

# U.S-BURMA RELATIONS

---

---

HEARING  
BEFORE THE  
SUBCOMMITTEE ON EAST ASIAN  
AND PACIFIC AFFAIRS  
OF THE  
COMMITTEE ON FOREIGN RELATIONS  
UNITED STATES SENATE  
ONE HUNDRED NINTH CONGRESS  
SECOND SESSION

MARCH 29, 2006

Printed for the use of the Committee on Foreign Relations



Available via the World Wide Web: <http://www.access.gpo.gov/congress/senate>

U.S. GOVERNMENT PRINTING OFFICE

33-725 PDF

WASHINGTON : 2007

---

For sale by the Superintendent of Documents, U.S. Government Printing Office  
Internet: [bookstore.gpo.gov](http://bookstore.gpo.gov) Phone: toll free (866) 512-1800; DC area (202) 512-1800  
Fax: (202) 512-2250 Mail: Stop SSOP, Washington, DC 20402-0001

COMMITTEE ON FOREIGN RELATIONS

RICHARD G. LUGAR, Indiana, *Chairman*

CHUCK HAGEL, Nebraska	JOSEPH R. BIDEN, Jr., Delaware
LINCOLN CHAFEE, Rhode Island	PAUL S. SARBANES, Maryland
GEORGE ALLEN, Virginia	CHRISTOPHER J. DODD, Connecticut
NORM COLEMAN, Minnesota	JOHN F. KERRY, Massachusetts
GEORGE V. VOINOVICH, Ohio	RUSSELL D. FEINGOLD, Wisconsin
LAMAR ALEXANDER, Tennessee	BARBARA BOXER, California
JOHN E. SUNUNU, New Hampshire	BILL NELSON, Florida
LISA MURKOWSKI, Alaska	BARACK OBAMA, Illinois
MEL MARTINEZ, Florida	

KENNETH A. MYERS, Jr., *Staff Director*  
ANTONY J. BLINKEN, *Democratic Staff Director*

---

SUBCOMMITTEE ON EAST ASIAN  
AND PACIFIC AFFAIRS

LISA MURKOWSKI, Alaska, *Chairman*

LAMAR ALEXANDER, Tennessee	JOHN F. KERRY, Massachusetts
CHUCK HAGEL, Nebraska	JOSEPH R. BIDEN, Jr., Delaware
LINCOLN CHAFEE, Rhode Island	RUSSELL D. FEINGOLD, Wisconsin
GEORGE ALLEN, Virginia	BARACK OBAMA, Illinois

(II)

## CONTENTS

---

	Page
Aung, Thin Thin, joint general secretary, Women's Rights and Welfare Association of Burma, New Delhi, India .....	32
Prepared statement .....	36
Green, Dr. Michael J., senior advisor and Japan chair, Center for Strategic and International Studies .....	8
Prepared statement .....	11
John, Eric G., Deputy Assistant Secretary, Bureau of East Asian and Pacific Affairs, Department of State .....	44
Prepared statement .....	47
McConnell, Hon. Mitch, a United States Senator from Kentucky, opening statement .....	3
Prepared statement .....	6
Murkowski, Hon. Lisa, a United States Senator from Alaska, opening statement .....	1
Turnell, Dr. Sean, Burma Economic Watch, Economics Department, Macquarie University, Sydney, Australia; Visiting Fellow, Southeast Asia Program, Cornell University .....	16
Prepared statement .....	19

### ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Responses of Eric G. John to written questions submitted by the following Senators:	
Lisa Murkowski .....	55
Lincoln Chaffee .....	56
Responses of Dr. Sean Turnell to written questions submitted by Senator Murkowski .....	56



## **U.S.-BURMA RELATIONS**

**WEDNESDAY, MARCH 29, 2006,**

U.S. SENATE,  
SUBCOMMITTEE ON EAST ASIAN AND PACIFIC AFFAIRS,  
COMMITTEE ON FOREIGN RELATIONS,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 2:33 p.m. in room SD-419, Dirksen Senate Office Building, Hon. Lisa Murkowski (chair of the subcommittee) presiding.

Present: Senators Murkowski and McConnell.

### **OPENING STATEMENT OF HON. LISA MURKOWSKI, U.S. SENATOR FROM ALASKA**

Senator MURKOWSKI. Good afternoon and welcome to the Senate Foreign Relations Subcommittee on East Asian and Pacific Affairs. Today, we are going to look at the situation in Burma, what impacts U.S. sanctions have had in affecting change in the country, and how we should move forward to further our policy goals.

We have a different order in the testimony today than we normally would have. Eric John, the Deputy Assistant Secretary of State, is currently testifying on the House side this afternoon and will not be able to join us until later. So in a bit of a switch, we will hear from the nongovernmental panel prior to hearing from the administration's witness.

When the subject of Burma comes up, we often think of Aung San Suu Kyi and her National League of Democracy party. She is the primary voice for political reform in a nation run by a repressive military junta. Yet for all the support, the international community has demonstrated for Suu Kyi and her party and the pressure applied in one form or another on the Burmese government, Suu Kyi remains under house arrest and the National League of Democracy's election victory in 1990 remains unhonored.

With the purging of Khin Nyunt and hundreds of his followers from the government in 2004, the State Peace and Development Council has limited the Burmese government's contact with foreign officials and international sentiment. The sudden announcement of the capital move to Pyinmana has further limited the international contact, as embassies in Rangoon were told to communicate with officials in Pyinmana via fax even though there is inadequate power in the new capital to operate fax machines or any other machines.

Since the student demonstrations in 1988, our policy toward Burma has been to sanction and isolate, with increasing limitations on assistance and trade. Yet the SPDC has effectively minimized

the effect of these sanctions by playing interested investors off one another as it offers access to Burma's considerable natural resources, and nations compete to see who has greater influence in the region.

The SPDC continues to have access to financial assistance and the means to continue its authoritative rule despite Burma's ranking among the poorest of the poor. Outside investment and assistance is moving forward in areas that are cause for great concern. In 2001, Russia announced its intent to build a 10-megawatt nuclear reactor, research reactor, in central Burma. An agreement was signed in 2002, but information on further activity has not been readily available or transparent. Instead, reports suggest it is North Korea who is now providing assistance to Burma's nuclear program.

A November 2003 article in the Far Eastern Economic Review notes that North Korean technicians were seen unloading large crates and heavy construction equipment from trains in central Burma and aircraft from North Korea's national airline, Air Karyo, were landing at military airfields also in central Burma. While this information does not directly link North Korea to a nuclear project in Burma, it is an issue that we need to be paying attention to.

The limited contacts that western governments have with Burma also impact other arenas. Burma's recent revelation that the H5N1 strain of the bird flu was found within its borders is surprising only in that it has taken so long for an official announcement. The inability of international responders to access Burma's bird population and provide assistance should be a concern to all nations. As the spring migratory path of wild birds from Asia will soon reach Alaska and move on to the rest of the United States, our lack of knowledge of the true impact of the bird flu in Burma makes our job in preventing its outbreak here in the United States that much more difficult.

With the reality of the current situation in Burma and the ineffectiveness of the current sanctions, there has been some discussion by Burma watchers of finding another way to move toward openness and political and economic reform in Burma, and that is one of the topics that I would like to explore with our witnesses today. Some have suggested the possibility of establishing a Burma version of the Six Party Talks, bringing India and China as Burma's prime investors and large neighbors to the table with representatives from ASEAN, the EU, and the United States to provide a united front.

Setting aside the pressure that it would place on Burma's military junta, I believe that one of the benefits of such a forum is a cohesive regional approach. This past January, I traveled to Seoul, Tokyo, and Beijing and the overarching message that I heard from each of the governments was that the North Korea Six Party Talks had created an atmosphere of cooperation and common ground among the parties at a time when there was clearly growing tension in the region. A Six Party Talk forum on Burma has the potential to minimize Burma's ability to play its suitors off against each other. It would also pressure the ASEAN nations to come up with a single policy to be represented at the forum.

Looking at other possibilities, many are interested to learn more about the December 2005 U.N. Security Council meeting that the United States was able to achieve and whether the Security Council might be an appropriate forum to address Burma. Both scenarios are worth discussion on their merits to determine their potential effectiveness and pitfalls.

A second issue I believe needs to be kept in mind as we are looking to make progress in Burma is the role of Burma's ethnic minorities. Aung San Suu Kyi tends to get the majority of media and political attention, but even if the results of the 1988 election are recognized or new legitimate elections are held, that does not solve the armed resistance offered by groups like the Shan State and the Karen National Union.

Both China and India are looking to sustain their domestic economic growth. Likewise, one third of Thailand's natural gas supply comes from Burma. These nations are eager to avoid turmoil on their borders. It is simply not in their interests. So for that to happen a resolution must be reached with the ethnic minority groups.

So, with these thoughts in mind, I look forward to hearing from our witnesses this afternoon and gaining their insights into the issue. I welcome to the subcommittee this afternoon the Senator from Kentucky. Senator McConnell has been a leader on the issue of Burma, and I am quite pleased that he is able to join us this afternoon. With that, Senator, if you would care to address the committee.

**STATEMENT OF HON. MITCH McCONNELL,  
U.S. SENATOR FROM KENTUCKY**

Senator McCONNELL. Thank you, Madam Chairman. I thank you also for your interest in this important subject and for having these hearings today.

Let me say that I first became interested in this issue in the early 1990s about the time that Aung San Suu Kyi was awarded the Nobel Peace Prize. I remember reading an article about her in one of the weekly magazines that we have here in the United States and began to learn more about the situation in Burma. Regretfully, after some 16 years it is hard to quantify any significant progress at all, as you were referring to the election in the late 1980s. Shortly after that, of course, she was put under house arrest. Except for about a 1½-year period in 2003, during which her motorcade was attacked and she was injured and put in a real prison for a period of time now she is back in her home detention arrangement, this is a woman who has been largely sequestered from the Burmese people themselves, as well as the rest of the world.

We all know during this period her husband, who was living in England, became ill and passed away without her presence. It is a truly tragic story.

As we all know, Burma is run by a pariah regime. If they had nuclear weapons or the prospect of getting nuclear weapons, we would be paying a lot of attention to this regime because it would be in the category of North Korea and Iran in terms of international interest and concern.

So the question arises, what can you do? In 2003 I introduced, with lots of support on a bipartisan basis, a bill that provided for

unilateral sanctions against the regime, knowing full well at the time that unilateral sanctions are rarely good enough, that you have to have the cooperation of a lot of others. You were mentioning the multilateral approach to North Korea as a potential framework for addressing the Burma situation. You clearly have to have broader cooperation.

The good news is the Europeans, I think, are beginning to kind of wake up to the inappropriateness of interacting with this regime. I was in India about a year ago and raised the issue with them. I gather from listening to you, you raised the issue with others in the region in your own travels. I think it is becoming increasingly embarrassing to the neighborhood, which is a positive step.

But beyond just being embarrassed, I think there needs to be some motivation for serious action. I think multilateral sanctions are the only way you can really squeeze this regime. Unfortunately, the Thais and the Indians and the Chinese are all basically doing business there and are not terribly concerned, frankly, with what internal conditions are in terms of human rights and abuses of other kinds. So that's the situation that we confront at the moment.

With that, let me turn to my prepared text. I want to, as I said, thank you for having this hearing. Certainly your interest and support for the struggle for freedom in that country has ensured that no one forgets the litany of abuses that have been committed by this incredibly repressive and illegitimate regime, which has all kinds of oddball names. It is currently calling itself the State Peace and Development Council (SPDC).

I will not recount all the horrors of General Than Shwe's misrule. They are well documented by the State Department, the U.N., and other organizations. I do want to highlight the tragic fact that Burmese leader Aung San Suu Kyi and over 1,000 other prisoners of conscience are imprisoned in Burma today. Suu Kyi and her compatriots should be immediately and unconditionally released.

This was originally to be the year that Burma was going to host the ASEAN meeting. At least ASEAN was too embarrassed to go forward with that meeting, which will not occur in Rangoon in 2006, and I think this shows that this regime is an absolute embarrassment to the neighborhood.

The SPDC has engaged in arrests, torture, harassment, and intimidation of the National League for Democracy (NLD), which got 80 percent of the vote when the regime mistakenly allowed a vote to occur. I bet they regret that because it has certainly demonstrated where the support is.

While the situation inside Burma remains both dire and opaque, analysts continue to ponder the SPDC's recent bizarre relocation of the capital, moving the capital to a jungle site, further indicating how inward-looking they are and how consumed they are with just maintaining power.

Under President Bush's leadership, the State Department has imposed a full court press in foreign capitals across the globe, seeking both dialogue and action. I can tell you, Madam Chair, that Secretary Powell always had this on his agenda when he was at ASEAN meetings in the neighborhood, and Secretary Rice was before my Subcommittee on Foreign Operations yesterday, during

which we also had an opportunity to discuss this issue. She is intensely interested in it as well. I think the United States is certainly doing its part here in leading. What we need are a few more followers.

It is no understatement that Burma remains a priority talking point and the President, as I indicated, brings it up whenever he is in that part of the world, as does the Secretary of State.

In addition to diplomacy, Secretary Rice and her team are keenly attuned to the humanitarian needs of the Burmese people. I was impressed with the State Department's rapid response to the outbreak of Avian influenza inside Burma, which until recently, represented Southeast Asia's bird flu black hole. Secretary Rice understands, as we do, that the root cause of Burma's myriad health, economic, and social problems is essentially political in nature. The SPDC has done little to invest in its own health infrastructure or to combat deadly diseases, including HIV-AIDS, and recently issued draconian guidelines that restrict the ability of the international NGOs to conduct programs inside the program.

While we may all want to do more to help the people of Burma, our efforts essentially are stymied by the junta. Governments in the region, as I suggested earlier, are tiring of the Burma problem. Last year, Burma actually was prevented from becoming chairman, as I indicated, of the ASEAN organization, in large part because of the loss of prestige that grouping would have endured with the SPDC as its head.

Frustration with the junta is palpable in some capitals, whether due to disbelief at the wholesale move of the capital out into the jungle, or because last year's sacking and sentencing of a Than Shwe rival, General Khin Nyunt. It is becoming clear to many in Southeast Asia that Burma's problems are becoming the region's problems, whether it is illicit drug manufacturing and trafficking or diseases such as HIV-AIDS, refugees, sexual violence against women, internally displaced peoples, or even Avian flu.

So let me suggest three necessary steps to sustain support for the struggle for freedom in Burma over the next year. First, Congress ought to renew existing import sanctions against the SPDC. We have done that every year since 2003 and we will do it again. We appreciate the State Department's strong support for renewing sanctions and I hope we can count on our colleagues' support as we have every year.

I want to be as clear today, as I have been in the past, that sanctions ought to remain in place until Suu Kyi and other Burmese champions of freedom, themselves, call for the sanctions to be lifted. We must take our cues from those who suffer for justice. Former political prisoner Min Ko Naing, who served 16 years in Burma's notorious prisons, recently said, and this is a quote: "We categorically state today that we will never, never bow to injustice."

Second, the President and the administration must continue to aggressively engage foreign governments. I believe they have been doing that and will continue to do it. Secretary Rice is extremely passionate on this issue. All of our officials in the administration, National Security Adviser Hadley and U.N. Ambassador Bolton, are extremely interested in pursuing this issue.

Finally, the United States needs to continue to push the United Nations Security Council to again discuss and debate myriad security threats Burma poses to that whole region. While last year's unprecedented briefing is a good first step, an important step includes formal discussion, debate, and passage at the U.N. of a Burma resolution. Last year, former Czech President Vaclav Havel and South African Archbishop Tutu commissioned a report entitled "Threat to Peace: A Call for the U.N. Security Council To Act in Burma." This report serves as ample justification for Security Council action.

Let me close on a somber note. The murder of former political prisoner Thet Naing Oo by Burmese police and fire officials earlier this month is absolutely despicable. In many respects, this murder demonstrates the SPDC's total disregard for the human rights and dignity of the people in Burma. If it can happen to him, it can happen to anybody in that country.

The United States and all the world's democracies must make clear to General Than Shwe that he, he, is responsible for the security and welfare of all Burmese prisoners of conscience, particularly Suu Kyi.

Again, Madam Chair, I want to thank you for having this hearing and giving me an opportunity to express myself on this important issue.

[The prepared statement of Senator McConnell follows:]

PREPARED STATEMENT OF MITCH MCCONNELL, U.S. SENATOR FROM KENTUCKY

It is only appropriate that I begin my remarks with a word of thanks to Senators Murkowski and Kerry for holding this hearing on Burma. Your interest and support for the struggle for freedom in that country has ensured that no one forgets the litany of abuses committed by the repressive and illegitimate State Peace and Development Council (SPDC) against the people of Burma.

I will not recount today the horrors of Burmese General Than Shwe's misrule as they are well-documented by the State Department, the United Nations and other organizations. However, I do want to highlight the tragic fact that Burmese democracy leader Daw Aung San Suu Kyi and over 1,000 other prisoners of conscience remain imprisoned in Burma. Suu Kyi and her compatriots should be immediately and unconditionally released, and SPDC arrest, torture, harassment and intimidation of National League for Democracy activists and ethnic minorities should cease. Only then can a meaningful process of national reconciliation move forward. Together we must seek permanent irreversible steps to freedom.

While the situation inside Burma remains both dire and opaque—analysts continue to ponder the SPDC's bizarre relocation of the capital to the jungle site of Pinyinana—the march for freedom in Burma progresses. Under President Bush's leadership, the State Department has imposed a full court press in foreign capitals across the globe seeking dialog and action on Burma. It is no understatement that Burma remains a priority talking point on the President's agenda, whether he is in Tokyo, New Delhi or Washington, D.C.

Secretary of State Rice has equally championed this cause. She, along with Assistant Secretary of State for East Asia and Pacific Affairs Christopher Hill and Assistant Secretary for Democracy, Human Rights and Labor Barry Lowenkron, have aggressively lobbied the Philippines, Indonesia, China, Vietnam, Thailand and Cambodia to play a more constructive role in support of democracy and justice in Burma.

In addition to diplomacy, Secretary Rice and her team are keenly attuned to the humanitarian needs of the Burmese people. I commend the State Department's rapid response to the outbreak of avian influenza inside Burma, which, until recently, represented Southeast Asia's bird flu black hole. Secretary Rice understands, as do we, that the root causes of Burma's myriad health, economic and social problems are political in nature. The SPDC has done little to invest in its own health infrastructure or to combat deadly diseases, including HIV/AIDS, and recently issued draconian guidelines that restrict the ability of international NGO's to con-

duct programs inside Burma. While we may all want to do more to help the people of Burma, our efforts are stymied by the junta.

Governments in the region are tiring of the Burma problem. Last year, Burma sidestepped its chairmanship of the Association of Southeast Asian Nations (ASEAN) in large part because of the loss of prestige that grouping would have endured with the SPDC at its head. Frustration with the junta is palpable in some capitals, whether due to disbelief with the wholesale move of the capital to the jungle, or because of last year's sacking and sentencing of Than Shwe rival General Khin Nyunt. It is becoming clear to many in Southeast Asia that Burma's problems are the region's problems—whether illicit drug manufacturing and trafficking, diseases such as HIV/AIDS, refugees, sexual violence against women, internally displaced peoples, or even avian influenza.

Let me briefly outline three necessary steps to sustain support for the struggle for freedom in Burma over the next year.

First, Congress must renew existing import sanctions against the SPDC. I appreciate the State Department's strong support for renewing sanctions, and I hope I can count on my colleagues' support when Senator Feinstein and I offer legislation in the weeks ahead to do so. I want to be as clear today as I have been in the past: sanctions must remain in place until Suu Kyi and other Burmese champions of freedom call for them to be lifted. We must take our cues from those who suffer for justice. Former political prisoner Min Ko Naing, who served 16 years in Burma's notorious prisons, recently said: "We categorically state today that we will never bow to injustice."

Second, the President and the administration must continue to aggressively engage foreign governments on supporting democracy in Burma. I suspect Secretary Rice will be as aggressive as she has been in the past, and I encourage all our officials—from National Security Advisor Stephen Hadley to our Ambassador to the United Nations John Bolton—to keep pace with the Secretary and the President on this issue.

Finally, the United States must continue to push the United Nations Security Council to again discuss and debate the myriad security threats Burma poses to the region. While last year's unprecedented briefing is a good first step, a better second step includes formal discussion, debate and passage of a Burma resolution. Last year, former Czech President Vaclav Havel and South African Archbishop Emeritus Desmond Tutu commissioned a report entitled "Threat to Peace: A Call for the U.N. Security Council to Act in Burma" that serves as ample justification for Security Council action. I ask that the Executive Summary of that report appear in the record following my remarks.

Let me close on a somber note. The murder of former political prisoner Thet Naing Oo by Burmese police and fire officials earlier this month is despicable. In many respects, this murder demonstrates the SPDC's total disregard for the human rights and dignity of the people of the Burma. If it can happen to Thet Naing Oo, it can happen to anybody. The United States and all the world's democracies must make clear to General Than Shwe that he is responsible for the security and welfare of all Burmese prisoners of conscience, particularly Suu Kyi.

Senator MURKOWSKI. Thank you. I appreciate your comments and again truly your leadership on this issue. I think if you think of one Senator out there who has really taken the lead as it relates to Burma and raising the discussion, it is you, and we appreciate that and are very thankful for your leadership on it. So thank you for the opportunity to be here with us today.

Senator MCCONNELL. Thank you, Madam Chair.

Senator MURKOWSKI. With that, let us move to our second panel. This is: Dr. Michael Green, who is the senior adviser and Japan Chair, the Center for Strategic and International Studies here in Washington, DC. We also have Dr. Sean Turnell, who is the co-founder and editorial board member of the Burma Economic Watch at Macquarie University in Sydney, Australia, and Ms. Thin Thin Aung, Joint General Secretary of the Women's Rights and Welfare Association of Burma, located in New Delhi, India.

Welcome to all of you this afternoon. Thank you for taking the time to join us and to provide us with your insights and perspective on the issue of Burma. What we will do is just begin here with you,

Dr. Green, if you can provide your testimony. We would ask that you try to keep it within the time limits and we will move in order to Dr. Turnell and Ms. Aung after that.

With that, Dr. Green.

**STATEMENT OF MICHAEL J. GREEN, PH.D., SENIOR ADVISER  
AND JAPAN CHAIR, CENTER FOR STRATEGIC AND INTER-  
NATIONAL STUDIES**

Dr. GREEN. Thank you, Madam Chair. It is a privilege to be able to speak to this subcommittee, a privilege I did not have, of course, when I was on the staff of the National Security Council working these problems as the senior director for Asia until December. Now that I am in the academic world, I can speak my mind, and I appreciate the chance to do so.

You and Senator McConnell and the members of this subcommittee are to be commended for keeping this issue on the front burner. I think—I know that it gives encouragement to the many in Burma who look for the day when their nation of 50 million people will join the community of nations free and at peace with their neighbors and taking full advantage of their beautiful country.

The demise of Burma under the junta and Than Shwe has been well chronicled by the State Department, by this subcommittee, by Senator McConnell. The ideals of the American people will not allow us to turn away from this. What one often hears on the other side of the argument is that our national interests, our security interests, our realist interests, would point to a different path, that if we were, quote unquote, “realists” about this, we would take an approach of loosening sanctions, of engaging the regime, of trying to keep up with China’s influence.

The main point I want to make today is that I think this argument is wrong, that when it comes to Burma our ideals and our national security interests are in complete harmony. I say this for two reasons. First, Burma is a trans-national security threat. The details are well documented in the pamphlet mentioned by Senator McConnell. From HIV/AIDS to drugs to trafficking in persons, internally and externally displaced persons, Burma is a source of instability for its neighbors.

Now, I cannot prove this, but I suspect that, to some degree, this is a deliberate element of the regime’s national security strategy, that by destabilizing its neighbors, it creates a situation where the neighbors are more inclined to, in effect, bribe the regime to try to keep these problems under control. It is a tactic that one sees often with North Korea, as well.

The regime has spent almost no effort for resources to deal with the problems of Avian influenza, of HIV/AIDS, of internally displaced persons, which is why I think that this is not only a crime of omission, but may actually be part of a deliberate strategy. It therefore fits all of the characteristics one would expect for attention from the Security Council, and I agree completely with the testimony of Senator McConnell. This is under chapter 7 of the Security Council’s responsibilities an item that should be pushed towards a resolution.

I believe that it will be a move that helps us on the Burma issue no matter how it comes out. There are obviously tradeoffs in the

Security Council. You have to spend efforts on issues like Iran. But I think this one should be right at the front of our agenda.

The second reason I would argue that Burma is fundamentally a national security interest for us draws on the logic of the national security strategy that the White House just produced. That document makes a point that Secretary Rice and the President and others have made in the past, that in Asia, the future of stability and peace will not just be a matter of how we manage rivalry among great powers like Japan or China or India. It is going to be a matter of how ideas are formed and how countries define their purpose in this volatile and unpredictable region.

I think when it comes to the world of ideas, the United States can be very proud and take great satisfaction in the kind of debates we are hearing in India or in Japan or in Indonesia. In my testimony, which I have submitted for the record, I chronicled how Prime Minister Koizumi or Prime Minister Monmahon Singh, or President Yudhoyono talk more about their country's purpose and interests in terms of democracy and values than ever before. This is a trend that we want to support and we want to push. This is a trend that we want to have define the agenda for Asia in the 21st century, because if it does, it is going to set the right kind of context for China's own involvement in Asia and in the international community and for other states in transition.

In Jakarta and in Delhi and in Tokyo, the state of democracy and the state of internal affairs in Burma are in many ways the cutting edge issues or the proxy debate about how much democracy and how much these values should characterize the strategy and the agenda for our democratic friends and allies. So I believe it is in our interests to be pushing this further with all of our friends and allies. Secretary Rice and the President, as Senator McConnell has said, have raised this with every one of their leaders and counterparts in the region. It is a mixed picture. Japan is talking democracy, but just announced \$42 million in aid to teach Japanese in Burma. My understanding is the Japanese government is undertaking a major review of its Burma policy to try to reconcile its new articulation of democracy as a foreign policy priority and its somewhat legacy approach of mercantilism with Burma.

In India, of course, the Indian president was in Burma March 12, the week after President Bush was in Delhi, a week after President Bush and Prime Minister Singh agreed to a democracy-building agenda for our relationship. To his credit, the Indian president raised the status of Daw Aung Sann Suu Kyi, raised democracy. But the main theme that came through was about energy cooperation, \$40 million in proposed packages for LNG development, and the Burma Road. These are real national interests for India and they are legitimate. We should respect them, but we need to engage India and push the Indian government to live up to its ideals, because I think their debate is in play and their strategic culture is evolving.

In Southeast Asia, President Yudhoyono's trip, Malaysian Foreign Minister Hamid's recent trip, demonstrated that our Southeast Asian friends and especially the democracies are willing to push Burma, not only privately, but publicly, to release Daw Aung San Suu Kyi, to push for a return to democracy. But there again,

it is a mixed signal. Foreign Minister Hamid came out without being able to see Aung San Suu Kyi, clearly a frustrated mission, but he declared it a success, as our ASEAN friends are wont to do. He will have to be honest with his colleagues. They meet on April 17th to review progress in Burma, and I think we should be pushing our ASEAN friends to be realistic about the state of play in Burma.

In all of these countries, the Burma issue is at the tipping point, as Senator McConnell suggested, as you suggested in your opening. I would argue, even in China, the state of play is changing. The Chinese worry about the destabilizing effects of Than Shwe's behavior. I think they worry about, in a strategic sense, countries in the region coming together on this issue of democracy, and in a healthy way, we should make the Chinese worry. We should be pushing this agenda to get China to sign on as much as possible with its long-term interests in stability in the region, which means returning Burma to the path of democracy. Even if China is not going to be an open advocate of democracy-building in Asia, they can be an advocate of stability, and their interests would suggest they participate and cooperate.

You mentioned, Madam Chair, the idea of a Six Party Talks format or a multilateral format. I was involved in the Six Party Talks, both the formulation and the implementation, and there are aspects of that that I would draw on in dealing with this. There are other aspects which I would try to avoid. I think in the case of Burma, what we want is to work assertively with other parties that we know share our basic values—Japan, the EU, I would argue many of the ASEAN nations, India—and break out from there, include the Chinese as we can, include others as we can, but push for a common set of talking points and a common roadmap. The word “roadmap” has certain connotations in the Burma context, but essentially a roadmap with concrete benchmarks.

We ought to try to get a common picture. We've not done that yet. We've pushed at high levels for attention to this. I think it is time now to push for a common set of benchmarks that we expect from the regime. It obviously would include the release permanent and irreversible of Aung San Suu Kyi, the NLD leadership, ethnic leaders. It would include a sustained process of reconciliation leading to restoration of democracy.

I think we should push others. I do not think we will get Japan or India to agree to sanctions per se, but we ought to push them to put sticks on the table, which would include controlling and limiting further investment or aid in the future. I think we should be prepared to put certain carrots on the table—incremental lifting of sanctions as progress is made on these benchmarks.

The mechanics can be debated and worked out. Our colleagues in the State Department will know on the ground how to work this. It will not be exactly like the Six Party Talks, but I think the time is ripe to start multilateralizing this problem, not only in the U.N., but in the region as well.

Thank you.

[The prepared statement of Dr. Green follows:]

PREPARED STATEMENT OF MICHAEL JONATHAN GREEN, PH.D., SENIOR ADVISER AND  
JAPAN CHAIR, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Madame Chair, I appreciate the opportunity to address this committee on the situation in Burma from the perspective of international security. The members of this committee are to be commended for their consistent support for Daw Aung San Suu Kyi and the legitimate winners of the 1990 election in Burma. Your bipartisan stand for democracy and human rights in Burma is a source of inspiration for those who quietly prepare for the day when this nation of fifty million citizens can rejoin the international community as a free people in a beautiful and well-endowed land at peace with its neighbors.

Today I want to call the committee's attention to the international security implications of the demise of Burma under General Than Shwe. Than Shwe and the military junta are responsible not only for the reversal of a democratic election result, but also for abuses ranging from persecution of ethnic minorities to systematic rape and the recruitment of child soldiers. Our ideals will not allow us to turn our attention from the fate of the people in Burma or to relent in applying pressure on the regime to return to the path of democracy.

Some argue that these ideals are blinding us to larger strategic interests in Burma. They maintain that a pragmatic and "realist" national security strategy would point to a different course—one of increased engagement with the regime and a relaxation of pressure. They assert that by isolating the military junta in Burma, we are weakening our own strategic position in Asia.

This argument could not be more wrong. I stepped down as Special Assistant to the President and Senior Director for Asian Affairs on the National Security Council staff in December and I come away from that experience firmly convinced that on the question of Burma, our ideals and our national security interests coincide. In short, a strong and unrelenting stand for democracy in Burma is an indispensable element in our overall strategy for maintaining peace and stability in the Asia Pacific region.

I say this for two reasons. First, the tragic mismanagement of Burma's internal affairs by Than Shwe and his government has created an arsenal of transnational security problems that threaten to undermine stability in the entire region. Since 1996 the Burmese Army's "Four Cuts" strategy has led to the destruction of over 2500 villages and the internal displacement of about one million people, mostly from the Karen, Shan and other ethnic minorities. Millions also live in hiding or as open exiles in Thailand, China, Bangladesh, India and Malaysia. These refugee flows are a social and security burden on the neighboring states that are further complicated by the attendant problems of trafficking in persons, drugs and transmission of HIV/AIDS. The most chilling example of how these problems build on each other is the practice of drug traffickers to distribute heroin with HIV-tainted needles to villagers as they ply their illegal trade across the borders into India, China and Thailand. Avian influenza now also joins the list of transnational threats emanating from Burma.

The regime in Burma has done almost nothing to address the health and social disasters their Four Cuts strategy has caused. I suspect that this is not just a crime of omission, but part of a deliberate strategy that parallels North Korea's own approach to China and the Republic of Korea. These regimes use their status as a source of transnational instability as tools of blackmail to deter their larger neighbors from stepping up pressure for reform. They are behaving like criminal gangs extorting money from shopkeepers in the neighborhood in exchange for keeping other criminal elements "under control." They can do this because they do not care about the vast majority of people under their care and find that leaving potentially disloyal segments of the population in a state of constant fear and near-starvation is a useful tool for maintaining control. The neighboring states make these bargains with the regime out of fear of what might come next and with the hope that they are contributing to stability, when in fact the problems are just being allowed to fester and grow and will inevitably reach beyond the borders with tremendous security and social implications.

The transnational problems caused by the regime's behavior represent a threat—perhaps a deliberate threat—to the peace and security of South and Southeast Asia. It is for this reason that the United Nations Security Council should take up Burma with its authority under Chapter VII (Article 41) of the United Nations Charter. The votes are there and I hope that the administration pushes with other like-minded nations for a resolution on Burma in the current session. Even if the resolution fails or the Security Council does not take immediate action, there is merit in sharpening our friends and allies' focus on the state of democracy and human rights in Burma. And this is because the debate over Burma in these countries has signifi-

cance in the context of the broader national security strategy of the United States in the Asia Pacific region.

Let me turn to this second reason why the Burma question bears on our national security interests. The future of Asia is being debated in terms of relative power and rivalry among China, Japan, India and other rising states. What is often overlooked, and what will ultimately be just as important for peace and security in the region, will be the competition of *ideas*. China's rise thus far has been marked by a mercantilist approach coupled with an outmoded policy of "non-interference in internal affairs" of other states. Japan and India once held similar views in many respects, despite their democratic roots. However, increasingly these two nations are defining their national interests in terms of the democratic ideals that distinguish them from China and that they recognize are critical to their own stakes in the international system. Even in Southeast Asia where the Association of South East Asian Nations (ASEAN) was created on the premise of "non-interference in internal affairs"—governments and parliaments are debating whether they can sustain peace and stability in their neighborhood without pressing members to clean up their domestic problems and adhere to norms and rules that are fundamental to the region's continued economic success.

It is a critical U.S. interest that democracies in Asia continue moving toward national strategies based on shared values and shared rules. The debate over Burma in these capitals is the cutting edge issue. How Tokyo or Delhi or Jakarta decides to manage the Burma problem—whether they stick to non-interference or step up pressure on Burma to adhere to international norms—will prove the major proxy battle of how they approach the region's broader agenda in the future. If Japan, India, Indonesia and other nations with influence on Burma choose to take a stronger stand in support of the norms that underpin their own democracies, this will not only accelerate the day when the citizens of Burma return their nation to the international community, it will also shape the choices of other nations in transition—particularly China.

Realists who argue for more "engagement" on Burma are right, but the target of that engagement strategy should be the democratic nations that surround Burma and not yet the junta itself. I would therefore like to briefly review where the debate on Burma is in each of these neighboring states and then suggest steps we can take to mobilize them into a more effective coalition.

Japan is the most promising example of the positive evolution of interests and strategies that I am describing. Japan originally supported Burma's entry into ASEAN. Tokyo was motivated by a sentimental attachment to Burma dating back to the Second World War and by a desire to distinguish itself from Washington in the region, particularly in the context of U.S.-Japan trade friction and disagreements over how to respond to the 1997 financial crisis in the region. In those days Japanese strategic thinkers took pains to distinguish "Asian values" from the so-called "global values" espoused by Washington. Japan also began worrying about China's growing strategic influence in Burma as Sino-Japanese competition heated up and the Japanese government matched Chinese aid hundreds of millions of dollars at a time in order to keep up its own influence and not lose out to Beijing.

Things have changed, however. Prime Minister Koizumi himself has acknowledged that the Japanese government's policy of engagement has not led to greater democratization. Just as important, Japanese political leaders have stopped alluding to distinct "Asian values" and have increasingly been pointing to Japan's own democratic values as critical to its national identity and international role. I would particularly recommend to the members of the committee Foreign Minister Taro Aso's December 7, 2005 speech on "Japan as the Thought Leader of Asia" in which he argued that Japan stands as a model for the rest of Asia based on its success through adherence to the principals of market economics and democracy.<sup>1</sup> Political scientists can debate the causes of this change. It may result from a distinctly realist assessment of the competition with a non-democratic China or from fundamental changes in Japan's own domestic politics and economy. The result, however, is a new ferment in Tokyo and a new articulation of Japan's purpose based on values that should have a bearing on Japan's approach toward Burma. Recognizing just how important these values are, the Japanese government is undertaking a top-to-bottom review of its Burma policy. The outcome is not certain and we should be fully engaged with Tokyo on that process.

<sup>1</sup> Foreign Minister Taro Aso, "Asian Strategy as I See it: Japan as the Thought Leader of Asia," December 7, 2005. The text is available on <http://www.mofa.go.jp/announce/fm/aso/speech0512>. Foreign Minister Aso echoes this theme with respect to Sino-Japanese relations in a March 13, 2006 op/ed in the *Wall Street Journal* titled "Japan Awaits a Democratic China."

The Association of South East Asian Nations (ASEAN) is undergoing a similar shift in thinking. Originally, ASEAN opted for a policy of "constructive engagement" based on the assumption that inclusion in the regional grouping would incentivize the junta in Burma to make the right choices. For years our Thai counterparts argued that the so-called Bangkok Process of international meetings with Burma would lead to concrete results, including a detailed roadmap for returning to democratization, the release of Aung San Suu Kyi, and inclusion of the NLD in the constitutional convention. It is now obvious that these results have not happened as Than Shwe has purged Kin Nyunt and others involved in the Bangkok Process.

As a result, ASEAN and its member governments have begun recasting their approach to Burma, calling on the regime to release Aung San Suu Kyi and convincing Than Shwe last year to pass on chairing ASEAN when his turn came up in 2006. ASEAN leaders' embarrassment at Burma's non-response to constructive engagement has led to even tougher words from the governments in the region both privately and publicly since then. With the first direct Presidential elections in Indonesia 2004 and increasing pluralism and parliamentary activism in Thailand, Malaysia and Singapore, the character of other ASEAN member states is itself changing and many within are taking their nation. These changes have been pushed by transnational groups within ASEAN such as the Inter-Parliamentary Myanmar Caucus. Indonesia's new activism is most encouraging, with President Yuduhono's early March visit to Burma to establish a joint commission between Rangoon and Jakarta with the primary focus of monitoring the junta's progress toward democratic reform. And just this week Malaysian Foreign Minister Hamid went last week to Burma on behalf of ASEAN to press for democracy, but left in frustration after being blocked from seeing Aung Suu Kyi or Than Shwe. He is set to report on his visit to the rest of ASEAN on April 17th and although he called his visit a success publicly, I expect the private discussion among ministers will be about how to deal with the further retrenchment and backsliding of the regime.

The picture is still decidedly mixed in ASEAN, however. The bureaucracies and foreign ministries worry about the transnational problems presented by the junta's mismanagement of the Nation and continue to resort to the default position of paying them off with aid in order to avoid further troubles. The strategic mentality in these foreign ministries also remains mired in the non-aligned tolerance for bad internal governance and ideological resistance to interference in internal affairs from the developed world. New leaders like Susilo Bambang Yuduhono in Indonesia, Lee Hsien Loong in Singapore, and Abdullah Badawi of Malaysia, are often more enlightened than their bureaucracies and recognize the need to push Burma on democracy. However, these ASEAN leaders are also competing among themselves for the spotlight and the regime is using the competition for regional leadership within ASEAN to divide ASEAN leaders against themselves and to weaken the message many are clearly carrying on the need for change. The growing democratic instincts of ASEAN leaders are right, but are still not being met with results in implementation.

India is also embracing democracy as a central tenet of its international role and is moving away from older, mercantilist and non-aligned ways of thinking about international security. Like Japan, India's strategic culture may be shifting because of a combination of internal political and economic change and the implications of China's rise. Prime Minister Monmahon Singh has clearly articulated this aspect of India's identity in speeches, declaring in 2005, for example that:

If there is an "idea of India" that the world should remember us by and regard us for, it is the idea of an inclusive and open society, a multi-cultural, multi-ethnic, multi-lingual society. All countries of the world will evolve in this direction as we move forward into the 21st Century.<sup>2</sup>

This shared value with the United States has become one of the pillars of the United States transformed strategic relationship with India under President Bush. In their March 2 joint statement in New Delhi, for example, Prime Minister Singh and President Bush agreed to work together on the promotion of democracy through the U.N. Democracy Fund, and cooperation in international forums such as the International Centre for Democratic Transition (ICDT).<sup>3</sup> Rhetorically, the Indian government has said that it wishes to see a strong, prosperous and democratic

<sup>2</sup>The transcript of Prime Minister Singh's remarks at the India Today Conclave, New Delhi, February 25, 2005 is available on <http://www.pmindia.nic.in/speeches.htm> (cited in C. Raja Mohan, *Impossible Allies: Nuclear India United States and the Global Order*. Delhi: India Research Press, 2006, p. 93).

<sup>3</sup>U.S.-India Joint Statement, March 2, 2006. Available at <http://www.whitehouse.gov/news/releases/2006/03>.

Burma and Prime Minister Singh has said that he would like to see the release of Aung San Suu Kyi.

However, where the rubber meets the road the Indian government has been sending mixed signals to the regime. The lure of enhanced economic interaction with ASEAN through the Burma road and fears that Burma might allow cross-border destabilization of the Assam region in India have both led Delhi to opt for aid over pressure for real change. Indian President Abdul Kalam's March 12 visit to Burma with a new \$40 million aid package and a deal on natural gas was dissonant with the Bush-Singh joint statement on democracy, to say the least. President Kalam did call on his counterparts to release Aung San Suu Kyi and to keep on the path to democracy, but the theme he emphasized much more was the importance of Burma as India's "gateway" to Southeast Asia. There are also contradictory signals being sent by the Indian military's ongoing engagement with the Burmese Army.

Nevertheless, I believe that India's new focus on democracy promotion is real and that there is an intense debate about overall strategic purpose and direction in Delhi. For now, the many actors in India's national security bureaucracy, the hard-edged realist mentality they bring to regional problems and the lingering NAM mentality, have all conspired to prevent the new strategic should therefore be a major topic for U.S.-India dialog at all levels. It is critical that we keep Burma front and center as a point for U.S.-India cooperation, respecting India's interests but pushing Delhi to live up to its ideals.

That brings us to China. China is Burma's strongest supporter. China-Burma trade was \$1.2 billion in 2005 (of \$5 billion total trade for Burma) and Beijing is negotiating new investments in economic "free trade zones" in Syriam and in the construction of a pipeline to ship Burma's untapped offshore natural gas reserves to Yunnan Province. In February this year Premier Wen Jiabao visited Burma and told Soe Win that China opposes the imposition of economic sanctions. Fears that Beijing might "Finlandize" the regime or develop military facilities in the Andaman Sea and Bay of Bengal have in turn been major motivating factors for Tokyo, Delhi and ASEAN's own counterbalancing policy of engagement with the regime. (I am once again reminded of North Korea, where fear of China's unchecked influence has propelled the Republic of Korea to take a more accommodating stance toward Pyongyang.) While it is unlikely that Beijing will adopt democracy promotion as part of its foreign policy toolkit anytime in the near future, I do think it is possible to have an influence on China's approach to Burma which is ultimately going to be indispensable if we are going to change the regime's behavior.

First, there is growing evidence to suggest that China is unhappy about the self-defeating behavior of the Than Shwe regime and that Beijing is beginning to push quietly for internal reforms. In part this is because of the export of drug and HIV/AIDS problems from Burma into neighboring province of Yunnan. I suspect that Beijing also worries about the possible implosion of Burma under Than Shwe. Chinese leaders clearly fear the domino of "colored revolutions" that began spreading from Eastern Europe through Central Asia and would probably not like to see collapse of an authoritarian regime right in their own neighborhood. In short, Beijing has real self-interest in stopping the leadership in Burma from taking further steps that lead to instability internally and in the region.

Second, we must make it clear to Beijing that China will be held accountable in Washington for the "company it keeps." Deputy Secretary of State Robert Zoellick's Senior Dialogue with Chinese Executive Vice Foreign Minister Dai Bingqiao on China's role as a "stakeholder" in international society has been effective in this regard. Hu Jintao has espoused a policy of "peaceful development" to emphasize that China's concerns are internal and China seeks to be a benign force in international relations. Through the Zoellick-Dai dialog, I believe the Chinese are learning that on questions like Burma, a policy of commercial engagement unencumbered by expectations of adherence to international norms is mercantilist and therefore anything but benign. I also think we can convince Beijing to appreciate that short term accommodation of the regime may only prolong and complicate longer-term problems of instability emanating from Burma.

Taking this argument directly to China is necessary but not sufficient. Beijing must also see that democracy and the rule of law are the *region's* agenda as well. A successful strategy to mobilize the regional actors that increasingly care about the internal state of affairs in Burma will create a coalition that Beijing cannot ignore. China will not want to be the anti-status quo outlier in Asia. I believe China will move pre-emptively for change in Burma rather than see the change dictated by democratic powers aligned with the United States. And this need not be seen in zero-sum terms in the U.S.-China relationship. Ultimately, action by Beijing to change the behavior of regimes like Burma and North Korea will provide the substance for a more strategic and mutual beneficial U.S. China partnership.

Given that the Burma question is one that touches not only on American values, but also on our national security interests, how should we organize ourselves? I have three specific recommendations.

First, the United States should press for the U.N. Security Council for a resolution on Burma based on Chapter VII of the U.N. Charter. This will take diplomatic energy and will rile some members whose votes we need for other Security Council debates over Iran. However, as I have argued here, the issue is larger and more strategic than Burma itself. And, frankly, it is the right thing to do.

Second, the United States should take the lead on organizing the international community to provide humanitarian assistance to the people of Burma to contain and reverse the transnational threats of HIV/AIDS and Avian Influenza. In fact, the United States, recognizing the serious threat that HIV/AIDS poses not just to Burma but to the region, led the effort to get the Global Fund involved in Burma and it was decisions by the junta that ultimately led to the unfortunate but unavoidable decision to pull back. The U.S. Government has also provided the initial equipment necessary to help detect and contain Avian Influenza outbreaks and should continue to do so as necessary. Burma's neighbors and traditional advocates of "constructive engagement" have been far less willing to provide humanitarian assistance to the people of Burma to respond to these health threats. We should press them to do so, for example, as part of a coordinated international approach to meet the World Health Organization's call for \$4 million in assistance for fighting avian influenza in Burma.

Third, we should organize an international coalition for change in Burma to replace the now moribund Bangkok Process. The President has raised Burma with every regional leader he has met and senior officials like Undersecretary of State for Political Affairs Nicholas Burns and Undersecretary for Global Affairs Paula Dobriansky have carried on the message at their level. It is time to push for a common roadmap that can succeed through strength of numbers. I would organize this effort with Japan, India, Australia ASEAN and the European Union. The United Nations should also be involved, of course. And I would avail China of the opportunity to join other regional players to enhance stability by pushing collectively for changed behavior by Burma, but China's participation would have to be premised on recognizing the need to press for change.

In fact, my colleagues and I began some of this process informally while I was at the National Security Council and found that counterparts in key ASEAN states were eager for more. They know that "constructive engagement" and the Bangkok process have not led to results. They know that the *status quo* is fundamentally unstable and that they will only face more cross-border problems from Burma in the future. They see Than Shwe's decision to move the capital to Pyinmana as evidence of an increasingly delusional leadership driven by the recommendations of soothsayers and astrologers. They recognize that ASEAN's clout vis-à-vis other international actors is being weakened. They worry about China's growing influence, but they say that they can build consensus for a new approach if we can bring on board Japan and India. They are not yet ready to abandon engagement, but they are ready to look at adding more sticks to their menu of carrots.

If we are to organize for a deliberate multilateral approach to the Burma problem, the goal should not be immediate "engagement" of Burma per se. Instead, we should focus our energy on the production of a common roadmap that outlines concrete goalposts we need to see as evidence of a return to democracy. These goalposts must include the immediate and irreversible release of Aung San Suu Kyi and the leadership of the NLD and ethnic leaders and their full participation in a transparent and sustained process of national reconciliation aimed at the restoration of democracy. In order to build a multilateral consensus even among our closest allies, we will have to include both carrots and sticks. The carrots can easily include reassurances about the territorial integrity of Burma, but will also have to involve incremental sanction lifting at some stage in the process. From regional actors we should insist on more sticks if the regime does not take the right steps. These sticks might include freezing further investment in commercial projects. We should also push for coordination on humanitarian relief.

The specific mechanics of this multilateral effort should be left to the administration, but I think the time is ripe to put forward a consensus message to the regime that its neighbors are willing to assist with the transition to democracy, but prepared to impose consequences on Burma collectively for non-action.

The Burma problem has reached the tipping point in the view of many of the regime's neighbors. If we work with like-minded states on an approach that pools our collective sticks and carrots in a systematic way, the regime will not be able to ignore its neighbors' collective will. Moreover, we will help move our friends and allies

to a values-based strategy that strengthens the prospect for continued democratization and adoption of the rule of law across the entire region.

Thank you.

Senator MURKOWSKI. Thank you, Dr. Green.  
Dr. Turnell.

**STATEMENT OF DR. SEAN TURNELL, BURMA ECONOMIC WATCH, ECONOMICS DEPARTMENT, MACQUARIE UNIVERSITY, SYDNEY, AUSTRALIA; VISITING FELLOW, SOUTHEAST ASIA PROGRAM, CORNELL UNIVERSITY**

Dr. TURNELL. First, I would just like to say, as well, how honored I am to give this testimony here today and also express my appreciation for the role that this subcommittee has played on Burma and its individual members.

Today, I am going to be talking about Burma and its economy, and it is a topic that one would think an economist could bring quite a light heart to. According to the official figures released by the Burmese regime, in 2005 Burma grew by 12.2 percent, on top of 12 percent in 2004, and pretty much a decade of double digit growth. Now, if that is the case, of course, then Burma is the fastest growing economy in the world. Not only that, over this period it used less energy, it used less natural resources, and it negotiated a banking crisis that was at least as serious as the one that brought so many of its neighbors down in 1997.

So in a sense we are dealing with a miracle economy. Unfortunately, we are not dealing with Burma. We are dealing with something else that I guess escapes me.

The real Burma, of course, is mired in poverty and despair and it is a poverty and despair that is the deliberate consequence of the policies of the regime that has been in place for four decades. Reconstructing some of the economic numbers, the group that I am a member of, Burma Economic Watch from Macquarie University in Sydney, we actually think that Burma's economy went backwards in 2003 and 2004. We think there is some growth in 2005 and 2006, but in a sense it is really technical only. It is coming from increasing exports of gas, which has meant that the trade balance has turned positive, but part of that positive turn has also come from a dramatic decline in imports, which tells us something about economic circumstances in the country. So the recent positive growth we do not think is necessarily suggestive of anything good going on in the country.

Fifty years ago Burma was the wealthiest country in Southeast Asia and at the time of independence, in 1948, it was the country that everyone thought would make it. All of the trends in a sense suggested that wealth and so on would continue. But it has not, and that it has not is really the direct result of the regime, which took place in 1962.

To give some of the broad issues about the economy in Burma, one of the things we can say is that the country lacks the institutions, such as private property rights, such as freedom of contract, that we know—that history tells us are at the heart of economic development.

It is also the case, over the last four decades, that policymaking in Burma has been erratic, contradictory, and, frankly, irrational.

It is the case that the state takes, by far, the lion's share of the resources in the country, but it does not have any legitimacy to tax and so what it resorts to is, in the time-honored fashion, to the printing press and the central bank and floods the economy with money, essentially. As a consequence of this, of course, Burma has a distrusted currency, a dysfunctional financial system, and rampant inflation.

The path to wealth in Burma is not through enterprise or innovation. If one were to go down that route, I think you would find that your enterprise would be seized by the junta anyway. But rather, it is to use the state apparatus in various ways. Apart from corruption, there are many aspects of Burma's economy that are, in fact, just straight-out criminal, and in that, of course, I am alluding to the narcotics trade and money-laundering and so on, which I will refer to in a little bit more detail later.

What I might do now is just move to some specific issues and specific sectors. The data for this is all in my written testimony. Turning first to policy, I mentioned that it was quite erratic and so on. In some ways it is almost a misnomer to talk about economic policy in Burma. There really is only one policy in Burma and that is to garner as much resources as possible for the regime. So fiscal policy and monetary policy are both bent to this task. Fiscal policy is just simply raising enough funds for the military, it plays in a sense no real counter-cyclical or developmental role. Monetary policy is in a sense rendered ineffective by the fact that the regime just borrows from the central bank and floods the country with money. But not only that, in order to keep its funding costs down on the bonds that it issues to the central bank, the Burmese regime has various interest rate caps and so on which are well below the inflation rate, which again just counts out monetary policy as being a viable tool of economic policy.

Policymaking is, as I have mentioned a couple of times now, irrational, erratic, and sudden, and so on. We see lots of examples of this. We saw it 2 days ago with the decision to increase the salaries of senior civil servants by up to 1,200 percent. That is fairly typical of decisionmaking in Burma in the sense everything is left to the last minute, at which there will be sudden and dramatic changes. Last year it was increasing fuel prices eightfold. At other times in the past it has been demonetizing whole currencies, etcetera.

In some ways it is exemplified, I think, by exchange rate policy in Burma. Burma formally has a fixed exchange rate system which sets its currency, the kyat, at 6 kyat to 1 U.S. dollar, but in a sense no one really pays much attention to that. The focus instead is on the informal market or black market and the current exchange rate, as of today, is 1250 kyat to the U.S. dollar. So in other words, the official exchange rate is over 200 times overvalued.

That is very much a moving feast, I might add, because my written testimony has 1100 kyat to the U.S. dollar, but after the announcement of the wage increases the other day that has blown out, as I say, to about 1250 today.

If we look at trade and foreign direct investment, if this were a normal country, we would think that this would be quite positive. Burma is selling increased quantities of natural gas through its two pipelines to Thailand and there are other schemes about to

come on line off Arakain. Unfortunately, we are not dealing with a normal country and, in the past, these windfall gains that have come from higher energy prices and so on have been used by the regime in all sorts of ways that are inimical to the country's development. Last time it was to buy a fleet of Mig-29s, which no longer fly, and who knows what might come from this particular one.

Turning to the monetary and financial sector, this was a sector that until fairly recently might have been a sector that suggested the economy was actually making some gains. Burma's financial sector was "liberalized," quote unquote, in 1990 and by 2002 some 20 private banks had emerged and the numbers seemingly looked quite positive. Later that year, though, Burma underwent a substantial banking collapse which, as I mentioned, was as serious as we have ever seen in history, quite frankly, and since that time the system is essentially moribund.

The authorities' response to that banking crisis is almost a checklist of what not to do in response to a banking crisis. Economists do not know many things about many things, but we do know something about how to respond to a banking system, and Burma seemed to go about everything to exacerbate the crisis.

So Burma's financial system does not provide the country with the financial assets it needs. Trust, which is never a commodity that is particularly abundant in Burma, is now almost irredeemably lost, I suggest, when it comes to the financial sector.

The financial sector is affected by something else, of course, and that is the shadow of money-laundering. Burma is one of only two jurisdictions to be named by the Financial Action Task Force of the OECD as a primary money-laundering jurisdiction. The other, incidentally, is Nigeria. Burma is also subject to section 311 of the USA Patriot Act, which quite rightly identifies Burma also as a money-laundering jurisdiction, and for the first time ever, actually named specific institutions in Burma as being money launderers. They were the largest and third largest of Burma's banks, respectively. Since then, another of the largest banks has come into focus as well.

This aspect is an interesting one because it sort of slipped below the radar screen, I suspect. It has had a big impact on other countries, including China. The Bank of China, for example, will not handle U.S.-dollar transactions for Burmese firms. Again it is not something I think that has been widely reported.

I will end just briefly talking about the sanctions issue. I would like to echo the comments of previous speakers and to say that I think the sanctions currently imposed by the United States and the European Union and some other countries are having an effect. I think that they are extraordinarily well targeted when it comes to Burma. The great majority of the Burmese citizens have no contact whatsoever with the traded goods sector or the external economy. The one group that does are the elite of that society. So in a sense, if sanctions are all about putting the appropriate incentives in place for the people that matter, I think we can say that that is the case in Burma.

Some people have criticized sanctions because of job losses in the garment industry and so on. I think, if you look at the issue, you will see actually that most of those job losses have everything to

do with the ending of the Multi-Fiber Agreement, which has seen China increase its exports in any case.

Finally, to end, I am from Australia, but I spend a lot of time traveling around Southeast Asia and I can say that the sanctions imposed by the United States and European Union, things like this USA Patriot Act, catching the money launderers and so on, has had a big effect in the region. Countries like Singapore are very frightened of getting caught up in money laundering and other things to do with the sanctions.

So thanks again for this opportunity to speak to you today.

[The prepared statement of Dr. Turnell follows:]

PREPARED STATEMENT OF DR. SEAN TURNELL, BURMA ECONOMIC WATCH, ECONOMICS DEPARTMENT, MACQUARIE UNIVERSITY, SYDNEY, AUSTRALIA; VISITING FELLOW, SOUTHEAST ASIA PROGRAM, CORNELL UNIVERSITY

#### OVERVIEW

According to official statistics released by Burma's ruling military regime, the self-styled "State Peace and Development Council" (SPDC), Burma's economy grew by an astonishing 12.2 per cent in 2005. Beating even the previous year's stellar performance of 12.0 per cent, and coupled with double-digit growth all the way back to 1999, by these measures Burma is the fastest-growing economy in the world. What's more, Burma achieved this astonishing growth using less energy, less material resources and, in the middle of it all, while negotiating a banking and financial crisis that was as serious as any in history. Truly, a miracle economy indeed.

It is, alas, also a fantasy economy. Under the SPDC, the real Burma is a wasteland of missed opportunity, exploitation and direst poverty. More realistic numbers of Burma's economic performance calculated by Burma Economic Watch show that far from stellar growth, Burma's economy actually shrank in 2003 and 2004. In 2005 Burma will likely have returned to growth, but at a rather more modest 2 to 3 per cent. Similar growth can be expected for the coming year. None of this growth, however, has anything to do with improved economic fundamentals, but with the windfall gains accruing to the state from the rising demand for Burma's exports of natural gas.

The real Burma is one of the poorest countries in Southeast Asia. Only 50 years ago, it was one of the wealthiest. The dramatic turnaround of Burma's fortunes is the product of a state apparatus that for decades has claimed the largest portion of the country's output, while simultaneously and deliberately dismantling, blocking and undermining basic market institutions. The excessive hand of the state, which for many years was wedded to a peculiar form of socialism, has manifested itself in a number of maladies that are the direct cause of Burma's current disarray. These include:

- The suppression of the fundamental economic institutions—effective property rights, contract enforcement, the measures that define the "rules of the game" for efficient economic transactions—that history tells us are necessary for sustainable long-term growth.
- Macroeconomic policymaking that is arbitrary, often contradictory and ill-informed.
- A regime claim to Burma's real resources that greatly exceeds its ability to raise revenue through taxation. As a consequence, like many such regimes around the world and throughout history, it resorts to the printing press to "finance" its expenditure. Inflation and monetary chaos have been the predictable consequences.
- A currency, and a financial system, that is widely distrusted. People in Burma store their "wealth" in devices designed as a hedge against inflation and uncertainty. As a result, financial intermediation is underdeveloped and the allocation of capital is distorted.
- Rent-seeking through state apparatus that offers the surest route to prosperity, at the expense of enterprise. Burma's leading corporations are mostly owned and operated by serving and retired military officers. Corruption is endemic.
- Important sectors of Burma's economy that are starved of resources. Negligible spending on education and health have eroded human capital formation, and re-

duced economic opportunities. Agriculture, which provides the livelihood for the overwhelming majority of the Burmese people, is chronically (and, often deliberately) starved of critical inputs.

- Economic mismanagement by the regime that means that Burma attracts little in the way of foreign investment. What does arrive is strongly concentrated in the gas and oil sectors, and other extractive industries. Little employment is generated from such investments, and there is little in the way of technology or skill transfer. All of the revenues from Burma's exports of gas and oil are accrued by the regime.
- At a micro-level, the almost complete stifling of economic innovation by the military regime. Whenever there has occurred enterprise development in particular sectors, these are "shaken-down" for kickbacks of various kinds—usually they are threatened with expropriation and even nationalisation.

Such then are some of the broad factors that inform Burma's current economic circumstances. Below we will detail more closely specific sectors of Burma's economy, their current condition, and immediate prospects.

#### ECONOMIC GROWTH

In February 2006, Burma's Minister of National Planning and Economic Development, Soe Tha, announced that his country's growth rate for 2005 would be 12.2 per cent.<sup>1</sup> This topped even 2004's strong growth of 12.0 per cent, and made Burma (certain small oil producing countries excepted), the fastest growing economy in the world.

Table 1.—Claimed Annual GDP Growth Rates, Burma 1999–2004

[ % p.a.]						
1999	2000	2001	2002	2003	2004	2005
10.9	13.7	11.3	10.0	10.6	12.0	12.2

Source: ADB (2004 and 2005).

If only it were true . . .

Stating anything definitive with respect to economic growth in Burma is fraught with the difficulties pertaining to a country in which the official statistics are notoriously unreliable (even deliberately mis-stated), and collecting data otherwise is difficult. Burma does not publish national accounts statistics, and the only growth data that is made available is that which accompanies ministerial statements such as the one above. Nevertheless, we can be sure that economic growth in Burma is well below the Minister's claims. His boast is greatly at odds with even the most cursory glance at the economic circumstances on the ground in Burma, circumstances which point to ever deeper levels of poverty for the average citizen, and of an economy that at worst is on the verge of collapse, and at best cycles through bare subsistence.

More substantially, however, we can dispute the Minister's claims through various *proxy* measures and indicators of economic growth. For instance, if Burma was truly growing along the lines claimed by the SPDC, one would expect to see it using more productive resources—energy, land, labour, capital, and so on. We do not see this. Indeed, as the Asian Development Bank (2005:30) notes, electricity usage in Burma actually *fell* by 32.4 per cent across 2004–05. Amongst other indicators—in the same period cement output fell 8.5 per cent, sugar production fell by 2 per cent, and credit extended to the private sector (Table 3 below) was only fitfully recovering from its collapse the year before. In 2005 it is likely that manufacturing as a whole contracted—not a result one would expect to see (the sector contributes just over 10 per cent of GDP) for an economy growing in double-digits (EIU 2006:18). In addition to these "internal" proxies, however, if Burma was actually growing at the rates claimed by the SPDC, we would also presume to see certain patterns in its economy that history tells us to expect of rapidly growing economies (Bradford 2004). We should see less reliance on agriculture, greater reliance on industry, and even the emergence of services. Of course, these are long-term patterns, but shorter-term trends are generally at least consistent with them in countries that truly have enjoyed high growth (and for which the Asian "tiger" economies and China are exemplary). Burma displays none of these structural dynamics. Indeed, as demonstrated by Bradford (2004), agriculture has assumed a greater role in Burma's economy in

<sup>1</sup> Minister quoted in *The Myanmar Times*, vol.16, no.305, 20–26 February 2006.

recent years. In short, either the military regime's claimed economic growth numbers are greatly at odds with reality, or the country has truly found a unique path to economic prosperity.

An alternative set of growth numbers (Table 2 below), more consistent with our critique here (and with Burma's recent economic history), have been estimated by the Economist Intelligence Unit (EIU 2006):

Table 2.—Economic Growth Estimates (EIU)

[% p.a.]

2001	2002	2003	2004	2005	2006
5.3	5.3	-2.0	-2.7	2.9	1.9

As can be seen from the estimates above, moderate economic growth returned to Burma in 2005 and this will likely continue through 2006. Such growth is in no way reflective of any bout of economic reform in the country, but instead is driven by the increasing global demand for energy which has pushed up the price of natural gas. Burma currently exports natural gas only to Thailand in sizable quantities, but new projects are currently being brought on stream via a series of deals with Chinese, Indian and South Korean investors. Increasing gas prices and export volumes caused Burma's trade balance to turn positive in 2005 (EIU estimate: 4.4 percent of GDP), and it was this contribution that was responsible for the country's estimated positive rate of economic growth overall. Contributions from agriculture remain flat (despite relatively good harvests), whilst other sectors of the economy—manufacturing, transport, services, tourism—are likely to detract from economic growth. These sectors face particular downside risks in 2006, ranging from further disastrous policy choices by the military regime, high oil prices, potential avian influenza outbreaks, political unrest at home and abroad (especially Thailand), capricious policy changes, consumer boycotts, and so on.

#### MACROECONOMIC POLICY

##### *Fiscal Policy*

Macroeconomic policymaking in Burma is coloured by one overwhelming fact—the irresistible demand of the state upon the country's real output. This demand far exceeds the state's ability to raise taxation revenue, and accordingly has led to a situation in which the state “finances” its spending by the simple expedient of selling its bonds to the central bank. This policy (in economics parlance, “printing money”) distorts every other aspect of policymaking in Burma. Fiscal policy is simply concerned with the raising and spending of funds, monetary policy likewise with keeping interest rates sufficiently low (as shall be examined, negative in real terms) to minimise financing costs. Neither plays a counter-cyclical or developmental role, and both seriously blunt the functioning of the market economy.

Table 3 below illustrates the financial demands of the state in Burma on the country's financial system.

Table 3.—State Share of Burma's Financial Resources: Selected Indicators

[Kyat millions]

Year	Central bank lending to Government	Commercial bank lending to Government	Commercial bank lending to private sector	Public holdings of Government bonds
1999 .....	331,425	12,460	188,149	378
2000 .....	447,581	36,159	266,466	463
2001 .....	675,040	40,985	416,176	504
2002 .....	892,581	43,248	608,401	563
2003 .....	1,262,588	35,546	341,547	544
2004 .....	1,686,341	89,217	428,391	505
2005* .....	2,065,038	74,693	559,555	**457

\*As at end—October.

\*\*As at end—January.

Sources: IMF (2006), Myanmar Central Statistical Office (MCSO 2006)

As can be seen from Table 3, the demands of the state upon Burma's financial resources swamps all others. Central bank lending to the government is the fa-

voured device for financing government expenditure. Yet, as can also be seen from the data above, the state is also a borrower from Burma's (nominally) commercial banks. The latter provides the private sector with little more than a quarter of the funds that Burma's financial system provides to the central government. The small amount of government bonds held by the general public, an infinitesimal proportion (substantially less than one percent) of the bonds sold to the central bank, is indicative of the lack of confidence the citizens have in such state-created financial assets.

In recent years the SPDC has introduced dramatic increases in the taxes it levies. Customs duties alone rose by over 400 percent in 2004/05 (due to a mix of increases in tax rates, and exchange rate formulae—more on which below). Notwithstanding this, total central government tax revenue in fiscal year 2004/05 came to just K278,024 million (EIU 2006:17). The SPDC does not publish data on its spending, but given that new advances to the regime from the central bank came to K378,697 million in roughly the same period, it is reasonable to assume that taxes account for little more than 40 percent of government spending.

#### *Monetary Policy*

Monetary policy in Burma is formally the responsibility of the Central Bank of Myanmar (CBM). However, a number of factors determine that it is incapable of yielding any influence over monetary conditions in Burma.<sup>2</sup> The first and most simple of these factors is that Burma has in place interest rate controls that cap lending rates at 15 percent per annum, and do not allow deposit rates to fall below 9.5 percent per annum. These rates, and the rate at which the CBM will provide funds to the commercial banks (the so-called "CBM rate", currently at 10 percent), have not changed for a number of years (Turnell 2006). Given that Burma's inflation rate was (conservatively) put at just over 20 percent in 2005, this implies that "real" interest rates in Burma have been substantially negative (EIU 2006:5). The motivation of the regime for locking in such rates (which result in substantial distortions in capital allocation), is to minimise the interest rates paid on government debt. Currently, 3 and 5-year Burmese government bonds have fixed-yields of 8.5 and 9.0 percent respectively (MCSO 2006). In common with other countries with an underdeveloped financial system (on which, more below), the CBM is likewise unable to employ devices (open market operations, rediscount facilities, repurchase agreements) that are part of the standard tool box of central banks. The distrust of Burma's currency, the *Kyat*, has created parallel (black-market) foreign currency spheres in Burma, and these are also beyond the influence of the CBM. Finally, it perhaps goes without saying that the CBM does not enjoy operational independence from the state, and accordingly has no credibility beyond it.

#### *Exchange Rate*

Burma has a fixed-exchange rate policy that officially links the *Kyat* to the US Dollar at the grossly inappropriate rate of K6:\$US1.<sup>3</sup> This official rate, however, is just one of a number of exchange rates applicable to Burma's currency. The most important of these rates, and the only one relevant to the people "on the street" in Burma, is the "black market" or "unofficial" rate. Currently this rate stands at around K1,160:\$US1, nearly two hundred times below the official standard promulgated by the regime. This rate is, of course, subject to daily, even hourly, fluctuation according to the perceptions of the country's prospects. Wild swings in the unofficial rate are reasonably frequent, to which the SPDC's counter, instead of engaging in meaningful currency reform, is invariably to order the rounding up of a cohort of "usual suspect" foreign exchange dealers. As a consequence of the United States highly effective sanctions imposed on Burma, the SPDC has employed various coercive measures to try to discourage the use of the US dollar, and in favour of the Euro, the Singapore dollar, the Thai Baht and the Yen. These measures have had only limited success, and the US dollar remains a highly prized store of value (especially, in this context, "new" \$US 100 bills).<sup>4</sup>

In addition to its sometimes wild fluctuations, the unofficial value of the *Kyat* has been in secular decline for some time, and in this it acts as something of a barom-

<sup>2</sup>Not that, under the present regime, the CBM would be allowed any real power anyway. This fact was dramatically revealed during the 2002/03 banking crisis, when the CBM was sidelined in favour of an obscure brigade commander in the (unsuccessful) attempts to manage matters (Turnell 2003).

<sup>3</sup>Technically, the *Kyat* is fixed to the IMF's "Special Drawing Rights" at a rate of K1:SDR8.5085—which yields are more or less constant K6:\$US1.

<sup>4</sup>The author can confirm that the \$US also remains the favoured medium through which larger Burmese businesses continue to conduct their activities.

eter of Burma's macroeconomy under the military regime. Table 4 below records its declining value vis-à-vis the US dollar over the last decade:

Table 4.—Indicative (Unofficial) Exchange Rates  
[Kyat/\$US1]

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
240	340	350	500	650	960	900	1,000	1,300	*1,160

\*As at March  
Source: Burma Economic Watch.

In addition to the “official” and “unofficial” exchange rates there are other, “semi-official”, rates that apply depending on the counterparties and circumstances. For instance, a rate of K450:\$US1 currently applies for all funds brought into Burma by U.N. agencies and international NGO's.<sup>5</sup> This rate, when enforced, means that such organisations provide the SPDC with foreign exchange effectively at less than “half-price” (the organisations are likewise compelled to conduct their foreign exchange operations via the state-owned Myanmar Foreign Trade Bank). This same exchange rate applies, for the purposes of excise calculation, to many exporters and importers in Burma (regardless of the rate they actually conduct their business in).

The regime's multiple and divergent exchange rates are the public face of Burma's macroeconomic malaise. They also provide for extraordinary opportunities for corruption. It is clear, for instance, that having access to foreign currency at anything close to the official exchange rate presents the recipient with the potential of immediate windfall gains. Reforming and unifying Burma's exchange rate regimes, which almost certainly should mean allowing the Kyat to “float”, should be a first-order priority in any future reform program. Unfortunately, such a reform program is unlikely from a regime that is clearly the existing system's leading beneficiary.

#### “Capricious” Policy Making

One of the most damaging features of macroeconomic policymaking in Burma (of all types), is that it is often made in ways that to observers appears highly capricious, arbitrary, selective and even simply irrational. Examples of such decision-making are legion, of which the following are but a small but indicative recent sample:

- In October 2005, the SPDC suddenly announces an eightfold increase in the retail price of gasoline.
- In 2004, in order to stem rising domestic prices, the SPDC announces a ban on rice exports. Just a year earlier the SPDC had brought in measures designed to substantially liberalise the avenues through which rice producers could export.
- Various announcements through 2005 that exporters/importers in Burma were to henceforth use the Euro rather than the \$US in their transactions.
- The (numerous) changes to tax and duty levies on commodities.
- Reflexive cycles of relaxation/restriction on border trade.
- Sudden arrests and purges of regime insiders when, occasionally, they call attention to the regime's follies and incompetence. Legal procedure scarcely matters in Burma, but “economic crime” is the usual charge.
- The sudden announcement in 2005 that Burma's administrative capital would relocate from Rangoon to Pyinmana. Not strictly an economic decision, but there is little to suggest that the economic dislocation costs of the move were seriously entertained.

#### EXTERNAL SECTOR

##### Trade

As noted in the overview, it is only from the external sector that any growth in Burma's economy is apparent, or likely. Driven by rising gas export prices and volumes, and augmented by a precipitous decline in imports (more on which below), Burma recorded a trade surplus in 2004 of over \$US900 million. For the first 3 months of 2005, the latest data publicly available, the surplus in this item stood at nearly \$US470 million (IMF 2006). With gas prices rising across 2005 and great-

<sup>5</sup> Information provided to the author by an official, but confidential, source. This matter has been subsequently reported in the press (Parker and Yeni 2006).

er volumes likely to have been shipped, a large trade surplus just in excess of \$US 1 billion for the year as a whole is expected. For 2006 this trend will almost certainly continue, with the EIU (2006:5) predicting an annual trade surplus of \$US 1.2 billion. It will be noted from Table 5 below, however, that imports in Burma have been falling in recent years. This seems unlikely to continue for much longer, especially as Burma imports required infrastructure to develop the new gas fields that have been the subject of recent deals. Table 5 also reveals that, to a considerable extent, Burma's trade surpluses are offset by deficits in services and in income payments—all of which diminish the overall surplus on current account. This trend likewise will continue into the future—driven by the repatriation of profits by the (largely foreign) firms investing in Burma's energy sector.

Table 5.—Burma's External Sector: Selected Indicators  
[US\$ millions]

Year	Goods exports	Goods imports	Current account balance
1999 .....	1,293.9	2,181.3	- 284.7
2000 .....	1,661.6	2,165.4	- 211.7
2001 .....	2,521.8	2,443.7	- 153.5
2002 .....	2,421.1	2,022.1	96.6
2003 .....	2,709.7	1,911.6	- 19.3
2004 .....	2,926.6	1,998.7	111.5
2005* .....	836.6	364.5	296.6

\*As at end—1st Quarter, Source: IMF (2006)

Table 6 below reveals the source of Burma's exports, and illustrates the dominance of gas exports over other items. The growth of gas exports is also dramatically revealed—their value exceeding that of the whole of 2004 by the end of the first quarter 2005. So far most of this gas is sourced from the existing Yadana and Yetagun fields (the product of which is exported to Thailand), but this will shortly be joined by gas piped from sites soon to come on stream, including that of the (off-shore) Korean/Indian/Burmese ventures in Rakhine State. From Table 6 we can also see that the vast bulk of Burma's exports are from extractive industries of various types. Worryingly, as the EIU (2006:24) notes, exports of Burmese teak are likely to be substantially understated when one considers the pervasiveness of "illegal" logging in the country. Burma's exports of garments and textiles have substantially contracted over the last 2 years, overwhelmingly a function of the ending of the Multi-Fibre Agreement that has seen China increase its share of the global garment industry, at the expense of smaller-scale players such as Burma (Turnell 2006).

Table 6.—Composition of Exports  
[Kyat millions]

Export type	2002	2003	2004	2005*
Gas .....	4,247	5,919	63,334	3,461
Teak and other Woods .....	1,880	1,874	2,149	810
Pulses .....	1,898	1,744	1,407	503
Garments and Textiles .....	2,985	2,973	1,298	368
Shrimp and Fish Products .....	829	829	1,003	230
Metal and Ore .....	288	288	503	220
Rice .....	754	754	112	90
Rubber .....	76	89	81	61

\*At end—April  
Source: EIU (2004, 2005, 2006), MCSO (2006)

### Investment

Burma<sup>6</sup> is not a large recipient of foreign direct investment (FDI). The country is regarded as a highly risky destination for foreign investment, and a difficult location to do business. In a recent report on economic freedom, the Washington-based Heritage Foundation ranked Burma third from the bottom (in front of only Iran and North Korea) with regard to restrictions on business activity. According to the Foun-

<sup>6</sup>This figure, based on Burmese official data, is lower than that suggested by Thai import data. Accordingly, it probably understates Burma's gas exports in 2004.

dition, “pervasive corruption, non-existent rule of law, arbitrary policymaking, and tight restrictions on imports and exports all make Burma an unattractive investment destination and have severely restrained economic growth” (Miles, O’Grady and Holmes 2006:125).

As can be seen from Table 7, FDI in Burma is overwhelmingly directed to the gas and oil sectors. Very little FDI makes its way to industry, and even less to agriculture (which has received FDI of a mere \$US34.4 million since the “opening” of Burma 17 years ago).<sup>7</sup> In terms of source country, the traditional largest investors, Singapore and Thailand, have in recent times been overshadowed by China. This trend is likely to continue, albeit with China joined by greater investment in Burma’s gas sector by Indian and Korean investors.

Thailand’s role as an investor in Burma has eroded in relative terms as noted, but it remains a pervasive influence on Burma’s economy nonetheless. One recent investment project with far-reaching implications is a joint venture agreement with Burma (signed in 2005) to construct four large dams on the Salween River. The dams are designed to provide hydro-electricity for Thailand, and foreign income for Burma. Unfortunately, however, the externalities of the project are far from benign. The dams are located in a region of Burma populated by Karen, Karenni and Shan—three of the largest of Burma’s ethnic groups, and amongst the most economically marginalised. Such groups have greatly suffered in the past during the construction of various infrastructure projects in Burma, and one can only fear that they are likely to do so again. The United States Congress has itself found that the military regime’s actions against these ethnic groups constitutes a form of “ethnic cleaning”. Like so many of the regime’s “big ticket” development projects, this one shows all the signs of being a disaster in the making (Akimoto 2004).

Table 7.—Foreign Direct Investment Flows: Sector and Source  
[\$US millions]

	2003	2004	*2005
<b>Sector:</b>			
Gas and Oil .....	44.0	54.3	142.6
Real Estate .....			31.3
Mining .....	3.4	1.5	6.0
Manufacturing .....	13.2	2.8	3.5
Transport .....		30.0	
Agriculture & Fisheries .....	26.4	2.6	
<b>Source Country:</b>			
China (incl. Hong Kong) .....	12.9	2.8	126.6
Thailand .....		22.0	29.0
Japan .....			2.7
Malaysia .....	62.2		
South Korea .....	0.3	34.9	
United Kingdom .....		27.0	

\*As at end—April.  
Source: EIU (2004, 2005, 2006)

#### Foreign Exchange Reserves

Table 8.—Foreign Exchange Reserves: Selected Countries  
[\$US millions]

Year	Burma	Thailand	Cambodia	South Korea	Vietnam
1999 .....	265	34,063	393	73,987	3,326
2000 .....	223	32,016	502	96,131	3,417
2001 .....	400	32,355	587	102,753	3,675
2002 .....	470	38,046	776	121,345	4,121
2003 .....	550	41,077	815	155,284	6,224

<sup>7</sup> This figure for agricultural investment, which is consistent with other sources, was rather surprisingly reported in the Rangoon-based *Weekly Eleven News* in December 2005. The report was reproduced the same month in the online edition of The Irrawaddy, <http://www.irrawaddy.org>.

Table 8.—Foreign Exchange Reserves: Selected Countries—Continued

[\$US millions]

Year	Burma	Thailand	Cambodia	South Korea	Vietnam
2004 .....	672	48,664	943	198,997	7,042
2005* .....	774	50,728	939	210,317	8,602

\* End 1st Quarter, Source: IMF (2006)

Burma's trade surpluses and (to a lesser degree) the flows of FDI, have swelled the country's official foreign exchange reserves—from \$US 265 million in 1999, to over \$US 774 million today (Table 8 above). The latter number, however, is still very low by global or even regional standards. Table 8 contains a sample of countries that, for a variety of reasons, Burma might be compared to. It can be seen that Burma has, by some margin, the lowest level of reserves "comfort", even when compared to tiny and poor Cambodia. Of course, Burma's foreign assets must also be set against its foreign *liabilities*. These currently stand at around \$US 7 billion (or around 14 times the size of the country's reserves), and consist for the most part of defaulted loans to the World Bank and other multilateral lenders (IMF 2006).

## MONETARY AND FINANCIAL SECTOR

Burma's financial system, a mix of state-owned institutions, 17 surviving "privately owned" banks of varying degrees of health, and a dominant informal sector, is failing to meet the country's need for capital.<sup>8</sup> As noted in Table 3 earlier, the largest claimant on credit creation in Burma is the state. Private sector trade and industry in Burma can access *some* credit from the private banks, but the macro-economic instability of the country means much of this is of a short-term nature only, and concentrated in such inflation-hedging sectors as real estate and precious metal and stone trading. Long-term credit for industrial development is almost completely non-existent. Personal credit in Burma is available from formal financial institutions for a handful of well-connected cronies of the regime, but for the average person in Burma "credit" is supplied by friends, relatives or, less agreeably, the local moneylender—for time immemorial a ubiquitous presence in the country (Turnell 2006). For agriculturalists in Burma the availability of credit is especially dire. According to a recent U.N. agency survey, 80 percent of Burma's agriculturalists are without access to formal credit of any kind.<sup>9</sup>

To an uninformed observer, it must have seemed possible at the dawn of 2002 to entertain some optimism with regard to the financial system in Burma, particularly with respect to the private banks. These had emerged only since 1990, and the implementation of certain financial-sector reforms (principally the "Financial Institutions of Myanmar Law" and the "Central Bank of Myanmar Law"). By 2002 the private banks appeared to be growing strongly and, amongst the largest of them, the creation of a degree of trust and even "brand recognition" seemed apparent. Beneath the surface, however, all was not well. Burma's interest rate restrictions imposed by the regime (noted above) greatly hampered the private banks in traditional intermediation (taking in deposits and making loans), forcing them into activities of high risk and questionable legitimacy. That said, some of the private banks had been established in the first instance precisely to conduct and disguise unorthodox and criminal activity (regarding the latter, the laundering of narcotics money especially), while others were little more than corporate "cash boxes" for various entities connected with the regime. In 2002, however, all of this bubbled to the surface as a financial crisis engulfed Burma.

At the centre of Burma's 2002/03 financial crisis was a banking collapse that was almost archetypal of such phenomena. However, the crisis did not begin in the banks. Rather, it began, in late 2002, with a series of failures amongst what were known in Burma as "private finance companies"—in effect, "institutions" that were

<sup>8</sup>Determining what is "private" or not is difficult in Burma—a country where business can scarcely escape the clutches of the regime.

<sup>9</sup>Information confidentially supplied to the author by the agency concerned. Of course, even if more credit was available it would make little difference to the circumstances of Burma's farmers in the absence of other reforms—notably the exit of the regime from its incessant meddling and demands on the rural sector. Making credit alone more accessible raises the risk of simply making Burma's farmers more indebted.

for the most part little more than gambling syndicates and “ponzi” schemes.<sup>10</sup> Though these firms were not legally authorised deposit-taking institutions, they presented a tempting investment opportunity for Burmese seeking a non-negative return on their funds.<sup>11</sup> Such temptation had an irrational side in promised rates of returns typical of ponzi schemes, but there was a rational aspect to it as well since, as noted, the rates the banks could pay on deposits was effectively “capped” at 9.5 percent. In 2002 inflation was estimated to be in excess of 55 percent per annum, meaning that putting money in the bank was a (certain) losing proposition in real terms (IMF 2006).

The crisis in Burma’s private finance companies quickly spread to the private banks—a contagion perhaps unremarkable given the country’s history of periodic monetary and financial crises under military rule. Long lines of anxious depositors formed outside the banks, a phenomenon that rapidly swelled into a classic “bank run”. From this moment on, the response of the relevant monetary authorities in Burma (principally the CBM) was almost wholly destructive. Late and inadequate liquidity support to the banks by the CBM was overwhelmingly negated by the imposition of “withdrawal limits” on depositors that escalated into an outright denial of depositors of access to their money. Even worse, loans were “recalled” with little consideration given to capacity to repay. More potent breaches of “trust” in banking would be difficult to imagine. With a full-scale banking crisis now in play, there followed the usual symptoms of such events—bank closures and insolvencies, a flight to “cash”, the creation of a “secondary market” in frozen deposits, the cessation of lending, the stopping of remittances and transfers, and other maladies destructive of monetary institutions. By mid-2003 the private banks had essentially ceased to function. In 2004 selected banks reopened, some of the largest closed completely (including the Asia Wealth Bank and the Myanmar Mayflower Bank, then the largest and third largest respectively of Burma’s private banks), and a weak recovery began.

Table 9.—Selected Financial Indicators

[Kyat millions]

Year	Demand deposits	Time, savings and foreign currency deposits	Money + Quasi money (M2)
1999	72,707	216,549	562,224
2000	119,746	335,574	800,542
2001	206,349	450,560	1,151,713
2002	290,520	541,307	1,550,778
2003	82,948	386,298	1,572,402
2004	139,880	594,169	2,081,824
2005*	164,855	693,465	2,536,861

\*As at end 1st Quarter.

Source: IMF (2006) and MCSO (2006).

Table 9 above reveals the progress thus far of this anaemic recovery. As can be seen, both demand as well as less-liquid deposits have bounced back, though the former are still below the levels of late 2002. Taken together, in 2005 total bank deposits of K858,320 million were a mere 33.8 percent of the total money supply (M2)—indicating, as of course did the data on *lending* in Table 3 earlier, that the state remains by far the dominant actor in Burma’s financial sector.

Of course, the data in Table 9 can also be profitably employed to once more critique the SPDC’s growth claims in recent years. For instance, the regime boasted that Burma’s economy grew a vigorous 10.2 percent in 2003—a year in which new lending to the private sector ceased, loans financing existing activities were recalled and all the measures of private monetary assets declined dramatically. If matters were not serious they could be laughable. According to the SPDC, Burma can not only grow strongly without the increased use of energy and other “real” factors of production—it can also do it seemingly without money.

<sup>10</sup>For a detailed account of Burma’s 2003 banking crisis, see Trnell (2003). Ponzi schemes pay extremely high returns to their members out of the capital of *new* members. They must ultimately fail when the supply of new members dries up.

<sup>11</sup>That is, these schemes were not authorised under *The Financial Institutions of Myanmar Law* (1990).

## AGRICULTURE

Burma remains an overwhelmingly agricultural country. Agriculture accounts for around 57 percent of Burma's GDP and engages over 70 percent of its labour force (UNDP 2003). Nevertheless, for many years it has been a sector of profound neglect and routine exploitation by the Burmese government. Critical inputs such as fertiliser are unavailable to most farmers at prices they can afford, and over 80 percent of Burma's land under cultivation lacks irrigation of any form (Dapice 2003, EIU 2006:22). As noted earlier, credit from formal institutions is unavailable to most farmers in Burma, and at present less than 3 percent of bank lending in Burma is extended to agriculture. Inexplicably, the private banks are *forbidden* to lend for farming. Meanwhile, recent experiments in microfinance under the auspices of the UNDP are moving toward failure in ways sadly familiar to such interventions (Turnell2005).

In 2003, Burma's military regime made great noises about liberalising the trade in rice, internally and externally. In practice, however, great interference by the state in the basic decisions taken by farmers—what, how and how much to produce—has continued unabated. Of course, in many areas of Burma a final blow is the exactions of Burma's military forces, the Tatmadaw, forced by the country's strained finances to “live off the land” (Vicary 2003, 2004).

In recent years the SPDC has adopted a number of programs designed to increase the amount of land under cultivation in Burma. Such efforts, which include the so-called “summer paddy program”, and various schemes designed to reclaim land in the Irrawaddy Delta, have invariably failed to achieve their desired outcomes because of the lack of critical inputs noted above. Farmers without sufficient fertiliser to prepare new fields, or without credit to allow the construction of dykes, fences and other land improvements, have been unable to make effective the exhortations for more “extensive” production (Okamoto *et.al.*, 2003, Thawngmung 2004).

The end result of these “supply side” problems, caused by the regime's inability to avoid interfering in the basic decisions taken by farmers, is that Burma's agricultural sector, once the jewel of its economy (the famed “rice bowl” of the British Empire) is operating well-below potential. Indeed, it is likely that the production of Burma's great staple, rice, is lagging behind even the country's population growth rate—bringing with it then the likelihood that in recent years hunger has been increasing (Dapice 2003, Aung Din Taylor 2002, Vicary 2004).<sup>12</sup>

## MONEY LAUNDERING

The shadow of money laundering continues to linger over Burma's financial sector, and Burma remains one of only two countries (the other is Nigeria) to be deemed a “non-cooperative” jurisdiction with respect to money-laundering by the Financial Action Task Force (FATF).<sup>13</sup> FATF, an associate body of the Organisation for Economic Cooperation and Development (OECD), is the world's premier agency for dealing with money-laundering globally. Burma has been named as a non-cooperating country in each of FATF's annual reports since the organisation's inception in 1998. Some progress has been made on the surface—Burma now has legislation designed to counter money-laundering for instance—but the problem, as is so often the case with respect to laws in Burma, is enforcement.<sup>14</sup> As yet it is simply not credible that Burma's military rulers are serious about eliminating a problem that they themselves are implicated in.

The acute concern with respect to money-laundering in Burma is that the country remains one of the world's largest producers of illicit drugs. Burma is, indeed, the second largest producer in the world of illegal opium, and it is the single largest producer in Southeast Asia of methamphetamines (Department of State 2005). Down the years a number of financial institutions in Burma have been identified as money launderers, and in 2003 two of the country's largest banks, the Asia Wealth Bank and the Myanmar Mayflower Bank, were publicly identified as such by the United States Treasury (an unprecedented move). According to the Treasury, the banks were:

. . . controlled by and used to facilitate money lending for such groups as the United Wa State Army—among the most notorious drug trafficking organizations in Southeast Asia. The Burmese government has failed to take any regu-

<sup>12</sup> Also, information privately supplied to the author.

<sup>13</sup> This finding, re-stated in FATF's annual report for 2005, was confirmed most recently at a plenary meeting of FATF held in Cape Town in February 2006 (FATF 2006).

<sup>14</sup> The legislation concerned is the “Law to Control Money and Property Obtained by Illegal Means”, promulgated on 17 June 2002. For a review of the Law and its deficiencies, see Turnell (2004).

latory or enforcement action against these financial institutions, despite their well-known criminal links.<sup>15</sup>

In addition to the specific naming of these two specific banks, however, and consistent with the FATF declarations on Burma, the US Treasury also announced that Burma *as a jurisdiction* was of 'primary money laundering concern'. As such, the Treasury Secretary was authorised (under Section 311 of the USA Patriot Act),<sup>16</sup> in collaboration with the US State Department, Department of Justice and various financial regulators, to direct financial institutions in the US to take "special measures" against Burma's banks.<sup>17</sup> Such measures "range from enhanced recordkeeping or reporting requirements to a requirement to terminate correspondent banking relationships with the designated entit[ies]". In the case of the Burma ruling specifically:

The designation of Burma is intended to deny Burmese financial institutions access to the U.S. financial system through correspondent accounts. Thus, the proposed rule would prohibit U.S. financial institutions from establishing or maintaining any correspondent account for, or on behalf of, a Burmese financial institution. This prohibition would extend to any correspondent account maintained by a U.S. financial institution for any foreign bank if the account is used by the foreign bank to provide a Burmese financial institution indirect access to the U.S. financial system. In such a case, the U.S. financial system would be required to ensure that the account no longer is used to provide such access, including, if necessary, terminating the correspondent relationship.<sup>18</sup>

In addition to the United States, many other countries (and individual financial institutions) have placed limitations on financial sector linkages with Burma out of money laundering concerns. A particularly notable example of which was the decision taken by the Bank of China, in January 2006, to terminate all \$US business with both the state-owned Myanmar Foreign Trade Bank and Myanmar Investment and Commercial Bank (Ye Lwin 2006).

#### ECONOMIC SANCTIONS

Broadly speaking, there is no *a priori* case, either for or against, the efficacy of economic sanctions in delivering desired objectives. History yields instances where economic sanctions have failed to deliver all the changes desired, but it is also replete with examples where they have proved decisive. Whether or not economic sanctions will be useful depend on circumstances and context—of the target country, and of the countries imposing sanctions.

Of course, in Burma's case the most important "context" to be considered is that the country's democracy movement, the representatives who won 82 percent of the seats in the country's last parliamentary election in 1990, continue to call for them. Gainsaying such a call might rightly be considered as somewhat presumptuous. Nevertheless, of concern in these pages are the *economics* of the matter. Here too, however, the answer is, in the view of the present writer, unequivocal. As shall be examined below, economic sanctions are necessary in Burma to help dislodge the real obstacle to the country's economic development. This obstacle, the regime that has been oppressing the country for four decades, has never given any hint that it can engage in meaningful economic reform.

Burma is presently subject to economic sanctions from a number of countries. The most rigorous economic sanctions on Burma, however, are imposed by the European Union and the United States. Under the so-called "Common Position" of European Union Foreign Ministers, member countries ban EU investment in state-owned enterprises (broadly defined), effectively veto lending to Burma by agencies such as the World Bank and IMF, preclude travel to the EU by SPDC officials and their families, and freeze European assets held by the same officials and family members.<sup>19</sup> The United States sanctions are authorised under the "Burmese Freedom and De-

<sup>15</sup>This ruling is set out in the *Federal Register*, vol.68, no.227, Tuesday, November 25, 2003, pp.66305–66311.

<sup>16</sup>"Providing Appropriate Tools Required to Intercept and Obstruct Terrorism" (PATRIOT) Act, 2003.

<sup>17</sup>The *Federal Register*, *op. cit.*

<sup>18</sup>*Ibid.*

<sup>19</sup>As an example of the "broad" definition of "state-owned enterprise", is the EU ban on dealings with companies associated with Burmese-military controlled entities such as Union of Myanmar Economic Holdings. Two of Burma's banks, Innwa Bank and Myawaddy Bank, have been caught in this particular net. It should be noted that material support to Burma from both the World Bank and IMF would be on hold for reasons unconnected to sanctions—given that the country is currently in default on its loans from these institutions.

mocracy Act” of 2003, and indirectly via measures to control money laundering (noted above, and captured under Section 311 of the Patriot Act). The United States goes one step further than the EU, by imposing a ban on *imports* from Burma. Other countries, including New Zealand, Canada and others, impose various restrictions on their activities in and/or with Burma, most concerned with aid allocation, the activities of Burmese financial institutions, and travel by members of the regime.

Unlike some other sanctions regimes, EU and United States sanctions on Burma are carefully calibrated so as not to block critical exports to the country of food, medicine and similar essential supplies.

All of the above said, sanctions alone are not going to bring about the change required in Burma, but in the view of this author they are a critically important component of a multi-faceted strategy that must contain “sticks” as well as “carrots”. This support for sanctions is based on the following propositions:

- The existing sanctions on Burma are well-targeted. Certainly, it is true that a small number of Burmese workers have lost their jobs because of sanctions, mostly in the garments industry. Such numbers affected, however, are an infinitesimal proportion of Burma’s population, the vast bulk of whom have no contact whatsoever with the traded goods sector. Moreover, an important simultaneous development to the levying of sanctions—to wit, the ending, on 1 January 2005, of the Multi-Fibre Agreement on Textiles (MFAT)—would have meant that the few jobs that were lost from sanctions would almost certainly have been lost anyway. The MFAT had previously limited the exports of various textile categories by assigning countries “quotas” of the principal textile consuming markets. The effect of the MFAT above all was to thus artificially limit the exports of China (by a large margin the cheapest producer) in all sorts of textile categories. The lifting of these quotas caused the long-expected surge in China’s exports, and a whole host of “marginal” exporters such as Burma, who were previously viable principally because of the quota system, to lose market share. In short—even without sanctions, Burma’s garment-exporting industry would have greatly contracted. Of course, the proof of this can be seen in the dramatic fall in Burma’s garment exports *beyond* the United States—a consequence not of sanctions, but the “squeeze” imposed by China (Turnell 2006).
- It is the elite of Burma’s economy, instead, who are most affected by the sanctions thus far imposed on the country. A sizable number of this elite are “connected” with the ruling regime in Burma, and a high proportion are personally related to the members of the SPDC itself. Sanctions are likely to contribute to a successful policy when the relevant incentives of important groups are consistent with the change desired. The sanctions currently imposed upon Burma, by the EU but most effectively by the United States, seem to meet this requirement.
- Burma’s poverty is solely a consequence of the policies of the military regime that has ruled the country for four decades. Poverty in Burma (in a nation unusually blessed with natural resources) is the result of a political-economy that has been consciously shaped by a regime in ways that are not conducive to growth. Stated simply, the military regime has actively undermined and prevented the development of the institutions that history tells us are necessary for growth. Such institutions include:
  - secure property rights (including of the person) which encourages saving, investment, innovation, entrepreneurship;
  - a stable and responsive government—not necessarily democratic, but a government that acts according to rules rather than individual caprice, and which will address at least the primary concerns of the populace;
  - relatively honest government—the market is the venue for trading, rather than the state;
  - limited government—keeping the state’s claim on the nation’s surplus to merely that required to fulfil a consensus of “reasonable” functions;
  - a primacy, of rationality and reason in national decisionmaking.<sup>20</sup>

It takes but a moment’s reflection to conclude that Burma enjoys scarcely any of these attributes. Burma’s problems manifestly *did not* and *do not* come from the sanctions that countries impose upon it. Overwhelmingly, Burma’s economic problems are home-grown, but they require fundamental political reform to solve. The

<sup>20</sup>A similar list, to which the author is indebted, is provided by the eminent economic historian David Landes in his 1998 book, *The Wealth and Poverty of Nations* (1998:217–218)

efficacy of particular measures in bringing about such fundamental reform—whether sanctions or any other device—should be the criteria against which judgments are made.

It is the case, at the time of writing, that sanctions combined with increased diplomatic activity under Secretary Rice at the U.N. Security Council, are having an impact. Equally important, the Burmese Freedom and Democracy Act of 2003, as well as the subsequent efforts to refer Burma to the U.N. Security Council, have stirred Burma's neighbours into doing something about a country that imposes all sorts of problems on *them* (from narcotics and people trafficking, to the flows of refugees across their borders). In 2005 the countries of the Association for South East Asian Nations (ASEAN), undertook a number of measures designed to bring about change in Burma—including; pressuring Burma to relinquish its “turn” to chair ASEAN, appointing a number of special ASEAN delegates to meet with Burma's leaders and promote dialog, calls for political reform and the release of political prisoners by the highest ASEAN bodies, and so on. Beyond ASEAN, at the United Nations and in approaches to Burma even from countries such as China and India, change does seem to be “in the air”. Rewarding Burma through the *removal* of sanctions, despite its leaders' recalcitrance yet at the moment that pressures upon them seem to be building, is surely ill-advised.

## REFERENCES

- Akimoto, Y. 2004, “Hydro-powering the regime,” *The Irrawaddy*, vol.12, no.6, June, available online at: <http://www.irrawaddy.org/aviewer.asp?a=3757&z=102>.
- Asian Development Bank (ADB) 2004, *Asian Development Outlook 2004*, Manila, ADB.
- Asian Development Bank 2005, *Asian Development Outlook 2005*, Manila, ADB.
- Aung Din Taylor, D. 2002, “Signs of distress: Observations on agriculture, poverty, and the environment in Myanmar,” paper delivered to the Conference on Burma: Reconciliation in Myanmar and the Crises of Change, School of Advanced International Affairs, Johns Hopkins University, Washington D.C., 22 November 2002.
- Bradford, W. 2004, “*Fiant fruges?* Burma's *sui generis* growth experience,” *Burma Economic Watch*, no.2 2004, pp.6–14.
- Dapice, D. 2003, “Current economic conditions in Myanmar and options for sustainable growth,” *Global Development and Environment Institute Working Paper no. 03-04*, Tufts University.
- Economist Intelligence Unit (EIU) 2004, *Burma (Myanmar): Country Report*, London: EIU.
- Economist Intelligence Unit 2005, *Burma (Myanmar): Country Report*, London: EIU.
- Economist Intelligence Unit 2006, *Burma (Myanmar): Country Report*, London: EIU.
- Financial Action Task Force 2005, *Annual Report 2004–05*, available online at: <http://www.fatf-gafi.org/dataoecd/41/25/34988062.pdf>.
- Financial Action Task Force 2006, *Chairman's Summary, Cape Town Plenary, 15–17 February 2006*, available online at <http://www.fatf-gafi.org/dataoecd/16/23/36174130.pdf>.
- Fullbrook, D. 2006, “Resource-hungry China to devour more of Burma's gas and oil industry,” *The Irrawaddy*, 1 February, online edition at: <http://www.irrawaddy.org>.
- International Monetary Fund (IMF) 2006, *International Financial Statistics*, February, Washington D.C.: IMF.
- Landes, D.S. 1998, *The Wealth and Poverty of Nations*, New York: W.W. Norton.
- Miles, M.A., O'Grady, M.A., and Holmes, K.R. 2006, *2006 Index of Economic Freedom: The Link Between Economic Opportunity and Prosperity*, Washington D.C.: Heritage Foundation.
- Myanmar Central Statistical Office (MCSO) 2006, *Selected Monthly Indicators*, Rangoon, MCSO, available online at <http://www.csostat.gov.mm/>
- Okamoto, I., Kurita, K., Kurosaki, T. and Fujita, K. 2003, “Rich Periphery, Poor Center: Myanmar's Rural Economy under Partial Transition to Market Economy,” mimeo, Institute of Economic Research, Hitotsubashi University, October.
- Parker, C. and Yeni 2006, “Rangoon agencies await their fate,” *The Irrawaddy*, 8 February 2006, available online at <http://www.irrawaddy.org>
- Thawngmung, Ardeth Maung 2004, *Behind the Teak Curtain: Authoritarianism, Agricultural Policies and Political Legitimacy in Rural Burma*, London: Kegan Paul.
- Turnell, S.R. 2002, “Reforming the banking system in Burma: A survey of the problems and possibilities,” *Technical Advisory Network of Burma, Working Papers 7*, Washington D.C.: The Burma Fund.

- Turnell, S.R. 2003, "Myanmar's banking crisis," *ASEAN Economic Bulletin*, vol.20, no.3, December, pp.272-282.
- Turnell, S.R. 2004, "Burma bank update," *Burma Economic Watch*, No.1 2004.
- Turnell, S.R. 2005, "A Survey of Microfinance Institutions in Burma," *Burma Economic Watch*, no.1/2005.
- Turnell, S.R. 2006, "Burma's economy 2004: Crisis masking stagnation," in T.Wilson (ed), *Burma Update 2004*, Singapore: Institute of Southeast Asian Studies.
- United Nations Development Programme (UNDP) 2003, *Human Development Initiative, Myanmar: Report of Independent Assessment Mission*, New York: UNDP.
- United States Department of State 2005, *International Narcotics Control Strategy Report*, Washington D.C., State Department, available online at <http://www.state.gov/r/pa/prs/ps/2005/43018.htm>
- Vicary, A.M. 2001, "Foreign direct investment and the garments industry in Burma," *Burma Economic Watch*, no.1 2001.
- Vicary, A.M. 2003, "Economic non-viability, hunger and migration: The case of Mawchi Township," *Burma Economic Watch*, no. 1 2003.
- Vicary, A.M. 2004, "The state's incentive structure in Burma's sugar sector and inflated official data: A case study of the industry in Pegu Division," *Burma Economic Watch*, no.2 2004.
- Ye Lwin 2006, "Traders urged to use Euro for transactions," *The Irrawaddy*, 6-12 February 2006.

Senator MURKOWSKI. Thank you, doctor.  
Now let us at least go to Ms. Thin Thin Aung. Welcome.

**STATEMENT OF THIN THIN AUNG, MEMBER OF THE  
PRESIDIUM, WOMEN'S LEAGUE OF BURMA**

Ms. AUNG. Thank you, Madam Chair, for inviting me here today to discuss the situation in Burma and Burma-India relations and how Burma represents a new and nontraditional security threat to the region. I also want to express my gratitude to Senators Mitch McConnell and Dianne Feinstein. All freedom-loving Burmese welcome and honor their efforts and actions to promote democracy in Burma. Their work is widely known and deeply appreciated.

By way of background, I am Burmese. I participated in the nationwide pro-democracy uprising in Burma in 1988. After the military coup and the crackdown on the peaceful demonstrators by the military regime, I had to flee my country for India, where I have been living for nearly 18 years. I belong to an organization called Women's Rights and Welfare Association of Burma, based in New Delhi, and currently I am a member of the presiding board of the Women's League of Burma, which is an umbrella group of exiled women's organizations from Burma.

I came to India not only to flee from the arrest of the military regime, but also to get help from the Indian government for the restoration of democracy in Burma. The Indian government was extremely supportive of Burma's democracy movement. India was the first neighboring country to extend active support to the pro-democracy movement in Burma and the Indian government provided refuge to Burmese students who came to India after the wake of the 1988 uprising that was brutally crushed by the military.

India internationally also condemned Burma's authoritarian military regime when it refused to hand over power to Aung San Suu Kyi and her party, the National League for Democracy, following the 1990 general elections. The NLD won those elections with over 80 percent of the vote.

Because India and Burma have centuries-old historical connections, the two nations have enjoyed mutual contact and ties in the realm of religion, culture, trade, law, political philosophy, and to-

getherness in their struggle for independence from colonial rule. In 1993 the Indian government honored Aung San Suu Kyi with their highest civilian award, the Jawaharlal Nehru Award for International Understanding.

Madam Chair, what was once a noble policy towards Burma based on democratic values has been replaced during the last decade by one that marginalized aspirations for freedom of the Burmese people and our ethnic nationalities. Since the mid-1990s the Indian government has sought to develop its relationship with Burma's military generals. Successive Indian governments have refused to acknowledge or speak out against the horrors that Burma's military regime is inflicting on my country.

Due to a perception within Indian national security circles that better relations with Burma's military regime is needed to check its own insurgency and Chinese influence, India's relationship with Burma has considerably warmed. For example, India is now providing military training and reportedly selling arms and military hardware to the ruling junta. This apparently is to check the Chinese push to acquire more Burmese bases so it can project power into the Indian Ocean.

It is unbelievable that the relationship between India, the largest democracy in the world, and the ruling junta in Burma lacks any discussion of democracy, political pluralism, or even the simple fact that murdering political prisoners is wrong. Earlier this month when former political prisoner Thet Naing Oo was bludgeoned to death in a political killing by the regime militias, international condemnation was swift, but India's silence was deafening.

Today Burma is ruled by a group of thugs who lack any political legitimacy and use liberal doses of terror and intimidation to maintain their grip on power. The state they have created is what I call a nontraditional threat to our region. For example, Burma's SPDC spends billions of dollars on arms that are used to oppress the people and outfit the second largest military in Southeast Asia.

Madam Chair, the budget for HIV/AIDS in Burma is reported by head experts as less than \$25,000 per year. Burma is the epicenter of new streams of drug-assisted HIV/AIDS that are transferred to China, India, and throughout the region through illicit narcotics smuggling routes. The same routes that bring Burmese opium and methamphetamines, often grown and manufactured in junta-controlled regions, to flood the region are also bringing these new strains of HIV/AIDS.

The recent announcement of bird flu is another example of the danger the regime poses to the region. On March 17, 2006, Burmese authorities announced that they found the H5N1 strain and were culling chicken and duck flocks. However, it was already happened 5 days before they made official announcement to the Burmese people. This delay could have, and we are still not sure if it has not, opened the door to the spreading of the disease throughout the country and made the jump into Bangladesh, India, China, and other neighboring states. There is no doubt about that that we need to convince the Indian government that its own national interests are best met, not by coddling a murderous regime, but using its resources to help realize the aspirations of the Burmese

people for a state based on democracy, individual liberties, and human rights.

A Burma under a democratic government can address the social ills within the country and create dynamic economic conditions that can provide new markets for Indian and regional products while providing energy and materials that both India and China need to fuel their growing economies.

The formation of the Indian Parliamentarians for Democracy in Burma, IPFDB, last December was an important step in this direction. This group of Indian members of parliament is dedicated to raising the issues of Burma in the parliament and questioning the government for its policy towards Burma. I hope that the forum will be able to increase the amount of pressure on the government of India to review its policy towards Burma, especially as more and more members of parliament join the effort. I hope that the U.S. Congress can strongly encourage the Indian parliamentarians to continue their great work.

I want to congratulate President Bush on raising Burma during his trip this month to India. It is encouraging to learn that President Bush and Prime Minister Monmahon Singh agreed to call for the regime to release our leader, Aung San Suu Kyi. I want to ask the United States to use its close relationship to convey to India the threat posed by the regime and encourage the country to play a meaningful and responsible role in the restoration of democracy in Burma.

I want to spend a moment discussing the horrible human rights situation in Burma. The military regime, SPDC's, violations of human rights include the destruction of villages, massive forced relocation, rape of ethnic women and girls by the SPDC soldiers, and widespread forced labor. There are more than 1,100 political prisoners, including 13 members of parliament elect, languishing in various jails inside Burma. Harassment of political activists, torture and murder continue unabated.

Almost 700,000 refugees have poured out of Burma in recent years as a result of the military's attacks against ethnic groups and political oppression. As reported by Thailand-Burma Border Consortium, TBBC, between 600,000 and 1 million ethnic peoples are hiding in the jungles and mountains in the eastern part of Burma to avoid the killings of the Burmese army.

Recently, the Burmese military attacked villages in Karen State and caused more than 1,000 villagers to flee their homes to become internally displaced persons. According to Human Rights Watch, more than 70,000 children are forcibly recruited into the Burmese army.

The report "License to Rape," produced by the Shan Women's Action Network, SWAN, and the Shan Human Rights Foundation, SHRF, in 2002 documents 173 incidents of rape and other forms of sexual violence involving 635 girls and women committed by the SPDC troops in Shan State, mostly from 1996 to 2001. The majority of rape incidents were committed in the areas of central Shan State, where over 300,000 villagers have been forcibly relocated from their homes since 1996 as part of an anti-insurgency campaign.

The report "Shattering Silences" by the Karen Women's Organization, published in April 2004, documents 125 cases of sexual violence committed by the SPDC military troops and Karen State from 1998 until 2004.

Other sexual violence by the Burmese military and trafficking of women and girls are also documented in "Driven Away," produced by the Kachin Women's Association, Thailand; "Catwalk to the Barracks" by the Human Rights Foundation of Monland, Burma, and the Women and Children's Rights Project, Southern Burma.

These reports expose how the military regime is allowing its troops systematically and on a widespread scale to commit rape with impunity in order to terrorize and subjugate the ethnic peoples of Shan, Mon, Kachin, and Karen States. All reports conclude that the restoration of genuine peace, democracy, and the rule of law in Burma are necessary to end the systematic sexual violence.

Here I would like to offer several policy options. First and foremost, continue the economic sanctions against Burma, and I urge bringing Burma up for a resolution within the United Nations Security Council. Please continue regional efforts to hold ASEAN accountable for the actions of the regime. ASEAN accepted Burma into its ranks 10 years ago with the belief that constructive engagement would bring political change.

Finally, use U.S. diplomatic weight to engage the Indian government at all levels to convince India that a democratic Burma is in India's long-term strategic interest.

In closing, I here would like to express gratitude to the U.S. Congress and government for their efforts to help restore the democracy stolen from us by the military junta. Today, I sit here proudly on behalf of the millions of Burmese to say thank you for the U.S. Congress and U.S. administration for your words, your deeds, and steadfast determination to stand with us during our hours of darkness.

Thank you very much.

[The prepared statement of Ms. Aung follows:]

PREPARED STATEMENT OF THIN THIN AUNG, MEMBER OF THE PRESIDUM, WOMEN'S LEAGUE OF BURMA

I want to thank you, Madame Chairwoman, for inviting me here today to discuss the situation in Burma, Burma-India relations, and how Burma represents a new, non-traditional security threat to the region. I also want to express my gratitude to Senators Mitch McConnell and Dianne Feinstein. All freedom loving Burmese welcome and honor their efforts and actions to promote democracy in Burma. Their work is widely known and deeply appreciated.

By way of background, I am a Burmese. I participated in the nationwide pro-democracy uprising in Burma in 1988. After the military coup and brutal crack-down on the peaceful demonstrators by the military regime, I had to flee my country for India where I have been living for nearly 18 years.

I belong to the organization called Women Rights and Welfare Association of Burma based in New Delhi. I am a member of the Presidium Board of the Women's League of Burma which is an umbrella group of exiled women organizations from Burma.

I came to India not only to flee from the arrest of the military regime but also to get help from the Indian government for the restoration of democracy in Burma. The Indian government was extremely supportive of Burma's democracy movement. India was the first neighboring country to extend active support to the pro-democracy movement in Burma. The Indian government provided refuge to Burmese students who came to India after in the wake of the 1988 uprising that was brutally crushed by the military. India internationally also condemned Burma's authori-

tarian military regime when it refused to hand over power to Aung San Suu Kyi and her party National League for Democracy following the 1990 general elections. The NLD won those elections with over 80 percent of the vote.

Because India and Burma have a centuries-old historical connection, the two nations have enjoyed mutual contacts and ties in the realm of religion, culture, trade, law, political philosophy and togetherness in their struggle for Independence from colonial rule.

In 1993, the Indian government honored Aung San Suu Kyi with their highest civilian award, the Jawaharlal Nehru Award for International Understanding.

Madam Chairwoman, what was once a noble policy toward Burma based on democratic values has been replaced during the last decade by one that marginalizes aspirations for freedom of the Burmese people and our ethnic Nationalities.

Since the mid 1990s, the Indian government has sought to develop its relationship with Burma's military generals. Successive Indian government has refused to acknowledge or speak out against the horrors that Burma's military regime is inflicting on my country.

Due to a perception within Indian national security circles that better relations with Burma's military regime is needed to check its own insurgency and Chinese influence, India's relationship with Burma has considerably warmed. For example, India is now providing military training and reportedly selling arm and military hardware to the ruling junta. This apparently is to check the Chinese push to acquire more Burmese bases so it can project power into the Indian Ocean.

It is unbelievable that the relationship between India, the largest democracy in the world, and the ruling junta in Burma lacks any discussion of democracy, political pluralism, or even the simple fact that murdering political prisoners is wrong. Earlier this month, when former political prisoner Thet Naing Oo was bludgeoned to death in a political killing by the regime militias, international condemnation was swift, but India's silence was deafening.

Today, Burma is ruled by a group of thugs who lack any political legitimacy and use liberal doses of terror and intimidation to maintain their grip on power. The state they have created is what I call a non-traditional threat to our region.

For example, Burma's SPDC spends billions of dollars on arms that are used to oppress the people and outfit the second largest military in South East Asia. Madam Chairwoman, the budget for HIV/AIDS in Burma is reported by health experts at less than \$25,000/year. Burma is the epicenter of new strains of drug resistant HIV/AIDS that are transferred to China, India and throughout the region through illicit narcotics smuggling routes. The same routes that bring Burmese opium and methamphetamines (often grown and manufactured in junta controlled regions) to flood the region are also bringing these new strains of HIV/AIDS.

The recent announcement of Bird Flu is another example of the danger the regime poses to the region. On March 17, 2006, Burmese authorities announced that they found the H5N1 strain and were culling chicken and duck flocks—however, it was already happened 5 days before they made official announcement to the Burmese people. This delay could have—and we are still not sure if it has not—opened the door to the spreading of the disease throughout the country and made the jump into Bangladesh, India, China and other neighboring states.

There is no doubt about that we need to convince the Indian government that its own national interests are best met not by coddling a murderous regime, but using its resources to help realize the aspirations of the Burmese people for a state based on democracy, individual liberties and human rights. A Burma under a democratic government can address the social ills within the country and create the dynamic economic conditions that can provide new markets for Indian (and regional) products while providing energy and materials that both India and China need to fuel their growing economies.

The formation of the Indian Parliamentarian's Forum for Democracy in Burma (IPFDB) last December was an important step in this direction. This group of Indian members of parliament is dedicated raising the issues of Burma in the parliament, and questioning the government for its policy toward Burma. I hope that the Forum will be able to increase the amount of pressure on the government of India to review its policy toward Burma, especially as more and more members of parliament join the effort. I hope that the US Congress can strongly encourage the Indian parliamentarians to continue their great work.

I want to congratulate President Bush on raising Burma during his trip this month to India. It is encouraging to learn that President Bush and Prime Minister Manmohan Singh agreed to call for the regime to release our leader Aung San Suu Kyi. I want to urge the US to use its close relationship to convey to India the threat posed by the regime and encourage the country to play a meaningful and responsible role in the restoration of democracy in Burma.

I want to spend a moment discussing the horrible human rights situation in Burma. The military regime, SPDC's violation of human rights include the destruction of villages, massive forced relocation, rape of ethnic women and girls by the SPDC soldiers and widespread forced labor.

There are more than 1100 political prisoners, including 13 Members of Parliament elect, languishing in various jails inside Burma. Harassment of political activists, torture and murder continue unabated. Almost 700,000 refugees have poured out of Burma in recent years as a result of the military attacks against ethnic groups and political oppression. As reported by Thailand-Burma Border Consortium (TBBC), between 600,000 and one million ethnic peoples are hiding in the jungle and mountains in Eastern part of Burma to avoid the killing of the Burmese army. Recently, Burmese military attacked villages in Karen State and caused more than one thousand villagers to flee their home to become Internally Displaced Persons. According to Human Rights Watch, more than 70,000 children are forcibly recruited into Burmese military.

The report "License to Rape" produced by the Shan Women's Action Network (SWAN) and Shan Human Rights Foundation (SHRF) in 2002 documents 173 incidents of rape and other forms of sexual violence involving 625 girls and women, committed by the SPDC troops in Shan State, mostly from 1996-2001. The majority of rape incidents were committed in the areas of Central Shan State where over 300,000 villagers have been forcibly relocated from their homes since 1996 as part of an anti-insurgency campaign.

The report "Shattering Silences" by the Karen Women's Organization published in April 2004 documents 125 cases of sexual violence committed by the SPDC's military troops in Karen State from 1988 until 2004. Other sexual violence by the Burmese military and trafficking of women and girls are also documented in "Driven Away" produced by the Kachin Women's Association Thailand (KWAT), "Catwalk to the Barracks" by Human Rights Foundation of Monland (Burma) and Women and Child Rights Project (Southern Burma). I would like to submit these reports for the record.

These reports expose how the military regime is allowing its troops systematically and on a widespread scale to commit rape with impunity in order to terrorize and subjugate the ethnic peoples of Shan, Mon, Kachin and Karen States. All reports conclude that restoration of genuine peace, democracy and the rule of law in Burma are necessary to end the systematic sexual violence.

I would like to offer several policy options:

- First and foremost, continue the economic sanctions against Burma;
- I urge bringing Burma up for a resolution within the United Nations Security Council.
- Please continue regional efforts to hold ASEAN accountable for the actions of the regime. ASEAN accepted Burma into its ranks 10 years ago with the belief that constructive engagement would bring political change.
- Finally, use US diplomatic weight to engage the Indian government at all levels to convince India that a democratic Burma is in India's long-term, strategic interest; and

In closing, I here would like to express gratitude to the U.S. Congress and Government for their efforts to help restore the democracy stolen from us by the military junta. Today, I sit here, proudly, on behalf of millions of Burmese to say "Thank You" for the U.S. Congress and U.S. administration for your words, your deeds and steadfast determination to stand with us during our hours of darkness. Thank You.

Senator MURKOWSKI. Thank you. I appreciate your comments, certainly your very specific suggestions.

Dr. Green, a couple of questions for you. There has been a fair amount of discussion about the ASEAN nations and the various relationships with Burma. Is there a divide within the ASEAN members on how to approach Burma, and if that is the case, what does this mean in the long run for ASEAN as a regional forum to deal with the Burma issue?

Dr. GREEN. I think there is a division not only within ASEAN, but within each ASEAN state, on how to handle Burma because it touches on how these states characterize their own values, their own roles, their own institutions. ASEAN itself was created on a

principle of noninterference in internal affairs. It was an organization created so that these countries with multi-ethnic, multi-religion populations within in many cases colonial borders, so that they would not interfere in each other's affairs, and it succeeded in making war among Southeast Asian nations very unlikely. They got that part.

The strategy was to bring in Burma and through cooperative, constructive engagement to socialize Burma to this same concept. I think what many in ASEAN now are realizing is that this principle of noninterference in internal affairs just is not good enough, that they are going to be as governments less effective, that ASEAN itself will have less clout vis-à-vis the United States or the EU. You also have new parliamentary leagues growing across the borders of these states.

So, in many ways, the debate is within many of these ASEAN capitals. My experience in the White House suggests to me that many of the leaders of ASEAN are among the more enlightened thinkers on this in their countries. President Yudhoyono, for example, is, I think, quite forward thinking and his trip, I think, was probably on balance a good thing in having Indonesia, a successful democracy, pushing harder for democracy.

But this is an area of ferment and debate and I do not think that ASEAN as a whole has figured out how to organize themselves for it. That is why the United States can, I think, helpfully play a role in helping ASEAN come to the right approach and the right conclusions and organize themselves to push more deliberately for democracy.

There are some divisions among the leaders, I think, that the junta is exploiting. Traditionally Indonesia was the heart and soul and leader in ASEAN. There was a period where that was not the case and I think Prime Minister Yudhoyono is coming back and trying to put Indonesia at the center. Prime Minister Takshin would like for Thailand to play a leading role. Abdullah Bedali, in Malaysia, would like to play that role. There is a certain amount of competition for the spotlight among these ASEAN leaders and I think the regime is exploiting that to some extent, trying to play them against each other.

But on the whole, I think the debate is moving in a direction that we should encourage through very active engagement with ASEAN as a whole and with individual member states to get more concrete about what we expect from Burma. I think that's one of the main points or recommendations I would like to leave.

We need to start putting on paper with like-minded states what we expect, what we are willing to do if they do not perform, what we are collectively willing to do if they do perform, begin putting that together. The Six Party Talks analogy that does not work. In the Six Party Talks we brought North Korea in from the beginning and North Korea caused the rest of us to use a lot of our diplomatic leverage to pay them just to show up, and we had to pull our punches to get them to show up. I would not worry about whether Burma participates in this process. In fact, I expect they will not want to participate at all. The important thing is to start working with ASEAN and India and others to start setting in concrete a

roadmap we can all live with and work on together. Then we will worry about how to structure the engagement with the junta.

Senator MURKOWSKI. Well, recognizing just the competition that does go on for the resources, for the natural resources that exist within Burma, and recognizing that everybody is coming into it with a different need does make it a much more complicated relationship there. Now, a fair amount has been discussed today, certainly the India relationship, a fair amount about China's relationship with Burma. How much attention should we be giving to other geopolitical relations within the area, other countries that may be perhaps selling military equipment to Burma or constructing military capabilities within Burma? Are we forgetting about those or are they in the midst of the discussions as well?

Dr. GREEN. That is an excellent point. I want to ask for my testimony back so I can pay more attention to it. I think you are absolutely right. Senator McConnell briefly touched on the North Korea connection. That is very worrisome. The regime, both regimes, are clearly beginning to mirror each other in terms of criminal activities, misuse of their own people to create instability for their neighbors for negotiating purposes. The autarchy that the junta seeks in Burma I think would lead them in directions where they will seek weapons of mass destruction or nuclear weapons. They are not interested in opening and engaging. They are interested in not changing and in deterring and defying the world, and I think this is a junta that is extremely paranoid, that is worried that we or others will attack them, and one that is interested in weapons.

They are not, as Professor Turnell said, they are not a resource-rich country in terms of cash, but they do have resources. They have food, they have things that North Korea wants. It's a connection that I think we should be watching very, very carefully.

Senator MURKOWSKI. Do we really know that much about the relationship between the two or is a lot of what we are saying assumptions, supposition?

Dr. GREEN. You know, I think both North Korea and Burma are hard intelligence targets in the traditional sense. On the other hand, they both have policies that create refugees, that create dissatisfied people. I think information is starting to come out about both places. There is some evidence, as Senator McConnell suggested, that there are North Koreans active in Burma. I do not think we know a lot about what they are doing, but I think we should be trying to learn more.

We also need to put a little bit of pressure on our Indian friends and on our Thai friends, who are developing relationships with the Burmese military for the purpose of dealing with these transnational or transborder problems, but I think they are sending the wrong signals and enabling the military. They are not, obviously, doing the kind of thing North Korea would do, but it is another area that bears careful watching.

Senator MURKOWSKI. We have not had an ambassador there in Burma since 1991. How has this affected the formulation, the implementation of any U.S. policy towards Burma?

Dr. GREEN. I think what is far more important is how we interact with the Japanese or the Indians or others on the ground and also in those capitals. Our chargé, as I understand it, is doing an

excellent job, and it is a traditionally important part of the role of the mission in Rangoon to start comparing notes. If we are going to multilateralize this problem and build a coalition, I do not think you have to have an ambassador. You have to have a very good chargé, a very effective team that can work with other capitals.

The engagement we should be worrying about at this point is not with the regime; it is with the other players who have influence on the regime, and I think we are configured to do that.

Senator MURKOWSKI. Thank you.

Dr. Turnell, I appreciated your comments and the description of the miracle economy, when actually, looking at it, that they have actually gone backwards rather than this incredible forecast that they have presented. It causes one to wonder what kind of training in economics the Burmese have and what they teach in terms of economic factors in their schools. But we appreciate your review of it.

When you speak of the level of corruption, the criminal activity, the extent of money laundering, and just the effect that this has on a society, on an economy, when you look to those western companies, for instance, that go in to operate, go in to do business into a country, into Burma, I have to assume that they do have a positive impact on the society there. That is the assumption that I have been making. But when you have the level of corruption and criminal activity that you have, what kind of—what kind of an effect, what kind of an impact do you have when you have these western companies coming in to do business into an economy like you have in Burma now?

Dr. TURNELL. A very good question because we normally do have that presumption, of course. I think the first thing to say about that is that there is not that many western companies involved in Burma anyway.

Of the small number that are, most are involved in extractive industries of various kinds, whether it be mining or logging and so on. So those good things of corporate governance and so on which we might think might be shared by western companies being involved in Burma essentially don't happen just because of the nature of those industries. Those industries are not about trying to secure customers or develop new products or ideas or anything like that. It really is just about extracting resources in some way.

So unfortunately some of those, the good aspects of business involvement in a particular country, I think are just not there in the case of Burma because of the nature of the activities that they are engaged in.

Senator MURKOWSKI. If western companies should decide to divest their operations in Burma, what happens? Who comes in?

Dr. TURNELL. A mixture of things happen. Sometimes companies from other countries come in and take over. Sometimes the economic activity, whatever it is, just ceases. That very often happened around a decade ago when many of the western companies were leaving Burma, simply because those activities were fairly marginal in any case. So sometimes some of the companies were in there for various legacy reasons and that is particularly relevant in the case of the U.K. There were lots of—the U.K. still to this day appears quite high up on the list of countries involved in

Burma, but it really goes back to that colonial period and so on. So for various historical reasons there were British companies involved.

A lot of those left around a decade ago and essentially whatever it was they were doing just ceased to function.

Senator MURKOWSKI. You mentioned that there is just not that many western companies that are operating there, and when you recognize just the financial uncertainty of any investment in Burma, what percentage or what is the ratio of the private-owned enterprises versus state enterprises?

Dr. TURNELL. I think one thing I should say is that data on Burma of course is almost completely unavailable. So what you have to do is use various proxies to try and work out what is going on. So in answer to your question, I think we can say that around two-thirds of the economy is owned by the state. We can do that just simply by looking at the amount of financial assets created in the country—borrowing, lending, deposits, etcetera. Roughly two-thirds of that is commanded by the state, leaving a third for the private sector.

So we are dealing with a country, in other words, that notwithstanding so-called reforms begun in the 1990s, is still very much a state-controlled economy.

Senator MURKOWSKI. There has been a couple mentions of the fact that this radical suggestion to move the capital—what is that going to do to the economy? Any ideas?

Dr. TURNELL. I think that is a wonderful example of the arbitrary and irrational policymaking that goes on in the country. My understanding is that there was, for instance, not one single economic assessment of that move, not a single thing.

Senator MURKOWSKI. Is there anything out there? I looked on the map and it looks like an area that is not around what are identified as the larger cities. Does this build up an area that needs to be built up? Is there anything economically to be gained from this?

Dr. TURNELL. I have heard some stories from time to time that it is somehow on various trade routes from China and so on, but my understanding is in fact that that is not the case. It is roughly halfway between Rangoon and Mandalay. There is an age-old historical episode to do with Aung San during the Second World War and it was where his troops turned against the Japanese and so on. But apart from that, it certainly has no economic importance at all, and the move just from an economic point of view makes no sense whatsoever.

Senator MURKOWSKI. One last question for you. You had mentioned in your comments that Singapore has shown great concern over the money laundering issue. Is Singapore the biggest player, if you will, in Burma? Do you see them continuing in that role or do China and India overshadow what is happening with Singapore and Burma relationships?

Dr. TURNELL. I think the whole issue of Singapore really nicely illustrates what we are saying, actually. Singapore used to be the biggest player in Burma, but it has withdrawn at a rapid rate. If we look at new investments in Burma, we find that Singapore has been completely pushed aside in favor of China, to some extent

India and South Korea, but in those countries it is very, very limited and just relates to a couple of projects.

So it is really interesting, I think, the Singapore withdrawal from the country, which is directly as a consequence, I think, of the pariah status and in particular the problems with money laundering and so on. Singapore is very anxious to set itself up as a clean and honest financial hub in Southeast Asia and I think, to be honest, it largely is. So the movement of Singapore out of the country over the last years I think is really indicative of some of the things going on there and some of the reactions of Burma's neighbors to Burma.

Senator McConnell mentioned at the start that Burma is increasingly becoming an embarrassment to its neighbors and I think the situation with Singapore is perhaps the best example of that.

Senator MURKOWSKI. Thank you. I appreciate your response.

Ms. Aung, you commented about the change in India's behavior toward Burma, in part because of China's influence within the region. As we look to ways to, whether it is Six Party Talk type of a format or whatever the negotiation might be, is it possible for change to occur in Burma without including both India and China at the negotiating table? Do they both have to be there?

Ms. AUNG. India and China are very important, as was said, and if you can bring Indian government into that it is very important, because India is a democracy, but at the moment they are using the policy, on the one hand they are allowing us to live there and we have freedom of movement there, but on the other hand they are dealing with the military regime for business and other security measures. But India has sympathy for Aung San Suu Kyi and also for democracy movement also. I think it is possible that if you can use your close relationship with the Indian government, because the prime minister also said that they are working for the release of Aung San Suu Kyi.

Senator MURKOWSKI. A great deal has been spoken and, Dr. Turnell, you certainly indicated that there is no fiscal policy in Burma; basically the policy is get as much money to the regime as possible. Recognizing this, that the vast majority of the resources have gone to the military, has there been any effort by the military junta to provide for the health, the well-being of the citizens in your opinion?

Ms. AUNG. The several reports, we can clearly see that the military regime of Burma uses most of its GDP. In Burma, 40-plus percent of the budget is for the military, compared to health and education which is less than 1 percent.

Senator MURKOWSKI. Less than 1 percent?

Ms. AUNG. Yes. So in 2001, they said that they have increased, but 0.3, 0.5 percent is for the social sector. But still it is very much behind the minimum standards.

Senator MURKOWSKI. One last question. In terms of the ethnic minority groups, is there much contact at all with the National League of Democracy with the ethnic minority groups at all? Are the ethnic minorities part of the leadership in any way? Is there any relationship there where they are included?

Ms. AUNG. Aung San Suu Kyi had the CRBB be formed, the committee representing the parliament people and the parliament,

where she was able to bring all the ethnic nationality political bodies and won in the 1990 elections in Burma. So they are all discussing for a common strategy against military rule in Burma. It is very much collected.

Senator MURKOWSKI. I am told that we have about 5 minutes left on a vote, so we are going to take a brief recess here. This concludes the questions that I have for this panel. I thank all of you for your testimony, for your time, and for all your work in this area.

I am told that we will have Mr. John with us when we come back. So if we can just take about a 5-minute break here and we will resume. Thank you.

[Recess from 3:47 p.m. to 4:01 p.m.]

Senator MURKOWSKI. Good afternoon again. Sorry for the short delay. I would like to welcome to the committee Eric John, the Deputy Assistant Secretary for the Bureau of East Asian and Pacific Affairs for the Department of State. I am going to apologize ahead of time, Mr. John. I am told that we are going to have another vote here shortly, but we do not know when "shortly" is. So until that time, you certainly have an opportunity to present your testimony, and hopefully, I will have a chance to get some of my questions in before we have to go.

But I appreciate your flexibility with the schedule this afternoon. We heard some good testimony from our panelists. Senator McConnell was with us. And I understand that you have been over on the House side keeping busy, so we appreciate your taking the time to join us this afternoon.

**STATEMENT OF ERIC G. JOHN, DEPUTY ASSISTANT SECRETARY, BUREAU OF EAST ASIAN AND PACIFIC AFFAIRS, DEPARTMENT OF STATE**

Mr. JOHN. Thank you very much, Madam Chairman. I thank you for the invitation to update you and the committee on the situation in Burma and the administration's strategy for effecting meaningful change in that tragic country. I would ask that my entire testimony be submitted for the official record.

Senator MURKOWSKI. We will include it as part of the record.

Mr. JOHN. Thank you.

Before I delve into the substance of our policy, I would first like to relate a recent event that highlights the violence the people of Burma face on a daily basis. Less than 2 weeks ago, Burmese security officials accosted a former political prisoner, Thet Naing Oo, accusing him of public indecency. They provoked a confrontation with him in full view of numerous horrified onlookers and in the end beat him to death.

Incidents such as this weigh the Burmese people down with a palpable sense of fear and oppression, reminding us of the regime's brutality and the need for the international community to do all it can to bring about change there. Burma remains a high priority for the President and Secretary Rice. We are working intensively and closely with partners and others in Asia and with the U.N. to maximize diplomatic pressure on the junta to initiate genuine political reform. While there have been signs of some progress, the road to

bringing freedom, peace, and democracy to Burma remains uncertain.

To fully understand the tragedy that Burma has become, we should look back 60 years to a time when Burma enjoyed some of the highest rates of scholastic enrollment in Asia and boasted a well educated, highly regarded civil service. It was rich with natural resources and was one of the world's leading rice exporters. Sadly, Burma's leaders did not capitalize on these assets and the country's potential. Instead, a series of generals have for over 40 years implemented irrational and repressive policies that have caused the Burmese people to suffer needlessly.

As Secretary Rice recently said in Jakarta: "A country that was once the jewel of Southeast Asia is now out of step with the entire modern experience of its region. A once thriving economy has collapsed. Universities that once attracted the best Asian minds are locked shut. The Burmese regime is now literally retreating into the depth of the country, closing its people off from the world and robbing them of their future."

The latest chapter in Burma's increasingly depressing story is the advent of Avian influenza. Although the regime cannot be blamed for the Avian influenza outbreak, its failure to devote adequate resources to the health sector, its repressive policies and restrictions on the delivery of humanitarian assistance greatly increase the risk of this and other outbreaks spreading.

On a much broader scale, the junta's policies and corrupt practices have severely hurt the economy, exacerbated the deterioration of social conditions, led to a steady outflow of refugees and illicit narcotics, thwarted peace among ethnic minority populations, and forced the Burmese people to live in a state of perpetual fear. On the political front, the regime continues to promote a sham political process.

So how do we bring about a transition from the repressive isolationist Burma of today to a free and democratic country integrated into the global community? Although there are no easy solutions, we have developed a bilateral and multilateral strategy predicated on maximizing the international pressure on the regime to reform. This approach includes sanctions, diplomatic pressure, and statements of public support.

Perhaps the most important component of our strategy is our intensified diplomatic efforts. We continue actively to engage with partners and key players to develop support for a common message to the regime on the need for an inclusive and credible peace process—political process. We have stressed that the first steps would have to be the release of political prisoners and the regime's engagement in a genuine political dialogue with the opposition and ethnic minorities.

At the Trilateral Strategic Dialogue on March 18, Secretary Rice, Japanese Foreign Minister Aso, and Australian Foreign Minister Downer underscored the need for progress in democratization in Burma. Following Indonesian President Yudhoyono's visit to Rangoon, senior Indonesian officials confirmed that he intends to use his influence to press the Burmese regime to release Aung San Suu Kyi and pursue a democratic transition. We will continue to work with New Delhi at the highest levels on this issue. We believe

India should press the regime to take meaningful steps rather than appearing publicly to accept the status quo.

Multilaterally, we continue to work for ways to keep Burma on the United Nations agenda, actively exploring ways to build U.N. Security Council consensus on the need for further discussions and possible Council action in follow-up to the December 16 landmark Council briefing. As we do so, we have been considering factors such as the results of the just-completed visit to Burma of Foreign Minister Hamid and other events. We also continue to advocate discussion of Burma in other U.N. bodies and to encourage U.N. Secretary General Kofi Anan to remain engaged.

We continue working with the U.N. Secretariat to identify a successor for the Secretary General's former special envoy and to strengthen the special envoy's mandate.

Another component of our strategy is sanctions. Let me state clearly for the record that the administration fully supports the renewal of the import ban contained in the Burmese Freedom and Democracy Act. Failure to renew it absent meaningful reforms by the regime would send the wrong political message. Our sanctions continue to play a critical role, reminding the regime that its behavior is unacceptable and that its leaders will remain isolated as long as they continue this behavior. They also provide important moral support for the democratic opposition in Burma and ensure that American companies will not help fund the luxurious lifestyles of a select few.

Our strategy also includes public support for Burma's democratic opposition. The United States has spoken out for years against the regime's repression of the Burmese people and its imprisonment of Aung San Suu Kyi and other courageous advocates for democracy. Just last week, we highlighted the horrific March 17 fatal public beating of Thet Naing Oo, calling on the regime to renounce the use of violence and engage all elements of Burmese political life in a meaningful dialogue that empowers the people to determine their own future.

Partners and other key players also are speaking out. After his recent visit to Burma, Malaysian Foreign Minister Hamid expressed public concern about the pace of reform and the regime's failure to allow him to meet Aung San Suu Kyi. Just last month at the time of the Burmese prime minister's visit to China, Beijing for the first time publicly called for national reconciliation in Burma.

Madam Chair, because of the regime's self-imposed isolation and apparent imperviousness to outside pressure, it will take an extraordinary effort by the international community to persuade Burma's rulers to begin and sustain a process of credible and full national reconciliation. While we still are not all on the same page, we are much closer than we were. The administration is engaged at the highest levels. Key countries in the region have begun to speak out and international pressure on the regime to change its misguided policies is slowly mounting.

Burma's road to democracy is neither short nor straight, but by pressing on with our intense efforts we believe we can effectively shorten the time it will take to achieve the freedom, prosperity, and security for which Burma and its people so desperately yearn

and richly deserve. The brutal killing just days ago of Thet Naing Oo reminds all of us how high the stakes are there.

Thank you.

[The prepared statement of Mr. John follows:]

PREPARED STATEMENT OF ERIC G. JOHN, DEPUTY ASSISTANT SECRETARY, BUREAU OF EAST ASIAN AND PACIFIC AFFAIRS, DEPARTMENT OF STATE

Madam Chairman, members of the subcommittee,

Thank you for the invitation to come before the subcommittee today to update you on the situation in Burma and the administration's strategy for effecting meaningful change in that tragic country.

Before I delve into the substance of our policy toward Burma, I would like to take a moment to relate a recent event that highlights, in a very human and tragic way, the oppression and violence that the people of Burma face on a daily basis. Less than 2 weeks ago, several security officials accosted a former political prisoner named Thet Naing Oo, accusing him of public indecency for relieving himself near a Rangoon teahouse. In most countries, urinating in public might warrant a citation or a warning. Not in Burma. The security officials provoked a confrontation with Thet Naing Oo, and in the end, beat him to death, in full view of numerous horrified onlookers.

Incidents such as this hang over the heads of all Burmese people, weighing them down with a palpable sense of fear and oppression. They remind us of the brutality of the regime, and of the need for the international community to do all it can to bring about change.

Burma remains a high priority for the President and Secretary Rice, and, as I know, for many Members of Congress as well. We are working intensively and closely with like-minded partners and others in Asia, and with the U.N. in New York, to coordinate and maximize diplomatic pressure on the Burmese regime to initiate genuine political reforms. While there have been signs of some progress in recent months among our international partners—and I will cover that later in my testimony—the road to ultimately bringing to Burma and its people the freedom, peace and democracy they so richly deserve remains long and uncertain. However, it is a path the United States and others will continue to traverse no matter what the obstacles.

To fully understand and appreciate the tragedy that Burma has become, we should look back 50 or 60 years, when that country seemed poised to play a significant and positive role in the region and the world. Burma enjoyed some of the highest rates of enrollment in primary and secondary schools in Asia, and boasted a well educated, highly regarded civil service. It was rich with natural resources, and was one of the world's leading rice exporters.

Sadly, Burma's leaders did not capitalize on these assets and the country's potential to be a regional leader. Instead, a series of generals have, for over 40 years, implemented irrational and repressive policies that have caused the needless suffering of Burma's more than 50 million people. As Secretary Rice recently said in Jakarta, "A country that was once the jewel of Southeast Asia is now out of step with the entire modern experience of its region. A once thriving economy has collapsed. Universities that once attracted the best Asian minds are locked shut. The Burmese regime is now literally retreating into the depths of the country, closing its people off from the world and robbing them of their future."

The latest chapter in Burma's increasingly depressing story is the advent of Avian Influenza. On March 12, Burma reported an AI outbreak in poultry near Mandalay. to the World Organization for Animal Health (OIE), and requested assistance from the international community. In response to its "immediate need" request, we made available to the UN's Food and Agricultural Organization (FAO) up to 2,000 units of protective clothing and disinfectant with sprayers for use in Mandalay to contain the outbreak. Others in the international community are responding as well, albeit not as rapidly. A WHO/FAO team was sent in to investigate. Sadly, more than 56 commercial farms have since been infected, and the regime has had to suspend the sale of ducks, chickens and quails in affected areas.

Although the regime cannot be blamed for the AI outbreak itself, its failure to devote an adequate share of budget resources to the health sector, along with its repressive policies—including unnecessary restrictions on U.N. agencies, NGO's and other health-related organizations within the country—greatly increase the risk of this and other outbreaks spreading, both within Burma and to neighboring countries.

On a much broader scale, the regime's policies and corrupt practices have contributed to a host of other ills, severely hurting the economy and exacerbating the deterioration of social conditions. They have led to a steady outflow of refugees and illicit narcotics, thwarted peace among Burma's ethnic minority populations, and forced the Burmese people to live in a state of perpetual fear. This downward spiral is increasingly worrying not only to Burma's people, but to the region and the world.

On the political front, the regime continues to promote a sham political process from which the opposition is barred—one that prohibits free and open debate and includes only delegates hand-picked by the military. Over 1,100 Burmese are still detained for peacefully expressing their political views. Freedom of press, assembly, religion and movement continue to be greatly restricted. Forced labor, rape, torture, and conscription of child soldiers remain prevalent as tools of the regime, particularly in ethnic minority areas.

Ironically, as the suffering of the Burmese people worsens, the regime continues to insulate and isolate itself from the harsh realities of life in Burma—for which it is responsible—and from the international community as well. There is no example more indicative of this trend than the regime's bizarre decision last year, without notice to its people or the world, to move the capital to a heretofore undeveloped town in the hinterland some 200 miles north of Rangoon. Of course, governments have the right to move their capitals, but the way in which the regime made the move is both troubling and emblematic of the character of the quixotic regime. It did not notify the Burmese people, let alone its ASEAN partners or other foreign governments or embassies, and it forced civil servants to leave their families behind indefinitely to make the move.

Madam Chairman, in such a dynamic region as Southeast Asia, which is enjoying strong economic growth, increased freedom and democracy, and an enhanced role in global affairs—Burma stands out as a glaring exception. The international community has reached out repeatedly to help Burma get back on its feet, but the regime has rejected all of these efforts.

So how do we bring about a transition from the repressive, isolationist Burma of today to a free and democratic country—one that is integrated into the global community and poses no risk to the stability of the Southeast Asia region? Although there are no easy solutions here, we have developed a bilateral and multilateral strategy predicated on maximizing international pressure on the regime to initiate credible reforms. This multi-pronged approach includes diplomatic pressure, sanctions, and statements of public support for those struggling for freedom and democracy in Burma. We also continue to use funds appropriated by Congress to support democratic ideals through programs that promote democratic values, human rights, the rule of law, and good governance.

Perhaps the most important component of our strategy is our intensified diplomatic efforts focused on building international pressure on the junta to reform. Over the past several months, we have actively engaged with like-minded partners in Europe and key countries in the Asia region, including Japan, ASEAN members, China, India and Australia, to develop support for a common message to the regime on the need for launching a truly inclusive and credible political process leading to a democratic transition. We have stressed that the first steps would have to be the release of political prisoners, including Nobel Laureate Aung San Suu Kyi, and the regime's engagement in a genuine political dialog with the opposition and representatives of Burma's ethnic minorities.

It is our sense that elements of our message are getting through to the regime. We strongly supported the firm public stance taken by ASEAN back in December, and welcomed Malaysian Foreign Minister Hamid's visit to Rangoon last week. At their Trilateral Strategic Dialogue on March 18, Secretary Rice, along with Japanese Foreign Minister Aso and Australian Foreign Minister Downer, underscored the need for genuine progress in democratization in Burma, including the release of political prisoners. Indonesian President Yudhoyono's visit to Burma in March provided another opportunity to press the regime. Following the visit, senior Indonesian officials confirmed that President Yudhoyono intends to use his influence—and Indonesia's example—to press the Burmese regime to release Aung San Suu Kyi and pursue a democratic transition. We will continue to work with New Delhi, at the highest levels, on promoting a democratic transition in Burma. We believe India should press the regime to take meaningful steps such as releasing Aung San Suu Kyi, rather than appearing publicly to accept the status quo.

Multilaterally, we continue to look for ways to keep Burma on the U.N. agenda. We believe the Security Council has a critical role to play in promoting positive change there, and we have been actively exploring ways to build UNSC consensus on the need for further discussions and possible Council action in follow-up to the December 16 landmark Council briefing on Burma. In our internal discussions on

next steps, we have been considering factors such as the results of the just-completed visit to Burma of FM Hamid and other events.

We also continue to advocate discussion of Burma in other U.N. bodies, such as the Economic and Social Council (ECOSOC) and the Third Committee. Last year, the United States co-sponsored the European Union's annual Burma human rights resolution at the United Nations General Assembly, which called for "a genuinely inclusive" political process through the "unhindered participation of all political parties and representatives of ethnic nationalities," as well as the immediate and unconditional release of political prisoners. Separately, we are supporting the International Labor Organization's request to place Burma on the 2006 ECOSOC agenda.

We will continue to encourage U.N. Secretary General Kofi Annan to remain engaged in Burma, and to work with the U.N. Secretariat to identify a successor for the Secretary General's former Special Envoy to Burma, Razali Ismail, who, along with the U.N. Special Rapporteur for Human Rights, has not been permitted by the regime to visit Burma for the past 2 years. We will also strive to strengthen the Special Envoy's mandate to include coordination with other governments.

Another component of our strategy is sanctions. Let me state clearly for the record, Madam Chairman, that the administration fully supports the renewal of the import ban contained in the Burmese Freedom and Democracy Act. Failure to renew it, absent meaningful reforms by the regime, would send the wrong political message. Our sanctions continue to play a critically important role, reminding the regime—and everyone else concerned with Burma—that the junta's behavior is unacceptable, and that its leaders will remain isolated as long as they continue this behavior. These measures also provide important moral support for the democratic opposition, the vast majority of whom favor tough international sanctions; and they ensure that American companies will not help fund the luxurious lifestyles of a select few.

Our strategy also provides public support to Burma's democratic opposition. The United States has spoken out for years against the regime's repression of the Burmese people and its imprisonment of Nobel Laureate Aung San Suu Kyi, U Tin Oo, Hkun Htun Oo and other courageous advocates for democracy. We have encouraged others to do so as well. Just last week, we highlighted the horrific March 17 fatal public beating of Thet Naing Oo, calling on the regime to renounce the use of violence and engage "all elements of Burmese political life in a meaningful dialog that empowers the [Burmese] people to determine their own future."

Partners and other key players have also been speaking out. On February 28, the European Union issued a statement calling for the immediate release of Aung San Suu Kyi and all political prisoners and for a genuine dialog between the regime, the National League for Democracy, and ethnic minority representatives. The statement also expresses the EU's support for national reconciliation and respect for human rights. Just last month, at the time of the Burmese Prime Minister's visit to China, the Chinese government, for the first time, publicly called for national reconciliation in Burma.

Madam Chairman, because of the regime's self-imposed isolation and apparent imperviousness to outside pressure, it will take an extraordinary concerted and coordinated effort by the international community—the U.S., the countries of Southeast Asia, China, Japan, India, South Korea, the European Union, the United Nations, and many others—to persuade Burma's rulers to begin and sustain a process of credible and full national reconciliation that the country so desperately needs. While we still are not all on the same page, we are much closer than we were: the administration is engaged at the highest levels; key countries in the region have begun to speak out about the need for reform; and international pressure on the regime to change its misguided policies is slowly mounting. Burma's road to democracy is neither short nor straight, but by pressing on with our intense efforts, we believe we can effectively shorten the time it will take to achieve the freedom, prosperity, and security for which Burma and its people so desperately yearn and richly deserve. The brutal killing just days ago of Thet Naing Oo reminds us all of how high the stakes are.

Thank you.

Senator MURKOWSKI. Thank you, Mr. John. We appreciate those comments and the reminder of the kind of regime that we are dealing with at this time.

You have made several comments about the efforts by the international community, the need for intensified diplomatic pressure by those within the neighborhood. What are your thoughts—you were not here when I gave my opening statement where I said that

there are those that are considering a Six Party forum type of approach to dealing with Burma, somewhat along the lines of the North Korea Six Party Talks. What are your thoughts about that type of a forum?

Mr. JOHN. I would be concerned that the efforts, the diplomatic efforts that would go into setting up just the mechanics of a multiparty forum, no matter how many parties it would be, would detract significantly from the time we need to spend on the diplomatic efforts to pressure Burma to reform the regime. Obviously, the issues in North Korea and Burma are quite different. In Burma it is a fairly black and white issue about what needs to be done. There needs to be national reconciliation, in Burma. The Burmese do need to give greater access to NGOs. They need to allow the U.N. into Burma.

There is a variety of steps that need to be taken. I would not like to detract from the bilateral and multilateral efforts that we have. I think the UN, however, does provide an existing mechanism for bringing that multilateral dialogue to the Burmese about what needs to be done.

Senator MURKOWSKI. Well, what do you think the odds are of achieving any kind of action by the Security Council, then?

Mr. JOHN. Well, I think it is a step by step process. First, the December 16th briefing was action in and of itself. It is the first time ever that the United Nations Security Council has taken up the issue of Burma. Just by receiving a briefing on what is occurring in Burma is significant, because heretofore one of the problems that we have had with getting international pressure on Burma is that you have a lot of nations who have been willing to effectively turn a blind eye to what is happening in Burma and stating that it is just really an internal matter for the Burmese to deal with and it is not our responsibility.

The fact that at the United Nations Security Council is hearing an authoritative briefing on what is happening on the ground in Burma, how the regime's policies are hurting the Burmese people, and how in the end it is destabilizing for the region, makes the case that there is an obligation for other nations to be interested and be involved in finding a solution for Burma.

Moving on from there, I think we need to go back and redouble both bilateral efforts with members of the Security Council, and with other nations who are not members of the Security Council, to develop a consensus approach in the Security Council about a solution in Burma.

I think one of the important things in the UNSC is to work on consensus, to make sure that we do not have any efforts that we bring to the UNSC blocked by lack of it. Therefore, in sort of a long way to get back to the original question, it is hard to predict an exact timeline, diplomatic timeline, when we would get these actions at the United Nations. But we are looking at the UNSC, other U.N. bodies, and we want to keep up that pressure as long as it takes.

Senator MURKOWSKI. Can you speak publicly about any of the conclusions that were reached at that December U.N. Security Council meeting?

Mr. JOHN. Let us see. The briefing—I would rather take that question and just give you a more thorough answer about what the results of the briefing were, if I may. One of the conclusions was that ASEAN should take a leading role in resolving, helping to resolve the situation in Burma.

Since that briefing, we have had a couple of remarkable developments regarding ASEAN's attitude toward Burma. Again, up until our concerted diplomatic efforts on Burma the ASEAN nations adhered to the principle of noninterference in member nations' affairs. Starting with late last year at an ASEAN foreign ministerial meeting, the foreign ministers did express concern about what was going on in Burma and did express the need for the Burmese to develop a real democratic roadmap. They also expressed the need for the release of Aung San Suu Kyi and other political prisoners.

The visit of Foreign Minister Hamid to Burma is important because he went in his capacity as representing the ASEAN foreign ministers, the first time that the ASEAN nations have directly confronted the Burmese regime on what is going on inside Burma. ASEAN is beginning to recognize that what is going on in Burma is no longer simply the internal affairs of the regime, but a matter of concern to the region.

Senator MURKOWSKI. With the second panel that we had, one of the comments—this was from Dr. Green—was that he believed that there was a divide or a split within ASEAN members as to really how to approach Burma on the issue. Do you sense that they are coming closer to a consensus as to how to approach Burma or is that still an issue for us to deal with, recognizing that you have different nations certainly with very different interests as they relate to Burma?

Mr. JOHN. I think that remains an issue, about how ASEAN is going to approach the Burmese problem. I would say that there are two things that ASEAN needs to wrestle with. One is recognizing that there is a problem in Burma and the second is therefore developing an approach to resolving that problem.

I would say up until recently ASEAN members were not united in thinking—as to the question of whether there is a problem indeed in Burma. Now I would say there is. There might be differences in how they would grade the degree of the problem. I cannot speak for ASEAN, but I would say that there is consensus among the members, based on my conversations, that there is a problem there in Burma, that the political opposition should not be in jail, that the regime should begin a political dialogue for national reconciliation, and that what is happening in Burma does have the potential for destabilizing the region.

To get to the next level of what ASEAN is going to do about it, what type of approach they are going to take, there is a difference still, I think. There is no consensus on that.

Senator MURKOWSKI. You mentioned the reported outbreak of bird flu in Burma. Have we, has the United States, had any contact with Burma directly or through any international organizations to talk about what the situation is there in Burma? Do we have any idea how widespread the outbreak may be?

Mr. JOHN. The U.N. FAO and WHO have, first of all, made an appeal for resolving the Avian influenza issue. We in response to

that, immediately provided 2,000 protective suits that the Burmese could use in culling the chickens from the farms. We have had a USAID Avian influenza expert and a USDA employee travel to Rangoon and Mandalay earlier this month with FAO and WHO personnel to assess the situation on the ground.

That said, the real problem I believe still remains with the regime. They reported it a month ago. You do not know how long it had been between the outbreak, detection, and the time they decided to report it. It is a problem of their isolation and their lack of willingness to have international organizations, NGOs, go out into the countryside and do the work they need to do.

Hopefully, on Avian influenza that would be different, and we are working with FAO, WHO, and other donors on what, if necessary, we would need to do. But I believe that other U.N. agencies should take the lead in addressing Burma's needs here and other donor nations as well.

Senator MURKOWSKI. Discussion about the moving of the capital and the difficulty in communication, moving from Rangoon to this location. I asked a little bit earlier, is there an economic benefit to this? Is this something that needs to happen? Dr. Turnell indicated from his perspective there was certainly no economic advantage to doing it; it was just yet another example of the regime's volatility.

What kind of difficulties have our officials in the U.S. embassy in Rangoon encountered in communicating with the Burmese government officials in the new location? I understand they do not have—they are saying communication by fax, but we do not have the ability to even do that.

Mr. JOHN. That is correct, because they will not give us the fax number. They moved last November. They moved from Rangoon to Pyinmana. I think last week they changed the name of the capital from "Pyinmana" to "Naypyidaw." So I am not really sure what it will be called next month.

Senator MURKOWSKI. Is it still in the same spot, so far as we know?

Mr. JOHN. It is in the same spot, but it is kind of growing in a mushroom-like fashion in there, and it is done under the cloak of darkness. It is a very unfortunate situation.

No, it does not make any economic sense. You are moving from what was once, decades ago, a thriving city and one that had international connections throughout Southeast Asia and the world, to one that is 240 miles inland in the middle of a jungle, that is mosquito-infested and ridden with malaria. It is separating government workers from their families. It is a forced relocation of those who work for the regime.

There is really no political rationale, no economic rationale that we can ascertain. One theory is that throughout history in Burma the old rulers—as you would have a new dynasty come into place in Burma, the ruler would move the capital to assert his new regime in Burma. And unfortunately, in a way the SPDC, led by Than Shwe, by moving the capital is almost acting like a monarchy in moving the capital to the jungle and establishing a new regime. I think it is largely a political step driven by a backwards-looking mentality. It is terrible.

Senator MURKOWSKI. I am told that we just had our vote start, so I have got one last question for you before I have to excuse myself. It has recently been reported that Burmese refugees who were to be resettled here in the United States have hit a snag because of their material support for opposition groups within Burma. Of course, the Patriot Act denies entry to those who provide material support to a terrorist or to an armed rebel group, so those groups that were resisting the Burmese military junta end up now being included.

I do not think that this was the intent of the Patriot Act. So my question to you, Mr. John, is whether or not the State Department is doing anything to address this scenario?

Mr. JOHN. We are. The administration as a team is addressing this issue. You are correct, that was not the intent of the Patriot Act at all and everybody realizes that, and we are trying to find a way to best resolve it. The Department of State is led by the Bureau of Population Refugees and Migration (PRM), and working very closely with the Department of Homeland Security because DHS has the lead on this.

It is a cooperative effort, though, and I am quite confident that we are going to find a way to resolve this that is equitable.

Senator MURKOWSKI. Do we have a handle on how many refugees we are talking about?

Mr. JOHN. I cannot state with clarity. I think the number we are looking at right now is about 9,000 or so—9,800.

Senator MURKOWSKI. So it is a fair number.

Mr. JOHN. It is, it is. It is a large number, but obviously even if it were just one, it would not be right and we would still be working on it.

Senator MURKOWSKI. Good. Well, I am glad to hear that that effort is under way.

I appreciate your time here this afternoon and all that you have given us. I appreciate the good work that you are doing as it relates to Burma and the situation on the ground there.

With that, the subcommittee is adjourned. Thank you.

[Whereupon, at 4:26 p.m., the subcommittee was adjourned.]

## APPENDIX

### Additional Material Submitted for the Record

RESPONSE BY ERIC JOHN TO QUESTION FROM SENATOR MURKOWSKI

*Question.* In December 2005 the United Nations Security Council took an important step forward by considering the situation in Burma for the first time. The Security Council action came soon after a groundbreaking report by Archbishop Desmond Tutu and former Czech President Vaclav Havel which made a compelling case that Burma presents a transnational threat to regional security in Southeast Asia. The report called for a binding Security Council resolution on Burma in 2006. The State Department was instrumental in getting the Council to even consider Burma, which was a useful first step, but I hope we can go further this year. Will the U.S. support efforts to pass a binding Security Council resolution calling for constructive action on Burma?

*Answer.* We are continuing to work with partners and key players in the region to raise Burma again in the U.N. Security Council, and to discuss what Council action would be appropriate. At this time, despite growing concern among Council members about the situation in Burma, there would not be sufficient support in the Council for a resolution to pass. Some Council members clearly stated they viewed the December Security Council briefing as a "one-time" exercise and would not support efforts to bring Burma before the Council again.

We worked hard last year to gain consensus for the Council briefing, and that discussion had a significant impact in terms of intensifying international pressure on the regime. Now, with several new members on the Council, we are working to maintain consensus in that body for continued Council engagement on Burma. At the same time, we also continue to coordinate our bilateral diplomatic efforts with partners and key players in the region, and seek to shine a spotlight on Burma in other U.N. organizations; for example, the appalling situation of forced labor in Burma is on the Economic and Social Council's agenda for its meeting this July.

RESPONSE BY ERIC JOHN TO QUESTION FROM SENATOR CHAFFEE

*Question.* Two weeks ago, a leading Burmese human rights activist, Bo Kyi, who spent over 7 years in prison, traveled to Rhode Island. While there, he shared his powerful story with many of my constituents. It is a tragedy that Nobel Laureate Daw Aung San Suu Kyi and more than 1,000 other prisoners of conscience remain imprisoned in Burma. They should be immediately released and the human rights abuses should stop. While in Rhode Island, Bo Kyi asked that the United States lead an effort to press for a U.N. Security Council resolution on Burma. What are the administration's plans for pursuing U.N. Security Council action?

*Answer.* As we have said consistently, we believe the U.N. Security Council has a critical role to play in pursuing a resolution to the deteriorating situation in Burma and the problems the country poses for its neighbors and the region. That said, some Council members clearly stated they viewed the December 16 Security Council briefing as a "one-time" exercise and will not support our efforts to bring Burma before the Council again.

We worked hard last year to gain consensus for the Council briefing, and that discussion had a significant impact in terms of intensifying international pressure on the regime. Now, with several new members on the Council, we are working to maintain consensus in that body for continued Council engagement on Burma. At the same time, we also continue to coordinate our bilateral diplomatic efforts with partners and key players in the region, and seek to shine a spotlight on Burma in

other U.N. organizations; for example, the appalling situation of forced labor in Burma is on the Economic and Social Council's agenda for its meeting this July.

---

RESPONSES BY DR. SEAN TURNELL TO QUESTIONS FROM SENATOR MURKOWSKI

*Question.* Can you describe the social and environmental problems that could result from these dams being built?

*Answer.* Burma's ruling military regime, the "State Peace and Development Council" (SPDC), has been waging war for decades against ethnic peoples (including the Karen, Karenni and Shan) living in eastern Burma. All of the projects (including dams) that are currently located in these areas are associated with ongoing patterns of human rights abuses such as rape, forced labor, forced "portering" (for Burmese army operations), extrajudicial executions, and torture. When the new dam projects on the Salween proceed, additional Burmese troops inevitably will be brought in to "secure" the areas. In Burma, such an increase in military deployment invariably leads directly to an increase in human rights violations. The construction of the dams will permanently displace tens of thousands of people, causing yet another influx of refugees into Thailand as well as a sharp increase in the number of internally displaced persons within Burma.

By damming the Salween—the longest free-flowing river in Southeast Asia—much of eastern Burma will be inundated or otherwise impacted by the dams themselves, and related construction. The dams will have irreversible impacts on the environment such as a loss of wildlife habitats, diminished biodiversity, and harm to fisheries. These impacts will destroy local people's means of living, such as fishing, farming, and transportation. Burma's regime has a poor record of infrastructure maintenance, and in the past excessive "siltification" of rivers has been a reliable aftermath of dam construction.

The SPDC is most likely to spend income generated from the dams to finance expansion and modernization of its military. Since 2002, when it began receiving revenue from the export of natural gas to Thailand, Burma's generals have purchased hundreds of millions of dollars on weapons and arms. By comparison, in 2004, the HIV/AIDS budget in Burma was \$22,000, one of the lowest levels of national spending on HIV/AIDS in the world.

As these answers were being compiled a U.N. report<sup>1</sup> has just been released that has found a link between hydropower projects and the spread of bird flu. The postulated connection is that the destruction of habitat for wild birds for hydroelectric projects forces wild birds on to alternative sites, such as farm ponds and paddy fields, bringing them into direct contact with (infected) domestic poultry. Burma's irresponsible "policies" with respect to bird flu are, of course, the subject of much concern in the region.

*Question.* What are the mechanisms by which local residents and stakeholders living in potentially impacted areas, have opportunity to provide input into the decisionmaking process for these dams?

*Answer.* No such mechanism have been established. No consultations have been held with local stakeholders in Thailand (much less Burma) during the decision-making process over the Salween dams. Thai authorities so far have proceeded with the dam projects in a secretive and non-transparent manner, withholding vital information on construction plans such as feasibility studies, environmental and social impact assessments, and co-financing agreements.

In Burma, of course, there has not only been no consultation, but any questioning of the project places the "questioners" in the gravest danger. All of the information we have on the Burmese-side of the Salween dams project has come to us via clandestine sources.

○

---

<sup>1</sup>The Report, by the United Nations Environment Programme, was released on 11 April. It can be found at: <http://www.unep.org/Documents.Multilingual/Default.asp?DocumentID=475&ArticleID=5255&1=en>