Burmese regime opens up to Western investment

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The Burmese military regime of President Thein Sein is pushing ahead with what he terms a “second wave” of pro-market reforms to complement earlier “political reforms”. The ex-general indicated in mid-June that his government would allow some privatisation of state enterprises and reduce the role of the state in energy, health and education.

All the measures are aimed at attracting foreign investment, particularly from the US and Europe, as well the Association of South East Asian States (ASEAN) countries, South Korea and Japan. The regime is seeking to reduce its dependence on China and develop sectors of the economy adversely affected by Chinese investment in resource extraction.

The so-called political reforms included the junta’s decision in March 2011 to hand executive power to a quasi-civilian cabinet and legislative power to a parliament elected under the military-imposed constitution of 2008. The limited changes left effective control in the hands of the army.

The opposition National League for Democracy (NLD) led by Aung San Suu Kyi participated in parliamentary by-elections in April after the regime eased electoral restrictions. Suu Kyi cautiously joined the government in seeking foreign capital, calling for “democratically friendly investment”—a theme of her recent trip to Europe.

On July 23 during a trip to Thailand, the Burmese president signed an agreement with Thai Prime Minister Yingluck Shinawatra for the construction of the Dawai economic zone and port. To be built by the Italian-Thai Development Corporation, the project includes a steel mill, petrochemical plant and oil refinery.

The Burmese regime has introduced pro-foreign investment measures in the past few months. From April 1, it replaced the fixed exchange rate of six kyat to the US dollar with a managed float, resulting in a massive devaluation to around 800 kyat to the dollar. The decision struck a blow to state-owned enterprises, which were previously able to import goods at the old, favourable rate. As of July 16, eleven Burmese private banks were allowed to operate foreign currency accounts.

A new investment law is being drafted. It will update the 1988 foreign investment legislation and introduce new incentives. The new law will provide for fully foreign-owned companies, and joint ventures with at least 35 percent foreign capital. It will allow foreigners to lease land, and reaffirm existing protections against nationalisation.

The government will require all unskilled workers, and a rising proportion of skilled workers—25 percent within five years and 75 percent after 15 years—to be Burmese. This measure cuts across the Chinese investors who use a significant proportion of Chinese labour on their projects.

Western governments and corporations have begun to exploit the opportunities. US and European sanctions have been suspended or partially lifted. On July 9, a UK government trade mission visited Burma for the first time in 20 years. Last month, a 70-strong US delegation from 37 US companies arrived.

General Electric, which was part of the American mission, signed a contract on July 14 to supply x-ray machines to two private hospitals. GE said the deal was the beginning of its involvement in Burma and announced its intention to open an office by the end of the year.

The Obama administration lifted bans on investment in the state-owned Myanmar Oil and Gas Enterprise on July 11, after US firms complained of losing out to Asian and European rivals in Burma's lucrative energy sector. At a business forum in Cambodia on July 13, US Secretary of State Hillary Clinton met the Burmese president and introduced him to American corporate leaders.

Since 2009, the Obama administration has been central to the shift in the Burmese regime's orientation, indicating a willingness to ease sanctions if the junta distanced itself from Beijing. The rapprochement with Burma is one element of Obama's broader efforts to undercut Chinese influence throughout Asia.

The Burmese junta signalled its agreement to Washington's terms last September when it suspended the huge Chinese-financed Myitsone Dam hydroelectric project. In December, Clinton became the first US Secretary of State in 50 years to visit Burma, where she offered further US concessions if the regime met key conditions.

One of those conditions was to provide a political opening for Suu Kyi and her NLD, the most consistent advocates of opening up Burma to Western investment. None of the limited political reforms has ended the regime's police-state measures. Nevertheless, the entry of Suu Kyi into the parliament via carefully controlled elections has been hailed in the West as signs of an emerging democracy.

The junta's shift to the US is driven by a worsening social and economic crisis, compounded by decades of US-led sanctions and the country's shut-in, nationally-regulated economy. Chinese investment in resource extraction ($US10 billion in 2011) led to an appreciation of the kyat, impacting on Burmese agricultural and manufacturing exports. Yet, China's resource projects employed relatively few Burmese.

With 70 percent of the workforce engaged in agriculture and 7 percent in industry, low export prices aggravated the country's levels of unemployment and poverty. The country's per capita income is around $1,300. Nearly 40 percent of the population live below the official poverty line.

Far from ending this social crisis, an influx of Western investment to exploit Burma's cheap labour will deepen the social gulf between rich and poor. Moreover, like every other country in the region, Burma is being drawn into the deepening rivalry between the US and China that threatens to lead to destabilising conflicts and war.