



WHY ECONOMIC SANCTIONS IN MYANMAR IS A BAD IDEA

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Since a militant attack by the Arakan Rohingya Salvation Army (ARSA) in August 2017, Myanmar's military (Tatmadaw) has intensified the persecution of Muslims in Rakhine State. No less than 700,000 Rohingya have been forced to escape and flee to Cox's Bazar, Bangladesh, as political refugees. It has been reported by respected news agencies and the UN that the Rohingya's human rights have been grossly violated. Beyond refusing to admit the existence of the Rohingya, the Myanmar government has not taken any serious measures against these violations, justifying the Tatmadaw activity as "clearance operations" against militant sympathizers. This has resulted in attempts to revoke Aung San Suu Kyi's Nobel Peace Prize and other retractions of recognitions bestowed.

Forced repatriation of these refugees was supposed to begin in November, however there has been little progress, which has resulted in further international condemnations. In August 2018, a report by the UNHCR criticized high-ranking military commanders for initiating the persecution. The report recommended that the UN Security Council either refer the case to the International Criminal Court (ICC) or create a special tribunal to address the issue. In September, a UN fact-finding mission urged sanctions against the individuals responsible. Myanmar is not a signatory to the ICC, but Bangladesh is, and it is on this basis that prosecution is being pursued.

Consequences of economic sanctions

In this context, the EU is reportedly considering economic sanctions against the country by withdrawing the Everything but Arms (EBA) scheme – an arrangement under which the poorest countries, including Myanmar, have tariff-free access to the European market for all exports, except arms and armaments. While there is still no consensus on a proposal to revoke this status inside the EU, Trade Commissioner Cecilia Malmström is reportedly getting closer to reaching a decision.

The economic consequences of this sanction regime would be severe. In particular, Myanmar's garment industry, one of its leading export industries, would suffer great damage. Thanks to the Multi-Fiber Arrangement (MFA) in the international market, it has emerged as one of Myanmar's chief export industries before its downturn in the 2000's, partly due to US economic sanctions in 2003. After struggling to shift the market share away from the US, the Myanmar garment industry finally gained new markets in Japan and South Korea post 2010 by developing the fabric production system. This development has enabled Myanmar to gain a large share of the EU market, including Germany, the UK, and Spain, since Myanmar was admitted into the EBA scheme by the EU in 2013.

The industry rapidly recovered. Currently, the EU is the largest export market for Myanmar's garment industry, worth roughly €1 billion, and accounted for more than half of the total garment exports from Myanmar in 2017. Thanks to its access to the EU market, the garment industry in Myanmar has grown to more than 400 factories and 400,000 workers, giving Myanmar the opportunity to maximize underutilized labor in its subsistence economy as a "vent for surplus," in the phrasing of Hla Myint, the pioneering Burmese development economist who argued for export-orientation as a growth engine.

While arriving at an accurate estimation is difficult, the results of the US sanctions in 2003 suggest the significance of the impact. After the sanction, the loss of \$200 million in exports caused the closure of 150 factories and the unemployment of 80,000 people. If we assume that the expected sanction damages half of the export market in the EU, roughly \$600 million

would be lost in exports, which would cause more closures and unemployment than in 2003.

Considering that Myanmar's foreign currency reserve in 2017 was approximately \$5.2 million, the sharp decrease in exports as estimated above would accelerate the current rate of local currency depreciation, and lead to higher inflation. The current inflation rate is almost 9 percent and there are no alternative labor-intensive industries that could absorb a massive number of unskilled workers. As a result, female workers, who account for 90 percent of the unskilled textile/garment workforce, would suffer disproportionately from these sanctions. Meanwhile, EU investors could easily find alternative production sites in Bangladesh and Cambodia.

Thus, it is critical for the Myanmar government to prevent the EU from imposing these significant economic sanctions. One option is to follow the EU's advice: admit to the army's human rights violations, and use the ICC or another legitimate international institution to address the problem. Unfortunately, this is not realistic. First, prior to the next election in 2020, it will be difficult for the government to even acknowledge the existence of the Rohingya. Second, if it openly accuses the military, it could stage a coup since a majority of the National Defense and Security Council members are from the military. This council, under the existing Constitution, can declare an emergency and order the military to take control. Thus, domestic political realities offset any pressure from the international community.

Instead, the government may seek to strengthen its ties with China. Diplomatically, China could use its veto at the UN Security Council to prevent the Rohingya persecution from being referred for an ICC trial. From an economic perspective, China could replace the EU as Myanmar's partner for its fabric export as labor-intensive products move to lower wage producers. Myanmar's ties with China are strengthening as its isolation grows. For China, this means another active partner in its Belt and Road Initiative (BRI). Current connectivity projects under the BRI may gradually contain a geopolitical meaning in the future as a result of this international relationship, and could even influence control of the Indian Ocean and its trade routes.

Economic Support for a Multiethnic Government

The essence of this issue concerns the government's accountability toward minorities, especially the Rohingya, though there is also renewed ethnic conflict in northern Myanmar. Because accountability is lacking, the Myanmar government has not dealt with human- and labor-rights violations, leading to condemnation by the international community. This problem originates from the fact that the current nominal ruling authority – the National League for Democracy (NLD) – is predominantly the party of the Burmese, by the Burmese, and for the Burmese. Notably, this party dominates more than half the seats in both houses as a result of the last election in 2015.

Yet, a recent by-election shows a changing political landscape. Out of the 13 contested seats in November, the NLD won only seven, which is four less than the current seats held. In urban areas, some Burmese have become disappointed by the economic downturn, which has gradually diminished the popularity of the NLD. Even if Aung San Suu Kyi retires soon as rumored, the NLD will not be able to maintain its popularity among the Burmese. In this context, strong support from non-Burmese people is becoming more important in Myanmar politics, as the non-Burmese population accounts for roughly a third of the total.

To gain support from locals, it might appear easier for politicians to be populist in the short term by providing subsidies and public goods. However, this popularity might not last long beyond the next elections. From a nation-building perspective, there is a need for a stable government with the trust of the non-Burmese, one that supports local infrastructure such as roads and electricity.

Infrastructure development needs resources that the Myanmar government cannot finance on its own. If the international community does not support local development, China will. In either case, the hope is that the Myanmar government, with accountability toward multiple ethnicities, will properly deal with the brutal violations of human and labor rights. This positive outcome is more likely if Myanmar does not rely primarily on China. Economic support, rather than economic sanctions, is needed to increase accountability.

John Maynard Keynes accurately described the impact of the Treaty of Versailles after World War I, and criticized the excessive reparations: “If we aim deliberately at the impoverishment of Central Europe, vengeance, I dare predict, will not limp.” Keynes was correct. This impoverishment led to Nazism’s widespread popularity in Germany. Similarly, the impoverishment resulting from the EU’s sanction will make Myanmar more closely aligned with China. In this context, the BRI might unintentionally have an increasing geopolitical impact, generating a new regional order in the Indian Ocean as a consequence.

That does not mean we should overlook the recent indecisive attitude of the Myanmar government toward the atrocities in Rakhine State. The alleged perpetrators of serious crimes should be investigated and prosecuted. Meanwhile, the international community should support the central government in its efforts to promote local development, which should lead Myanmar toward being the multiethnic country that everyone envisions.

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