why is it more divided? Has it something to do with the period of transition or is it something totally different?*

**Richard:** Look, I think you had this period after 2011 of angst in the conservative Buddhist circles that modernity and secularism was going to rise as a complement to the opening up. They looked at Thailand, they felt the erosion of traditional Buddhist life and principles in Thailand, the rise of a sort of secularism. And they feared that. So partly the monks from 2011 were focusing on strengthening Buddhism, on strengthening the nationalist and conservative elements of Buddhism that kept the monkhood at the center of national life.

But when the National League for Democracy (NLD) came in, the NLD saw the conservative elements of the monkhood, Ma-Ba-Tha and so on, as their political enemies, because those monks had really supported the Union Solidarity and Development Party (USDP). They had played politics. And so when the NLD came in, it wasn't because the NLD was anti-Buddhist. It wasn't because many in the NLD didn't share that conservative Buddhist worldview. Many of them did. But they saw the monks, especially Ma-Ba-Tha and those nationalist monks as their political adversaries.

The NLD spent many years in office trying to remove the monkhood from political life and putting it back in a kind of religious box. And so when the coup came, the monks, the broad base of monks, were not likely to come out fighting for the NLD for two reasons:



One, they didn't see a political affinity with them. But second, the NLD had been breaking those bonds between politics and religion, which they felt had put a lot of pressure on them in the lead up to the election.

On the other hand, most monks don't feel that they want to throw their lot in with this military regime. It's intensely unpopular. It's doing things which the monkhood, including the conservative monkhood, are not comfortable with. So where do they go? Most of them don't want to tilt to the regime. They don't feel comfortable tilting to the NLD-dominated resistance. So they're kind of split. Not split down the middle in monasteries, but split in their own kind of minds and tendencies about: "What do we do?"

And at the edges, of course, you have many monks, the big monastery in Mandalay as an example, which have been demonstrating every day against the coup. And on the other end of the spectrum, you have those monks who've been trying to get close to power, as some monks always have. But in the middle, you have this broad base of monks who really are not quite sure how to navigate the current situation.

*Rodion: Thank you very much for this interesting digression. Let's go back to the economic topic. Before the coup, a lot of money, either development aid or investment flew into the country. What is left of it?*

**Jared:** Well, in terms of what came in, say, over that ten year period from 2011 to 2021, yes, there was development aid. And obviously that tends to be used fairly quickly. Sometimes that's invested in physical capital, certainly that's invested in human capital. And that's I think one of the things that one of the points of difference between ten years ago and now, there's been a pretty significant development in the human capital of Myanmar people.

And yes, in some areas that's political knowledge or other types of knowledge. But that's also economic knowledge, knowledge to be more productive in your workplace, etc.

And so that can have some type of residual benefit, even if people are operating in an economy that is clearly not functioning like it was two years ago.

There's still greater human capital when it comes to all range of things in the economy.

The other big thing that came into the country over that decade was foreign investment. And while some have left, the bulk have remained and look likely, well, at least many look likely to remain for a period of time. For example, you can look at the apparel sector. Something on the order of about 700 or so investments came in and a couple of hundred have left, but they're still somewhere around 500, a little more than 500 that are still in country, still operating. And the vast majority of those came into Myanmar over the last decade or so.

There's certainly a lot of differences in the economy of Myanmar in 2011 and what you're looking at now. You're still looking at economy that's much more globally connected, that is much more capable and productive. Obviously, the last 15 months have been a pretty dramatic setback, but it's not like all of the economic gains have been undone. Certainly a significant part of them have. But there's still some residual benefits that I think are going to be helpful for Myanmar over the coming years in the face of some pretty significant challenges.

*Rodion: There has been some criticism that a lot of investment money went through the hands of cronies. Would you say that this is a correct description? And what does follow from that?*

**Richard:** Well, in a sense, Myanmar went through its Russian oligarch phase before the opening. A couple of years before General Than Shwe handed over power and departed the scene, he presided over a selling off of an enormous number of assets. Buildings, land, state owned enterprises in a non-transparent way and in a way that many well-connected people profited from enormously. So that was before the opening.

After the opening, as Jared has described, there was gradually a bit more rule of law in the economy. And what that meant was that there was a kind of triage of the old national entrepreneurs, or as they're more commonly called, cronies, the ones who had only been able to make money through privileged access to licenses and permits and power. They found the going was pretty tough. Why would an international business coming in want to partner with a Myanmar business that offered nothing in terms of market access, skill, capital? In the old days they saw an advantage because they were linked to power. But once you didn't need that, these businesses were, in a sense, going to find it difficult to navigate that new environment. So it was a kind of triage.

And the ones who'd been actually able to develop decent businesses and skills were able to continue and make money in that new environment.

But those who'd been really reliant only on the gift from close connections to generals, they found life more difficult. And so it's true that the people who were best placed domestically to take advantage of the new economy were not the small and medium sized enterprises. It took a while before the playing field was amenable to the emergence of those. And many have emerged. The ones who were there ready to go were some of the big ones. But it wasn't purely connections to the military. It was previous military connections that gave them that ability, but it was business skill which meant that they survived in many cases, I think.

*Rodion: I would like to come to the controversial topic of economic sanctions, which I think play a major role. So parts of the revolution including the National Unity [Government] call for strong economic sanctions. We have had, especially in the beginning, a discussion related to the garment industry and, especially in the last months, the oil and gas industry. How effective do you think have sanctions against Myanmar been in the past? And what do you think about sanctions in the current situation?*

**Jared:** Well, certainly it's a charged question. There was a significant history of sanctions in Myanmar during the SPDC era. Some fairly broad reaching.

I guess there's perhaps some room for debate about how effective they were. Overall, it doesn't look like they were the major driving force in terms of changing the views and direction of the SPDC military regime.

What are their prospects now? I'd say, generally speaking, to create revolutionary change and to really alter the direction that things are going, the prospects for sanctions are pretty limited, but we have to understand that there are lots of different types of sanctions and that they're going to affect individuals and the economy very differently.

You can have targeted sanctions that go after one person or a group of people who are high up in the military regime. You can have travel bans. Those sorts of individually-named and targeted sanctions seem to be sensible, but their effects are going to be limited more broadly. There's also ways to circumvent those. People high up in the military regime can work through friends, allies, create new companies with different names, etc. So there's certainly tools to circumvent them. And I think it's important to point out that those people who are the most well connected, they are the ones with the resources and the means to circumvent sanctions.

What are the prospects for sanctions more broadly? I think they're, generally speaking, pretty poor. Why is that? Well, there's just not a good way to target sanctions so that they affect only people in the military. And that's because the military controls the state and can therefore take the pain of those sanctions and spread it around. Because if there is some type of sanction, then the military can react to it. It can, for example, if there's sanctions on foreign currency, then what's the military going to do? Well, they're going to go through the series of increasingly rigid foreign currency controls in Myanmar. They're going to find ways to extract foreign currency from domestic businesses and individuals. They're the ones

that have the control and power to do that. And so it's very likely that they will pass on the pain of those sanctions.

Then, you see calls for targeted sanctions, things like the garment industry. To me,, quite frankly, it doesn't really make a lot of sense. The garment industry is about as disconnected from the military regime as you can get. Ownership is almost all foreign and private. It's a very labor-intensive industry. It's an industry with very low margins. It's a real challenge to make a lot of money from that. And because it's mostly foreign businesses, most of the money that is made at least profit beyond your labor costs, rental costs for factories, etc. A lot of that doesn't even enter Myanmar because these are international businesses and they do those transactions through Singapore or wherever their headquarters may be.

And so the actual effects that could come from sanctions in terms of depriving the military of money are incredibly limited. And I think that would be a very counterproductive way to try to affect change in Myanmar.

*Rodion: If I understand it correctly, you would not endorse sanctions in a broader sense. And what about you, Richard? What do you think? We talked about the garment industry. What about the oil and gas industry?*

**Richard:** I'd agree with what Jared said. You have to see sanctions as a tool, not an ideology. You have something you want to achieve. And then you look and you see what tools you need to achieve that. And sanctions are almost never successful on their own. They require a political strategy to be attached to them. They require a theory of change, an idea of how a specific set of constructed sanctions are going to achieve the ends you want and what the negative side effects would be, and some evaluation of whether, all in all, the benefits outweigh the negative side effects. So that's the kind of process you would go through.

The reality of sanctions in Myanmar and some other countries historically is that they have not been used as a tool of change. They have

been used as an ideology. They've been used as a way to show that countries are doing something without actually having to do anything. And that's where they've failed.

Now, I think the big difference this time around is that firstly, the Myanmar people have been overwhelmingly calling for sanctions. In the past, it was very hard to know what ordinary Myanmar people wanted in the nineties in the early 2000s. Certainly advocacy groups, some of those who claimed to represent or actually represented Myanmar people were calling for sanctions. But those of us who lived inside the country at that time, I think it was less clear that there was a sort of broad-based support within the country for those measures.

But if we look at the situation now, I mean, the most significant pressure on the regime is not anything that anyone outside is doing. It's the boycotts by Myanmar people of military products, for example. I mean, that's had a really significant impact on military business incomes.

Outside sanctions are probably not as impactful as other things. As what Myanmar people are doing themselves and the policy decisions of the regime itself are causing huge economic pain.

Because the reality is, if we look at the politics of this, after the coup, both sides were convinced that a normally functioning economy was to the benefit of their adversaries. The regime did not want cash liquidity after the coup because it felt that people's savings would likely go, in some cases, to funding the resistance. And so part of the squeeze on liquidity after the coup was not just the freezing of the banking system because of a run. It wasn't just that there wasn't enough cash notes. It was that the regime was deliberately restricting access to cash for a political purpose.

On the other side, the resistance was very keen to collapse the economy. They wanted to make the country ungovernable for the regime, and one element of that was making it economically ungovernable.

And so in a sense, both sides were fighting against a normal economy. In that situation, whatever outside sanctions there are, are probably quite limited in their additional impact. And it's quite proper that countries would want to impose targeted sanctions on individuals. The purpose of those kind of targeted sanctions, the kind that Jared mentioned, is not to effect policy change, normally. It's a symbol of opposition to those specific people and their actions. And that's quite proper. When we come to specific sectoral sanctions... I mean, going after the garment industry as a way to deprive money of the regime is a very bad idea, as Jared just has said. You will hit the jobs of ordinary people and you won't impact the regime's finances at all.

The pressure on oil and gas companies to withdraw - "You have blood on your hands. You shouldn't fund the regime". I mean, it turned out to be massively counterproductive and not because no one realized this was going to happen. It was well known that forcing out existing investors would basically give a windfall to the regime. If you force a company to default on its contract, especially when the contract says that all assets are devolved to the regime, then you're going to provide a windfall. And that's exactly what happened.

Total and Chevron leaving is not any kind of damage to the regime. It's actually boosted, by several hundred million dollars, their income. So if the aim of that pressure to get those companies out was not symbolic, but was to affect the finances of the regime, it was a spectacular failure.

Different sanctions have a different impact, and there needs to be a theory of change behind [it].

*Rodion: Thank you. Picking up your last point: Sanctions can be very symbolic, but sometimes they do not lead to the effect intended. So would you say that there is a connection to a kind of frustration by some of the actors in the sense of: "At least we have to do something"?*

**Richard:** Well, I think it's partly the political pressure on those governments to do something and be seen to be doing something. But I think over the last 15 months, it's been even more kind of depressing in a way, because Myanmar, unlike in the past, has been a relatively low international foreign policy priority. Very sadly, very unfortunately, other crises have been seen as more important, more pressing, whether it was Ethiopia, whether it was Afghanistan, now Ukraine, there hasn't been room for really serious consideration of Myanmar.

And at a time when Western policymakers didn't really see any particularly effective levers they could pull, they didn't see really what options they had on the political front to respond after the coup, other than condemnation. They didn't see what leverage they had to change the situation.

Then really sanctions have become a fallback position, a way to avoid thinking and doing anything else. "We'll put some sanctions on that will show that we're concerned and then we'll move on to another problem."

*Rodion: A number of mostly Western investors pulled out after the coup and some others have been thinking about pulling out. Who would you say is left and where does investment still come from? Or maybe we can put it a more provocative [way]. Which countries are still engaged and maybe even benefiting economically from Myanmar's turmoil and its isolation?*

**Jared:** So we can talk about the first part of that, which is, "what investment is left, where is it coming from?" and then I'll get to the second.

Most of the investment that came in that ten year period is mostly still there. You've had a number of businesses pull out, as you've seen in the case of Telenor. Telenor has left. But their business is still there, but now in the hands of a different company that's in large part owned by a major Myanmar crony. You've seen a number of businesses pull out entirely, but there were thousands, literally thousands



of investments over that period. And the bulk of those remain.

One of the areas where you've really seen some, I guess, unexpected unintended benefit is in some of the export-led sectors. Over the last 15 months, you've seen a really big depreciation in the currency. It's gone down over from 1300 Kyat to now the market rate is 2000. And what that's done is it's made it less expensive to manufacture and then export from Myanmar. And so, yeah, there was an initial drop for a lot of these businesses, but now you're looking at something where export oriented businesses, their costs can actually be less expensive than they were 15 months ago. And so you've seen small bits of growth there. So are those businesses profiting? I don't have any great insight. Certainly there's the potential for that. But they're also up against significantly higher costs in a number of other areas: Transportation, facilitation fees, much greater costs when it comes to dealing with bureaucracy, having to pay for their own generators instead of being able to draw power off of the grid. So there's been a lot of changes to both costs and potential profit. And, those are some of the sectors that are doing better.

In other sectors, tourism for example, there's really no positive. It's increased cost in a dramatic drop in revenue. So businesses that had come into Myanmar and invested in the tourism sector, for example, they're going to be in a much, much more dire state. What was the second part of that question?

*Rodion: The second part was, are there even people who are benefiting economically from the situation?*

**Jared:** Yes, absolutely. You've seen obviously a big drop in investment, generally speaking, in the last 15 months or so. The investment that's coming is almost all from Asia. And a big part of that is from China. Interestingly, a lot of that is really small manufacturing investment.

Now, there have been a couple kind of high profile, very big dollar power investments. There's been some renewed discussion around the economic corridor connecting

Kyauk Phyu to China. Certainly China is going to have a significantly greater degree of leverage to push forward projects now. It's happening in a few places, but it's not like there's been this dramatic boom of really high dollar Chinese investment across major sectors, infrastructure, power, etc. But certainly there have been a few things and China is much better placed now to push those things forward.

And just generally speaking, many Chinese businesses remain in Myanmar and some of them could be facing economic conditions that are more favorable. For example, the drop in competition to get workers now could make it easier for some of them to do business. So generally speaking, there's, there's definitely some beneficiaries, but set against a backdrop of generally worse conditions across the board, with some exceptions.

*Rodion: Richard, do you agree or would like to add to this point?*

**Richard:** Yes, I'd agree with that. I think internationally, one of the obvious beneficiaries is Russia. Myanmar and Russia have kind of found each other in the dark. After the coup, Russia was the most important international ally of the Myanmar military and provided a lot of reassurance to Min Aung Hlaing and confidence that he could weather the international diplomatic storm with the support of Russia.

And now after the invasion, I mean, Myanmar is probably Russia's staunchest international ally. It's completely uncritical in its backing of Moscow. And that's not unimportant, although the regime does not control Myanmar's seat at the United Nations. And so that hasn't flowed through to votes.

I think domestically, the other players who've benefited and they're not only domestic, are the participants in the illicit economy. If you're doing anything illegal, improper, it's now the good times. Whether that's heroin production, which has gone up significantly as a result of the economic difficulty that farmers are facing, but also the security difficulty that they're facing. Whether it's methamphetamine, record

seizures across the region since the coup from Shan State. The more chaos there is, the more uncertainty there is, the more that those kind of big players in the illicit economy can benefit. And that's definitely to the long term detriment of Myanmar and all of its people.

*Rodion: The ongoing political struggle in the country needs funding, obviously. The SAC can rely on oil, gas, gems and timber. And war economies have been established in the areas of some of the ethnic armed organizations. And the NUG has been mainly relying on donations. But recent statistics show that those donations are going down, which also might have to do with the fact that people are struggling with their income. So what can you tell us about these different, if I may say so, business models? How sustainable are they and what challenges are there in the near future? So it's three parts: For the SAC, for the NUG, and maybe for the EAOs.*

**Richard:** That's a large and very complicated question. The way I would start would be to say that the regime is interested not only in bolstering its own finances, but denying income to the resistance movements. So it's a two way battle, and it's the same thing for the resistance movements. They're not only trying to raise revenue themselves, they're trying to deny the regime revenue. And so there's a four way kind of battle going on. And we've seen some successes along all of those fronts. The extent to which the Myanmar public has refused, for example, to pay electricity bills, that's still continuing a very high level of adherence, refusing to pay your bills or pay your bills at the last possible moment when there's no alternative, that's really obliterated the liquidity in the electricity ministry. Very, very successful if the objective is to suck money out of there.

I think the regime has not been as effective as it perhaps had hoped in limiting the extent to which the resistance can use financial flows within the country to fund itself. There's been some very high profile seizing of bank accounts and so on. But the reality is that micropayment systems that were developed over the ten years of openness, it's quite difficult to monitor and track these things.

Millions of small party-to-party transactions a day, and not the kind of thing you can sort of download into a spreadsheet, give a glance over and go: "Aha! That's the guilty person". The regime doesn't have the technology, the ability, the tools to really crack down on this. And so its attempt to sort of freeze liquidity has caused a lot of pain to people in the economy, but it hasn't prevented money from flowing, leaking out of the banking system. And it hasn't stopped the hundi systems working and it hasn't stopped funding to the resistance.

The resistance, in a sense, the NUG particularly set a very high bar. It has talked of an \$800 Million budget. It has talked about paying all of the striking workers and funding the violent self-resistance efforts and self-defense efforts. And that's an enormously expensive and complicated thing to do. And it's not surprising that it's fallen far short in its donations and income of the bar that it set itself.

But the NUG has been incredibly inventive in coming up with new ways to keep people particularly in the diaspora, funding them. Initially the lottery was very well subscribed. It made a lot of money, but that kind of tailed off after a few months. And then they came up with other things, the most recent auctioning off Min Aung Hlaing's house. That's like selling plots of land on the moon. No one thinks they're going to own the plot of land, but lots of people want to have that certificate on the wall. They know they've got one of the bricks of Min Aung Hlaing's house. So very inventive.

But ultimately it's not probably enough to do what the NUG wants, which is to be an administration which has a full budget to fund not only the resistance, but much of the country as a whole.

*Rodion: Jared, you can say something about how to sustain the funding for the different actors. How and maybe who has the better starting position to keep up the funding. What is your take on this?*

**Jared:** I think if you just look at the areas that are controlled by the military, those that are controlled by the NUG or PDFs, EAOs, etc.,

the military really is largely in control of the country's economic centers, Yangon, Mandalay. That gives them an ability to extract money in a way that the NUG can't do. That, I think, combined with the fact that the military is willing to do things, that the NUG and PDFs simply won't do to extract money from the population, and that does give them an advantage.

In talking with businesses in Myanmar, I remember talking to one who had paid the military taxes and they said, "It's not that we want to, but the NUG can't protect us from the SAC". And I think that speaks a lot to the situation that they're in. They don't want to pay taxes to the military, but they feel like they don't have a choice if they want to continue having a business and if they want to be able to continue to pay their employees. And so it creates a very bad situation for them, but it's unavoidable.

I agree with Richard in saying that the resistance has been incredibly creative and bold in the ways that they've gone about trying to raise money. They don't have the ability to force people to pay in the same way that the military does. And I think it says two things.

Number one, because so much of the money going to the NUG is voluntary, it speaks to their legitimacy and the views of the Myanmar people about who they think should be governing the country. But also it does raise questions and challenges around sustainability. It's a country that's suffering economically. And people aren't going to have a lot of money to give in donations to the NUG or to other causes. And so it does raise some big questions about sustainability that I think it's going to be a challenge in the months and years going forward.

*Rodion: So if this sustainability, especially for the NUG, is so difficult, how could or should more international development aid resume and approach the country without harming the people? What would you say is a reasonable approach to reengage with Myanmar?*

**Jared:** I think it's something that's fraught with

challenges on a political level. Could you and should you re-engage? I don't think so.

I don't think that engaging with the military is going to provide a lot of benefits. I don't think it's advisable to work with them on economic issues. I know that there has been some discussion around humanitarian assistance, etc. Maybe Richard could speak a little bit more to that. I think there's a lot of questions and challenges about how you do business in Myanmar moving forward. And it's not going to be the same for everybody. There are many businesses that are already in Myanmar that have already invested, that already have people that are working for them. They're already selling things locally or exporting. And I think you probably want to approach those slightly differently than a new investment coming into Myanmar.

It's important to understand businesses not just as things that pay taxes to the military, but also, they provide goods and services to the people in the country. There are things people need, whether it's transportation services, whether it's food, whether it's health care services. It's not just that businesses are organizations that pay tax to the military and do nothing else. They do many other things that are essential for the ongoing lives of people in the country, not to mention that they create millions and millions of jobs. And so it's important to kind of recognize those other things that businesses do that are essential to sustain.

But at the same time, thinking through where are the areas in the economy that benefit the regime the most and those that really don't benefit the regime very much at all. And so you can point to certain parts of the economy. We've already talked about the apparel sector a pretty good amount. And that's an area where the military sees very little benefit. Yet the people of the country, it creates hundreds of thousands of jobs. And it's a pretty important sector for the country and for the people of Myanmar to be able to sustain themselves moving forward.

You also see parts of the agricultural economy, sectors like beans and pulses. It's

not a small export, but it's an area that's quite decentralized where you don't have a lot of military involvement. Parts of the economy like this, those are areas that you'd really not want to try to limit investment in economic activity in.

Other areas like oil and gas, that's a much different thing that provides a lot of revenue to the regime. And I think the standards around doing business in the oil and gas sector need to be much different than they are.

*Rodion: Richard, so what is your take on this question? How to reengage, if at all? And if you do, how do you do it?*

**Richard:** I agree with everything that Jared has said. I think the question for people who were involved in development and humanitarian aid is now how best can you support the vulnerable people in Myanmar through the very, very difficult years ahead? And that's gotten much, much more complicated than it used to be, in the sense that, firstly, this is a macroeconomic crisis and a political crisis. It's not a humanitarian crisis. It has humanitarian implications and humanitarian consequences but the root cause is a political crisis and a macro-economic crisis.

You can't respond to a macro economic crisis with humanitarian aid. Humanitarian budgets are just not big enough to do that. You can't support an entire country. The tools and mechanisms of humanitarian aid are not designed to help peri-urban populations. They're much better at dealing with a part of a country that's been hit by a cyclone or even by a civil war.

So humanitarian assistance is incredibly important, but it won't be the solution to the crisis that Myanmar is going through now.

In a sense, the kinds of engagement that you would need to go beyond that are precisely the kinds of engagement that one doesn't want to do for other reasons. And we know that the regime is not primarily motivated by improving the situation of ordinary people. It's not at all concerned by the welfare of ordinary people. And so there's a high risk of

instrumentalization of development assistance and other things. So, all of those things have to be factored together.

Also, the population of the country is saying at this point, "we don't want engagement with the regime". And that's a practical issue. The view of the population has to be taken into account, obviously, for political reasons, but it also has to be taken into account for practical reasons. In the 1990s and 2000s, there wasn't an upswell of people saying, we don't want engagement with the regime for childhood vaccinations. Now engagement with the Health Ministry to talk about vaccinations is a contentious issue. But, that's the kind of challenge that is being faced.

I think, in thinking about how to respond to this, a lot depends on timeframes. When the resistance and the broad base of Myanmar people were calling for the deliberate collapse of the economy in the days and weeks after the coup, it was on the expectation – public opinion was so set against the regime and its military takeover – that this would be a short term issue. That in a matter of months it was inevitable that there would be an overthrow of the regime.

I think if we're looking at years, you have to take a different approach to how to protect vulnerable people. And that does mean probably some engagement with state structures if it's local health systems, to give childhood vaccinations, these kinds of things.

But at the same time, one has to be extremely cautious about engaging with the regime in a way that it can take advantage of, it can manipulate and it can instrumentalize. So it's a navigation issue. It's not a black and white issue. It's a risk-benefit issue, but incredibly difficult to navigate.

*Rodion: Thank you very much for sharing your thoughts on Myanmar's economy and thank you for listening to Myanmar in a PodShell.*

*I think we have learned Myanmar is in a long term economic crisis, which is not maybe as visible as the crisis in Sri Lanka, but which has*



*very long lasting effects on the country and its people.*

*Aid needs to find a niche where you can support the people, especially the vulnerable people, without sustaining the military. So you need some creative approaches or solutions. And as Richard said, humanitarian aid might not be enough to support the whole country because the whole country is in dire straits.*

*Thank you for listening and please tune in again next time to Myanmar in a PodShell.*

*The transcription of the podcast has been edited for clarity and length.*