

The Final Frontier

The EU's Development Policy in Myanmar

March 2014

András Áron Megyeri¹

Three years into the Myanmar peace process, the country remains plagued by corruption, ethnic conflicts, and religious tensions. The new government was formed in 2011 by Thein Sein, who retired from his military career in 2010. This shows a civil-military relationship that is characterised by deeply the entrenchment of economic and political interests on the personal and organisational levels. Myanmar is amongst the richest countries in natural resources, yet due to the rampant corruption and massive social inequalities, it suffers from a pervasive resource curse. Meanwhile, religious and ethnic conflicts threaten the fragile political stability brought about by the new administration. In the conflict-struck Eastern parts of Myanmar, illegal production of opiates provides the only income for many communities, leading to thriving drug trade and organised crime networks that stretch across Eurasia.

In 2013, the European Union reaffirmed its engagement with Myanmar through a Comprehensive Framework Agreement. Its stated goals are to support social and economic development while providing support for the government to complete political reforms in human rights, democracy, and inclusive sustainable development. At the same time, European private firms started investing in Myanmar's extraction and energy sectors. This paper aims to show that there is an increasing need to align EU development aid policy and frontier investments in order to tackle the asymmetric security challenges of drug trade and organised crime originating from Myanmar.

EU-Asia at a Glance is a publication series about the current state of affairs in Asia and EU-Asia relations

This paper expresses the view of the authors and not the European Institute for Asian Studies

¹ András Áron Megyeri is a Junior Researcher at the European Institute for Asian Studies



Introduction

The former military leadership in Myanmar, over the past three years, has embarked on a path that external observers hoped would bring political reconciliation and democratic reforms. Through this course of action, Myanmar not only seeks to end its international isolation, but also to resolve internal ethnic conflicts between the majority Burmese population and various ethnic groups including the Shan, Karen, and Rhakine. This transformation, which has come to be known as the Myanmar peace process, has also coincided with the newest wave of booming Buddhist nationalism that has culminated in inter-communal violence against Myanmar's Muslim population.

With enormous untapped wealth in oil, gas, rare metals, and timber, Myanmar is considered one of the most resource-rich countries in Southeast Asia. Weak or non-existent institutions, rampant corruption and massive income inequality, however, make it the textbook example of a developing country suffering from the paradox of plenty. This phenomenon is also known as the resource curse, and can have potentially devastating effects as rent seeking politicians – many of whom are members of the Tatmadaw (Myanmar's military) and constituted the leadership of the former junta – cultivate a pervasive culture of corruption, which combined with regional and ethnic economic disparities make resource-rich Myanmar into one of the most conflict prone countries in the world.

The significance of this problem is highlighted in the 2013 Resource Governance Index, which placed Myanmar as the least transparent resource rich country with the worst resource governance and the most corruption. The correlation between rent seeking, bad governance, income inequality and ethnic tensions, are also highlighted in Maplecroft's yearly risk analysis that designated Myanmar as one of the most likely countries where conflict can occur in 2014.²

This paper takes account of the role the European Union (EU) plays in facilitating the peace process in Myanmar. In particular, it looks at the economic and security interests the EU has in Myanmar and argues that while Myanmar lies outside the traditional sphere of interest of the EU, security challenges originating from a potentially fragile state in Southeast Asia should warrant a higher degree of concern. Moreover, this paper will attempt to give recommendations on how to better align EU development projects and Foreign Direct Investment (FDI) from the private sector in order to foster transparent and strong institutions in Myanmar that can effectively tackle the country's resource curse. This would help alleviate potential asymmetric security challenges originating from Myanmar such as regional instability, illegal narcotics and arms trade, as well as organized crime.

Overview of the EU as a security actor in Myanmar

In an attempt to open up internationally and normalise relations with Western countries, the leadership of Myanmar embarked on a path of political and economic reforms in 2011. This involves democratic reforms, the freeing of imprisoned opposition politicians, peace talks with the various ethnic rebel groups, as well as attracting foreign investment in the extraction sector from Western countries. As a response to the efforts of the Burmese leadership in enacting reforms and opening up the country, the European Union

² Maplecroft Global Risk Analytics. (2013). *Global Risk Portfolio*. Retrieved from: <http://maplecroft.com/search?q=myanmar>

decided to suspend previous sanctions in 2012, and with the exception of the arms embargo, lifted them completely in 2013. The EU showed its increased engagement and commitment to back the reform process when Catherine Ashton, High Representative of the Union for Foreign Affairs and Security Policy/Vice President of the Commission visited Myanmar in April 2012, holding meetings both with President Thein Sein and opposition leader Aung San Suu Kyi. A few months later, the EU opened its Delegation to the Republic of the Union of Myanmar in September 2013.

Despite the initial optimism surrounding the 2012 by-elections, the Burmese peace process has proven to be a sluggish affair as the country must tackle both severe inter-community, and developmental challenges. In order to resolve ethnic tensions and move forward with the peace process, economic and political issues must be addressed in conjunction. It is due to the fact that the dialogue on national unity and federalisation can only be successful if the various ethnic communities feel included in development projects and trickle-down effects can enhance the economic situation of local communities. The adverse effects of Myanmar's resource curse currently pose the gravest challenges, therefore it is imperative that the Thein Sein government commits to transparent and inclusive development.

Having limited military interest or capacity in the region, the EU is not a traditional security actor in Myanmar. The EU, unlike its transatlantic ally, the United States, has little strategic interest in Southeast Asia. Its engagement with Myanmar as well as other regional actors is primarily based on economic relations as the financial and commitment costs of military power projection – let alone those of capacity building – imposed by the geographic constraints have so far proven to be too high. This also means that asymmetric challenges originating from the region, such as illegal arms and illicit narcotics trade, are difficult to securitize, and thus policy makers tend to see them as developmental issues. Scholars of Europe-Asia relations describe this phenomenon as the "tyranny of distance" and argue that – with the exception of the colonial period – it has always characterised the relationship between European and Asian states.³ It is evident that the tyranny of distance is a significant factor in deterring the EU (or its member states) from seriously considering military commitment to the region and thus openly infringing the geopolitical interests of larger regional actors.

A set of guidelines for Foreign and Security Policy in East Asia were published by the Council of the European Union in 2012 highlighting the need to strengthen international security through a ruled-based international system.⁴ The paper identifies strategies through which the EU can respond to security challenges outside its traditional sphere of influence, however it does not make much effort to go further than the usual slogans of leveraging economic presence, sharing the experience of post-war reconciliation, and offering its know-how of political and economic integration.⁵ Though the peace process in Myanmar and its political dialogue with the EU had already been put into motion by the time this policy guideline was released, it forgoes to mention the developing EU-Myanmar relations outside of the EU-ASEAN framework. Perhaps this is a reflection of how strongly the tyranny of distance grips European minds. Despite calls to reverse the trend of European marginalisation in East Asia, it is unlikely that change would take place and

³ Yahuda, M. (2008). The Sino-European Encounter: Historical Influences on Contemporary Relations. In D. Shambaugh, E. Sandschneider and Z. Hong (Eds.) *China-Europe Relations: Perceptions, Policies and Prospects* (pp. 13-32) New York: Routledge.

⁴ Council of the European Union. (2012). *Guidelines on the EU's Foreign and Security Policy in East Asia*

⁵ *Ibid.* (pp. 8-10.)



economic and development policies will continue to lead the engagement, certainly in the case of Myanmar.⁶

It is not to say, however, that security challenges originating from the region would leave the EU unaffected. The tyranny of distance does not affect supranational and sub-national actors equally. Consequently, the illegal arms and narcotics trade flourishing in ethnic-conflict struck regions in Myanmar poses a security threat through its connections to organised crime not only to the EU's regional economic interests, but also to its citizens at home as outlined in the Small Arms and Light Weapons (SALW) Strategy of the Council published in 2005.⁷

While the 2012 policy framework claims that "the EU's economic presence in the region [...] position[s] it well to play an important role in helping bolster regional security", this theme remains largely underexplored in the context of Myanmar.⁸ Despite the lacking policy interest, the European economic presence, together with the EU's development efforts, may indeed serve as incentive to continue the ongoing peace process for the newly elected Burmese leadership. Naypyidaw would certainly welcome more Western investment as it is coming under increased pressure from politically-relevant grassroots organisations concerned about Chinese investment projects.⁹ While Beijing had been the largest source of investment in Myanmar for the past 30 years, this trend started to change following the establishment of the civilian government and Chinese investment started to decline sharply in 2013.¹⁰ While China still accounts for the largest stock investment, "local opposition and criticism" concerning some of the largest Chinese investment projects such as the Myitsone Dam or the Letpadaung Copper Mine has created "problems and uncertainties for Chinese investors", resulting in a drop in investment flow.¹¹ As a result, observers began to describe Chinese-Myanmar relations as souring, especially considering Naypyidaw's attempts to mend ties with the West. While China re-evaluates its investment and development policies to adopt to the new situation, the Thein Sein leadership will be eager to attract the interest of European frontier market investors in the energy and extractive resource sector. This opens up the opportunity for the EU to further its agenda of strengthening the regional security environment by leveraging its soft power to take advantage from the favourable equilibrium of investment supply and demand.

Ethnic conflicts and the paradox of plenty

The Arakan Oil Watch, a Myanmar watcher NGO, defines resource curse (also referred to as the paradox of plenty) as "a situation where, instead of boosting a country, natural resource wealth actually leads to further corruption, repressive conditions, poverty and conflict".¹² Myanmar faces a severe case of the paradox of plenty as weak institutions together with the abundance of natural resources including natural gas, oil, rare

⁶ Holmes, J. R. (2012, July 9). How Europe Can Support the 'Pivot'. *The Diplomat*. Retrieved from <http://thediplomat.com/2012/07/how-europe-can-support-the-pivot/>

⁷ Council of the European Union. (2005). *EU Strategy to combat illicit accumulation and trafficking of SALW and their ammunition*

⁸ Council of the European Union. (2012). *Guidelines on the EU's Foreign and Security Policy in East Asia*, Article 3.

⁹ Berger, B. (2013, September 10). China still has it wrong in Myanmar. *Asia Times*. Retrieved from http://www.atimes.com/atimes/Southeast_Asia/SEA-01-100913.html

¹⁰ Gronholt-Pedersen, J. (2013, June 14). Chinese Investment in Myanmar Falls Sharply. *The Wall Street Journal*. Retrieved from <http://online.wsj.com/news/articles/SB10001424127887324063304578525021254736996>

¹¹ Sun, Y. (2013, September). Chinese Investment in Myanmar: What Lies Ahead?. *Stimson Center*

¹² Arakan Oil Watch. (2012). *Burma's Resource Curse*, p. 6.



minerals, precious metals, and timber encourages political rent-seeking behaviour. Consequently, it is hardly surprising that Myanmar places last on the 2013 Resource Governance Index, reflecting severe institutional deficit and displaying failing scores in all areas of observation, such as the legal setting, reporting practices, safeguard and quality control, as well as the enabling environment.¹³

In order to pressure the Burmese government to honour the 1947 Panglong Agreement, intended to guarantee the inclusion of minority ethnic groups in the democratic process, many ethnic groups took up arms demanding autonomy, ethnic rights, and inclusive democracy in the postcolonial period.¹⁴ Signed prior to the British granting independence to Myanmar, the Panglong Agreement was in essence a consensus reached by the Government of and the representatives of the Shan, Chin, Kachin, and Karen states (Frontier Areas), recognizing autonomy in internal administration, and a common framework for financial assistance for these ethnic groups. Realizing these demands would mean federalist reforms, massive redistribution of benefits from foreign investment and aid, as well as a general re-evaluation of who the legitimate actor is to negotiate regional FDI agreements. Meanwhile, according to numerous reports, including the 2012 issue of the SHAN Drug Watch, some rebel groups use funds acquired through illegal drug production and trafficking to finance their operations.¹⁵ The importance of such findings are underlined in the 2013 Global Drug Report, that shows spiking opium and methamphetamine production in Myanmar over the course of the past several years.¹⁶ Moreover, the SHAN Drug Watch also reports that drug production serves as an all important alternative source of livelihood for disenfranchised rural communities.

Consequently, ethnic groups in Myanmar, often experience the negative side of development projects by suffering exploitation, repressive conditions, and poverty. Reports of land confiscations by the Tatmadaw, rampant corruption regarding land acquisition, disputed compensation, and internal displacement suggest that some foreign investment projects can have detrimental effects on the internal stability of Myanmar.¹⁷ In this regard, the various ethnic conflicts across Myanmar are not only about political representation and self-determination, but are economic struggles for access to a more even distribution of benefits. Resolution over the ownership and control of natural resources in ethnic areas "remain a key reason for the continuation until today of armed conflicts in Burma".¹⁸ As a result, in order to move forward with the peace process, and embark on a sustainable path of economic growth, the Burmese leadership should develop its investment and domestic policies while considering the relationship between Myanmar's resource curse and the ethnic conflicts.

Recommendations

The security concerns that the EU faces in Myanmar are asymmetric challenges that resist the traditional toolbox of foreign policy. For this very reason their significance is underappreciated, the EU's SALW strategy notwithstanding. As investment from European firms and from EU and member state development funds continue to flow,

¹³ Revenue Watch Institute. (2013). *Resource Governance Index 2013*. New York: Revenue Watch Institute

¹⁴ Integrated Regional Information Networks Asia. (2012). *Briefing: Myanmar's ethnic problems*. Retrieved from http://www.ecoi.net/local_link/212969/319116_en.html

¹⁵ SHAN Drug Watch Newsletter. (2012). *Political Settlement: a win-win situation for all*.

¹⁶ United Nations Office on Drugs and Crime. (2013). *World Drug Report 2013*. New York/Vienna: United Nations.

¹⁷ Karen Human Rights Group. (2013). *Losing Ground. Land conflicts and collective action in Eastern Myanmar*.

¹⁸ Arakan Oil Watch. (2012). *Burma's Resource Curse*, p. 19.



these interests must be protected by reducing the risk of damage caused by unrest, terrorist attacks, and organised crime activities. Given the significant role European economic power can play in ensuring the successful completion of the Myanmar peace process, it is necessary that the EU's internal and foreign policies successfully complement each other. Pressure from the EU can create a political demand in the Myanmar elite for transparent and sustainable investment that European investors can provide for. Therefore it is imperative that the EU continues its engagement with Myanmar by pushing for increased transparency in resource management and promoting administrative capacity building to enable authorities to comply with increased requirements.

Meanwhile, European companies interested in investing in Myanmar are realising that there is a potential demand for sustainable investments in the resource sector. Reducing corruption is in the interest of all parties as it makes investment cheaper, and produces larger economic and societal benefits. Transparent management of national resources also means a more even redistribution of revenues. Providing sustainable means of livelihood in rural areas will contribute to eradicating illicit drug production and related organised crime, which could consequently result in reduced regional instability.

Considering how the former military junta was successful in entrenching the economic interests of its members even after the 2010 elections, innovative methods are required to ensure the expeditious completion of the ongoing peace process. It is important that the EU evaluates the possibilities for cooperation in the resource management sector in order to transfer knowledge and best practices as well as to improve transparency. In 2010 the OECD published a handbook containing strategies for fragile states on how to contract out some of their government functions for increased efficiency.¹⁹ Myanmar could outsource the management of its resource revenues for third parties while EU-backed capacity building programmes deliver valuable training for government officials and bureaucrats. As a result, transparency would increase along with a more equitable distribution of benefits while reliable and strong national institutions are built. Meanwhile, European development projects with inclusive trickle down effects will help achieve a more equitable distribution economic benefits. This would tackle Myanmar's severe resource curse, increase political stability and strengthen the legitimacy of the civilian government.

Wielding soft power, just as the traditional concept of hard power, invokes commitment problems on the international level as well as audience costs in domestic forums. The EU's slogan of actively sharing the European experience and lessons of democratic transition can quickly erode and lose credibility as its calls for effective multilateralism and rule of law are not followed by action. After all, how could European technocrats convince the Myanmar leadership to favour European investment and accept the political strings attached when it is unable to leverage its soft power in its own neighbourhood as most recently shown by the ongoing situation in Ukraine. Moreover, European leaders will be hard pressed to justify developmental spending, as the domestic electorate in member countries will begin questioning whether the millions of Euros spent in what European voters might consider seemingly distant and insignificant Myanmar would be better allocated elsewhere.

¹⁹ OECD Partnership for Democratic Governance. (2010). *Contracting out government functions and services in post-conflict and fragile situations*.