Myanmar readies for second face of reforms

Larry Jagan, April 17, 2018

Myanmar has reached a critical crossroads with the start of a new financial year and the beginning of the National League for Democracy (NLD) government's third year in office. But concrete plans for accelerated economic and political reform are in the pipeline: the plans mark a return to the NLD's traditional, populist principles, primarily around land rights economic fairness, but with an emphasis on economic liberalization.

"In the coming year we will adopt programmes that will bring real benefits to the citizens," the State Counsellor, Aung San Suu Kyi, told the nation in a televised speech earlier this month on the anniversary of the her government's two years in power.

While the return of the Rohingya Muslim refugees from Bangladesh and the reconciliation and development of Rakhine will be at the forefront of the government's priorities in the coming months, economic liberalization and boosting economic development will figure prominently in the government's reform agenda.

"The government understands that it's time to launch the second wave of reforms that will genuinely transform Myanmar's economy, and deliver the freedom from poverty that the people deserve," the government's chief economic advisor, Sean Turnell told *South Asian Monitor (SAM)*.

Most Myanmar analysts and commentators agree that this year is a make or break year for the NLD government. At the halfway mark in their term of office, they are understandably beginning to look ahead towards the next elections, due in 2020. But the change in government approach was also signalled by the election of a new president – Win Myint, the former speaker of the Lower House – who will lead the country for the next three years.

Compared to his predecessor, Htin Kyaw, he is an experienced political activist and lawyer, and is expected to take a more active administrative role in government, even though Aung San Suu Kyi will continue to call the shots. He is certain to shoulder more of the responsibility of power and be actively involved in Cabinet's deliberations.

"Business leaders [in Myanmar] complain of incompetent and detached ministers and a de facto head of government who has concentrated excessive decision-making power in her hands," George McLeod, an independent risk analyst covering the Mekong region, told *SAM*.

Many analysts believe that there will be a major Cabinet shake up in the coming weeks, involving both union ministers and regional chief ministers. "When he was sworn as president, Win Myint clearly outlined his approach, including the need to monitor underperforming ministries," said Thet Aung Min Latt, head of the Myanmar consultancy group, Diamond Intelligence.

“To make this transition process smooth and successful, it is very important for our peoples, government employees and civil servants to change their dogmatic mindset and habits,” Win Myint said in his inaugural speech as president. But it is the lack of policies as well as personnel and their attitudes that have prevented the government from effectively grappling with the serious economic issues, according to many Myanmar businessmen.

“There is no evidence that this government has any pragmatic vision for economic development either for the short term, medium term or long term,” said Zaw Naing, head of Mandalay Technologies.“Two years ago, Daw Aung San Suu Kyi started by talking about creating jobs and then later added the development of infrastructure, especially electricity and transport networks. But, there is no road map or implementation plan supporting those buzzwords such as ‘job creation’ and ‘infrastructure development’.

But there has been substantial progress, according to government insiders in turning the economy around. “The NLD government inherited an economy beset by many problems when it took office two years ago, and has done well in improving and stabilising Myanmar’s macro-economy,” said Sean Turnell.

When the NLD took power in March 2016, the economy was severely overheating: inflation, the budget deficit, the balance of payments imbalance and the exchange rate were all increasing and virtually out of control, according to the government’s chief economic advisor. So the government’s main task then was fixing these problems, he said.

“Over the past two years the NLD government has managed to rectify these difficulties,” said Sean Turnell. In fact, as a result, the country’s economic fundamentals are sound, and economic growth impressive, especially over the last twelve months. The International Monetary Fund (IMF) estimates that Myanmar’s economy grew at around 6.7% in 2018, and it expects growth to remain the same or higher in the next two years. This makes it the fastest growing economy in ASEAN, and one of the fastest worldwide.

Inflation has been brought under control, to currently less than 5% — a third of the rate at the end of President Thein Sein’s rule. The budget deficit is now a third of that it was when the NLD government took office. The current account deficit — the difference between exports and imports — has improved by more than 20% since March 2016. And the exchange rate has been brought under control: it has not only stabilised, but in real terms has actually appreciated against the US dollar and other major currencies.

But as the government’s economic advisor readily admits, more can and should be done to boost economic development, and ensure that the majority of the population – who live in the country’s rural areas — benefit from this growth. “We also need to improve the socio-economic life of farmers, improve the lives of workers and ensure that students gain access to higher education,” the new president promised when he was sworn in.

“Improving Myanmar’s many infrastructure bottlenecks will remain a key priority in the years ahead, but ensuring reliable and adequate electricity is the government’s top priority,” said Sean

Turnell. But doubts remain as to whether the government has the capacity, resolve or strategy to implement what is desperately needed.

Most business people complain of the highly centralized decision-making process, cumbersome bureaucracy and red tape: the government is steeped in protocol which needs to change if the planned economic reforms are to be effective, according many commentators. Cabinet ministers wait for Aung San Suu Kyi to decide everything, before acting.

This hierarchical approach of the past has to change, according to William Aung, an independent financial analyst based in Yangon. The economic liberalization the NLD promised in their election manifesto must be stepped up, he added.

“Above all, government involvement in the economy needs to reduced or eliminated altogether,” said William Aung. Inefficient state owned enterprises should be privatized, he added. Over 100 of these are already being ‘audited’, according to government insiders and private investors being sought to take them on.

The same is true of the state owned banks. The government is expected to announce a series of reforms and restructuring measures in this sector. “These will be important, not least for the farmers, many of whom have long had to depend on the state-owned rural lender, the Myanmar Agricultural Development Bank (MADB),” he added.

One weakness in the past two years has been Myanmar’s inability to attract foreign direct investment. Although FDI is 25% higher last financial year compared to the previous year, topping $ 6 million — exceeding the annual target, Aung Naing Oo – the director general of the Department of the Directorate of Investment and Company Administration (DICA) and Secretary of the Myanmar Investment Commission (MIC) told SAM recently. He also expects foreign investment to grew even more this year as large-scale infrastructure projects — not the least in electricity generation, rural roads, rail lines and port facilities — come on stream.

But the government’s economic czars worry that western companies – especially American, British and European firms – remain hesitant about investing in the country because of its unfavourable international image. “The Rakhine issue has been detrimental to Myanmar’s and Aung San Suu Kyi’s reputation,” George McLeod told SAM. “Scenes of hundreds of thousands of desperate Rohingya refugees streaming into Bangladesh will continue to harm Myanmar’s international image,” he sad.

“The Rohingya crisis also increases Myanmar’s risk calculus and dissuades top-tier companies from investing,” he added. But other “non-Western” companies seem ready to take their place, though most of these are often high-risk-appetite Chinese firms that do not form the basis of a sustainable economy, he warned.

Most foreign businesses with existing operations in Myanmar are sanguine about economic development in the coming years, they warn that the government must do more to improve the business environment and encourage foreign investors. “From an investment perspective we do see that the situation in Rakhine making some foreign investors more cautious,” Ola Nicolai

Borge, a Norwegian lawyer and business consult, who has been based in Myanmar for many years, told *SAM*.

“Myanmar’s government needs to make the commercial terms more attractive for foreign investors,” he added. “My impression is that many currently consider Myanmar to be a high-risk destination with too low rewards – especially in the oil and gas sector — compared to other better options, even in the region.”

But earlier this year the government began to tackle some of the business community’s concerns when it launched the Draft Myanmar Strategic Development Plan. “This is the centerpiece of the Government’s reform and liberalisation strategy,” Sean Turnell told *SAM*. “It brings coherence and energy behind a programme that, while advancing hitherto on a number of fronts, lacked a central narrative,” he added.

Most people in Myanmar now hope that the government can finally address the country’s economic needs in a concerted, coherent and strategic manner. Foreign and Myanmar businesses are pinning their hopes on the new president helping to galvanize the government bureaucracy and ministers. “A second wave of reforms is promised, but gridlock in Naypyidaw prevented previous economic master plans from coming to fruition,” according to George McLeod.

“Nobody has ever doubted Myanmar’s economic potential, but its worst enemy has always been its politics,” he warned. “But the current challenges we are seeing under the NLD, demonstrate that Myanmar has a long way to go before it develops a mainstream government capable of unlocking the country’s tremendous potential.”