Managing Myanmar’s Resource Boom to Lock in Reforms

Cullen S. Hendrix and Marcus Noland

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Note: This Policy Brief draws on Hendrix and Noland (2014a and 2014b).

Myanmar is in the midst of a multifaceted transition, involving political reform, economic reform, and the resolution of multiple long-standing civil conflicts. The country has a history of ethnoreligious conflict and separatism, civil-military relations are muddy, and business-military-state relations are similarly opaque. An ongoing resource boom, and the blessings and curses that come with it, further complicate these developments. Given the country’s evident institutional weaknesses, external policy anchors could play a critical role in this transition. This Policy Brief addresses the possible role for such precommitment mechanisms—in particular, the Extractive Industries Transparency Initiative (EITI)—in Myanmar’s growing extractive sector.

Myanmar is opening at an extraordinary pace. In the past two years, the government has implemented wide-ranging reforms that should support development of a more robust civil society: abolition of the Press Scrutiny and Registration Division; significant reduction in press censorship, with private newspapers now publishing wide-ranging political commentary; right to publicly demonstrate (subject to notification); opening up of the telecommunications sector to foreign investment, with the expectation that it will have both economic and sociopolitical effects by facilitating communication among private citizens; establishment of a human rights commission; and enactment of labor legislation allowing unions and protecting the employment of workers joining a union or participating in a strike (though activists complain of problems in implementation). As of October 2013, more than 500 basic labor organizations (unions) have been certified. Hundreds of political prisoners have been released. This opening of the political space has been accompanied by direct political, administrative, and economic reforms as well.

Prospects for ending Myanmar’s long-standing insurgencies, though still murky, are improving. The Kachin Independence Organization (KIO) signed a tentative ceasefire with the government on May 30, 2013, making it the last to do so of the 11 major armed groups that make up the United Nationalities Federal Council (UNFC). The Myanmar government and the various armed groups have engaged in consolidated talks, with the insurgents represented by the National Ceasefire Coordination Team (NCCT). Though the second round was delayed, these talks may pave the way for a comprehensive peace agreement. However, the parties remain far apart regarding the composition of a postconflict unified military. The paucity of ethnic minorities in the officer corps contributes to the perception that the Tatmadaw is not a truly national military. At the same time, Buddhist-Muslim sectarian violence has increased. Rising production of illicit drugs, minerals, and timber—in some instances, linked to military commanders—further fuels lawlessness (United Nations 2012).

Institutions that underpin the reforms implemented so far—which determine long-run growth and political stability more than any particular policy intervention—are still relatively weak in Myanmar. Historically the country has scored
abysmally in cross-country assessments of political and economic freedom and rule of law, though improvements have been observed in the past two years. The country faces a fundamental challenge of constructing a stable, effective government consistent with the multiethnic character of the citizenry. Since independence, Myanmar has been in a virtually constant state of civil war; peripheral insurgencies by groups representing ethnic and religious minorities have been far more prevalent than parties seeking to control the state.

**The country’s natural resource wealth will, however, complicate efforts to consolidate Myanmar’s multiethnic and religious democracy.**

Civil-military relations remain problematic. The constitution does not establish civilian control over the military; indeed, the constitution enumerates more specific requirements and constraints (including circumstances for appointment and removal) on the president than commander in chief. The military has significant influence on selecting its own commander and retains the right to declare national emergency and revert to martial law, as well as the right to conduct negotiations with rebel movements (Crouch 2013). The military is guaranteed representation in the legislature (currently 25 percent of seats in both chambers), and current or former officers occupy many senior positions in the government. More officers graduate from the military academy than the military can accommodate, so many wind up in civil service. The effect has been to “militarize” the state.

For democracy to truly take hold, more open presidential elections must coincide with the development of a truly national party system based around cross-cutting cleavages and interregional, interethnic alliances and a shrinking of the armed forces’ direct role in governance. Currently, in Myanmar partisan lines follow ethnic lines, and the electoral system offers few incentives for politicians to court support outside their ethnic group. Some opposition political parties support devolution of power from the center and increased autonomy for ethnic minorities/regional governments. The military has historically regarded federalism “as an anathema—first stage toward secession” (Steinberg 2013, 200). The constitution provides basis for seven “state” legislatures in major minority areas, but the authority and funding for such bodies is unclear. The recent census has contributed to tensions with the country’s Rohingya minority. Further conflict could be stoked if the data on ethnic and spatial distribution of the population more broadly do not conform to people’s expectations, as is often the case in multiethnic countries.

The country’s natural resource wealth will, however, complicate efforts to consolidate Myanmar’s multiethnic and religious democracy. Myanmar’s transformation is occurring in the context of a massive resource boom, with the attendant foreign direct investment (FDI) and trappings of wealth such booms entail: By late 2013, office space rents in Yangon had surpassed those in New York and Tokyo. Yet this is not an unalloyed blessing for Myanmar’s fledgling democracy. Valuable natural resources, such as oil, natural gas, and other mined commodities, are not, in the main, associated with better development outcomes and may discourage the development of strong economic and political institutions. The resource curse thus threatens to undermine the significant progress made over the past several years. Myanmar may be in a race against time to lock in recent reforms before the more pernicious effects of the resource curse manifest themselves. External policy anchors—in particular, Myanmar’s participation in the EITI—are one potential mechanism for locking in reform and avoiding the curse.

**INSTITUTIONS AND THE RESOURCE CURSE**

Myanmar has incredibly rich and diverse mineral resources, ranging from precious stones to oil and natural gas. The country has an estimated 283 billion to 334 billion cubic meters of natural gas, with much higher reserve potential, along with 50 million barrels of crude oil reserves (US EIA 2013, BP 2013). The country has 90 percent of the world’s jade reserves. The official jade market is large and perhaps 40 percent larger due to the illicit nature of much of the trade and the location of many significant deposits in areas of political conflict, particularly Kachin and Shan states. Energy and minerals account for perhaps half of exports, and now that restrictions on Western firms doing business in Myanmar have been eased, FDI is pouring in, rising from just $235 million in inward FDI in 2005 to $1.9 billion in 2012 (see figure 1 and UNCTAD 2013). In the near term, growth in the extractive sector will likely outpace growth in the agricultural, manufacturing, and service sectors.

Countries whose wealth is heavily derived from the exploitation of natural resources tend to be poorer and grow more slowly than those whose wealth is based on the accumulation of human and physical capital. However, the empirical literature on “the resource curse” suggests that most potentially deleterious effects of natural resource wealth on

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economic development may rather operate indirectly, through institutions and conflict (Hendrix and Noland 2014a).

Dependence on high-value, mined commodities undermines democracy and bureaucratic and state capacity and fuels political violence—thus affecting economic growth. Whether natural resource wealth leads to violence is largely a function of both attributes of the resource itself and the technology of its extraction and the preexisting political, economic and social environment. Commodities with high value-to-weight ratios, such as gemstones, oil, and opium are ideal contestable or “lootable” goods, and indeed the gem and opium trades have fueled some of Myanmar’s peripheral insurgencies for decades. Political reforms to redress horizontal inequalities—such as those between the Bamar majority and Shan and Rakhine minorities—are vital.

The challenge is likely to be great. Many observers would already categorize Myanmar as a resource curse country, given its legacy of political conflict and the centrality of extractives to the economy. The effects of the resource curse on economic and political development are largely contingent on the quality of existing legal and political institutions: Where these are strong, resource income simply provides additional public and private investment capital, and the “curse” becomes more of a blessing (Brunnschweiler and Bulte 2008, Alexeev and Conrad 2009). But Myanmar performs very poorly on most indicators of governance capacity and institutional quality, though there has been some improvement in the past few years.

Institutions and governance strongly affect long-run economic performance. The problems, of course, are how to benchmark institutions, how to identify which are the most salient for economic performance, and then how to design and implement appropriate reforms for a particular case. The sheer number of such institutional indicators—and their reliance on sometimes overlapping sources of information—is a practical difficulty confronting analysts and policymakers alike.

David Givens (2013) carefully examines a large number of these indicators to statistically separate redundancy and derive the true new information contained in each measure and then determines that dimensions of governance actually have the biggest impact on growth performance. He finds that measures relating to “market infrastructure”—essentially rule of law and corruption—and “civil liberties”—essentially other dimensions of rule of law plus voice—have the biggest impact on growth, surpassing influences on growth such as international trade and geography.
In 2013, Myanmar was included for the first time in the World Economic Forum’s *Global Competitiveness Report* survey (WEF 2013). Evidence derived from local respondents indicates that a mixture of fundamental institutional, policy, and economic challenges are at the top of the list of the development agenda (figure 2). Four “most problematic factors for doing business” stand out: access to financing and policy instability (both with a weighted score of 13.7), corruption (13.5), and inadequately educated workforce (12.9). Other factors receive noticeably lower scores. The leading factors encompass both basic governance issues (policy instability and corruption) and the accumulated effects of decades of mismanagement (financial sector underdevelopment and lack of human capital).

To put Myanmar in international perspective, table 1 summarizes data culled from a variety of sources on the commercial legal systems of Cambodia, Laos, Myanmar, and Vietnam. Myanmar scores poorly on rule of law, dispute settlement, and the challenging regulations indicators. Anecdotal evidence confirms that investors complain about uncertainties about the rule of law and sanctity of contracts (McKinsey Global Institute 2013). Myanmar scores better in the WEF ranking of judicial independence (23.8 percent). Data are not available for Myanmar on the World Bank’s enforcing contracts and resolving insolvency indicators, but the scores for the comparators show a clear pattern: All three score noticeably worse on the resolving insolvencies measure than on the enforcing contracts indicator. Since Myanmar typically does not outrank the three comparators, it can be inferred that at least on the resolving insolvency indicator,

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4. The 2013 WEF *Global Economic Competitiveness Report* survey was based on 13,638 valid responses, administered through more than 160 partner institutions worldwide. (The Myanmar partner institution was the Centre for Economic and Social Development of Myanmar Development Resource Institute [MDRI-CESD].) The median country sample size was 85.5 responses. In the case of Myanmar, there were 79 respondents.

5. The rule of law measure is a composite designed to capture perceptions of the extent to which agents have confidence in and abide by the rules of society, in particular with respect to contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. The second indicator is a more narrow measure of judicial independence: the country’s score on the question “In your country, to what extent is the judiciary independent from influences of members of government, citizens or firms?” The next four indicators address more narrow issues of commercial law: the efficiency of dispute settlement, the efficiency of the legal system in handling challenges to regulation, the cost of enforcing contracts, and the cost of resolving insolvency.
Myanmar would probably score badly if it were included in the sample.

Table 2 contains seven cross-national measures of transparency and corruption. First is the well-known Transparency International Corruption Perceptions Index, derived from 13 underlying data sources (Transparency International 2013), followed by the World Bank’s control of corruption indicator, the Heritage Foundation’s freedom from corruption indicator (which is partly based on the Transparency International Corruption Perceptions Index), the WEF diversion of public funds ranking, the WEF irregular payments and bribes ranking, the WEF favoritism in decisions of government officials rank, and finally, the International Budget Partnership open budget index.

In the past, Myanmar had trailed its local comparators on all seven indicators. However, the country noticeably improved in the 2013 Transparency International ranking, surpassing Cambodia. In the case of the open budget index, where Myanmar was tied for last place with two others in a sample of 98 countries, recent reforms involving publication and parliamentary discussion of the national budget will certainly improve its ranking in the next survey. Other ongoing reforms in the areas of transparency and corruption mean that the country is likely to improve on other indicators as well. Figure 3 shows that the country has modestly improved in absolute terms in recent years, a trend that might be expected to accelerate.

Admittedly there is a “beauty pageant” aspect to these survey-based results. But any fair reading of these results would indicate that Myanmar scores poorly, generally trailing the three comparators as well. Figure 3 shows that the country has modestly improved in absolute terms in recent years, a trend that might be expected to accelerate.

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### Table 1 Legal system indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Cambodia</th>
<th>Laos</th>
<th>Myanmar</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentile rank</td>
<td>17.0%</td>
<td>23.2%</td>
<td>6.1%</td>
<td>37.9%</td>
</tr>
<tr>
<td>Percentile rank</td>
<td>22.4%</td>
<td>62.5%</td>
<td>23.8%</td>
<td>40.1%</td>
</tr>
<tr>
<td>Percentile rank</td>
<td>44.2%</td>
<td>76.8%</td>
<td>9.5%</td>
<td>37.4%</td>
</tr>
<tr>
<td>Percentile rank</td>
<td>51.7%</td>
<td>23.1%</td>
<td>3.4%</td>
<td>46.9%</td>
</tr>
<tr>
<td>World Bank Ease of Doing Business: Enforcing contracts rank (2013)</td>
<td>142/185</td>
<td>114/185</td>
<td>n.a.</td>
<td>44/185</td>
</tr>
<tr>
<td>Percentile rank</td>
<td>22.8%</td>
<td>38.5%</td>
<td>n.a.</td>
<td>76.6%</td>
</tr>
<tr>
<td>World Bank Ease of Doing Business: Resolving insolvency rank (2013)</td>
<td>152/185</td>
<td>185/185</td>
<td>n.a.</td>
<td>149/185</td>
</tr>
<tr>
<td>Percentile rank</td>
<td>17.9%</td>
<td>0.0%</td>
<td>n.a.</td>
<td>19.5%</td>
</tr>
</tbody>
</table>

n.a. = not available

Note: In some cases, rankings/percentiles have been slightly altered to account for ties with other countries.
Sources: World Bank (2012a, 2012b); World Economic Forum (WEF 2013).
RACE AGAINST THE CLOCK

The big question is whether existing economic and political institutions are capable of successfully managing the sudden influx of wealth this mineral boom will generate or whether the wealth will complicate macroeconomic management, inhibiting development of nonenergy sectors and reversing the country's still-nascent democracy. In this respect, external anchors such as EITI can be used to promote internal reforms, reinforce credibility, and lock in commitments. The clock is definitely ticking. The resource curse doesn't just begin when the new resources start coming online. Components of it—such as corruption, perceptions of corruption, and political conflict—emerge soon after resource discoveries are announced, because the expectation of future riches raises the value of controlling said resources and encourages rent-seeking behavior (Vicente 2010, Hendrix and Noland 2014a). In Ghana, for example, the oil sector became enmeshed in allegations of corruption before a single drop of oil was pumped.

In addition, absent strong institutional checks or external commitments, current reforms may be reversed as soon as they become politically or economically inconvenient. For example, for one response to the resource curse, the establishment of a state natural resource fund (NRF), to work, the government needs an efficient, meritocratic bureaucracy, insulated from political pressure and effectively constrained by credible checks on executive authority (Weinthal and Luong 2006). Otherwise, leaders are more likely to raid the kitty when it becomes politically expedient (Hugo Chavez's use of his country's NRF to funnel arms to Central America and shore up support at home), politically necessary (as when Azerbaijan's Ilham Aliyev tapped his country's NRF to support conflict with Armenia), or a matter of regime life and death (as when Chadian president Idriss Déby raided the country's NRF to better equip the Chadian army, which was under heavy attack from Sudanese-backed rebels). Such examples of reforms failing under political pressure are myriad, and as in the case of Myanmar, these reforms are often most needed where the institutional checks are most lacking. In short, domestic institutions cannot be counted on, at least in the

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Cambodia</th>
<th>Laos</th>
<th>Myanmar</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transparency International Corruption Perceptions Index rank (2013)</td>
<td>160/175</td>
<td>140/175</td>
<td>157/175</td>
<td>116/175</td>
</tr>
<tr>
<td>Percentile rank</td>
<td>8.5%</td>
<td>19.3%</td>
<td>10.2%</td>
<td>33.5%</td>
</tr>
<tr>
<td>World Bank World Governance Indicators: Control of corruption rank (2012)</td>
<td>180/210</td>
<td>179/210</td>
<td>186/210</td>
<td>136/210</td>
</tr>
<tr>
<td>Percentile rank</td>
<td>14.3%</td>
<td>14.8%</td>
<td>11.4%</td>
<td>35.4%</td>
</tr>
<tr>
<td>Heritage Foundation Index of Economic Freedom: Freedom from corruption rank (2013)</td>
<td>163/184</td>
<td>153/184</td>
<td>180/184</td>
<td>111/184</td>
</tr>
<tr>
<td>Percentile rank</td>
<td>9.8%</td>
<td>12.0%</td>
<td>1.6%</td>
<td>37.1%</td>
</tr>
<tr>
<td>Percentile rank</td>
<td>45.5%</td>
<td>63.9%</td>
<td>13.6%</td>
<td>50.3%</td>
</tr>
<tr>
<td>Percentile rank</td>
<td>16.3%</td>
<td>42.8%</td>
<td>2.0%</td>
<td>21.7%</td>
</tr>
<tr>
<td>Percentile rank</td>
<td>53.0%</td>
<td>71.4%</td>
<td>8.1%</td>
<td>52.3%</td>
</tr>
<tr>
<td>International Budget Partnership: Open budget index rank (2012)</td>
<td>81/98</td>
<td>n.a.</td>
<td>98/98</td>
<td>77/98</td>
</tr>
<tr>
<td>Percentile rank</td>
<td>19.1%</td>
<td>n.a.</td>
<td>0.0%</td>
<td>23.2%</td>
</tr>
</tbody>
</table>

n.a. = not available

Sources: Heritage Foundation (2013); International Budget Partnership (2012); Transparency International (2013); World Bank (2012a); World Economic Forum (WEF 2013).
near term, to unilaterally provide the checks necessary for effective resource governance.

**EITI: MAKING USE OF EXTERNAL ANCHORS**

Economic policy responses to the potentially negative institutional aspects of the resource curse fall into two basic categories. The first revolve around fiscal issues. Proposed solutions typically involve the adoption of fiscal policy rules (including the possibility of dedicating or earmarking expenditures for particular programs with the expectation that this will generate a broad political constituency for transparency and accountability), the creation of natural resource or sovereign wealth funds, and/or direct distribution of resource rents via cash transfers/dividends to the public, or what has been called “oil-to-cash.” Each of these proposals has merits and drawbacks, and some judicious mix of all three may be ideal. However, we focus on institutional, “good governance” concerns, which are much more foundational to economic development than any specific policy intervention. In the absence of strong institutions, proper incentives to enact “good” policies will be lacking.

Ultimately, for Myanmar as a whole to profit from its massive resource wealth, rent-seeking behavior must be discouraged. When domestic institutions are not themselves sufficient to induce good behavior on the part of government and private sector actors, external policy anchors can act as substitutes. External policy anchors are commitments to external actors—foreign governments, intergovernmental organizations, and civil society organizations—that “lock in” reforms by raising the costs of reneging. The World Trade Organization (WTO), and to a lesser extent preferential trade agreements, are examples of institutions that establish external anchors vis-à-vis trade policy, but these anchors can come from global civil society as well.

Over the past decade, a number of international good governance initiatives, including the Kimberley Process Certification Scheme and associated Diamond Development Initiative, EITI, and the Conflict Minerals Trade Act, have emerged to address resource management challenges (Hendrix and Noland 2014a). Myanmar is in the process of applying to EITI, the focus of this section. The United States has applied to EITI and has entered into a partnership with Myanmar to provide political and technical assistance to implement best practices in the oil, gas, and mining sectors. As of April 2014, EITI compliant countries are Albania, Azerbaijan, Burkina Faso, Cameroon, Côte d’Ivoire, Ghana, Guatemala, Iraq, Kazakhstan, Kyrgyz Republic, Liberia, Mali, Mauritania, Mongolia, Mozambique, Niger, Nigeria, Norway, Peru, Republic of the Congo, Tanzania, Timor-Leste, Togo, and Zambia. EITI candidate countries are Afghanistan, Chad, Ethiopia, Guinea, Honduras, Indonesia, Papua New Guinea, São Tomé and Príncipe, Senegal, Solomon Islands, Tajikistan, the Philippines, Trinidad and Tobago, Ukraine, and the United States. Countries that have announced intentions to implement EITI, but have not officially been accepted as candidates as of April 2014, EITI compliant countries are Albania, Azerbaijan, Burkina Faso, Cameroon, Côte d’Ivoire, Ghana, Guatemala, Iraq, Kazakhstan, Kyrgyz Republic, Liberia, Mali, Mauritania, Mongolia, Mozambique, Niger, Nigeria, Norway, Peru, Republic of the Congo, Tanzania, Timor-Leste, Togo, and Zambia. EITI candidate countries are Afghanistan, Chad, Ethiopia, Guinea, Honduras, Indonesia, Papua New Guinea, São Tomé and Príncipe, Senegal, Solomon Islands, Tajikistan, the Philippines, Trinidad and Tobago, Ukraine, and the United States. Countries that have announced intentions to implement EITI, but have not officially been accepted as candidates as of April 2014.

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**Figure 3** Corruption Perceptions Index scores compared, 2008–13

<table>
<thead>
<tr>
<th>Year</th>
<th>Cambodia</th>
<th>Laos</th>
<th>Myanmar</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>18</td>
<td>20</td>
<td>13</td>
<td>27</td>
</tr>
<tr>
<td>2010</td>
<td>21</td>
<td>21</td>
<td>14</td>
<td>27</td>
</tr>
<tr>
<td>2012</td>
<td>22</td>
<td>21</td>
<td>15</td>
<td>31</td>
</tr>
<tr>
<td>2013</td>
<td>20</td>
<td>21</td>
<td>21</td>
<td>31</td>
</tr>
</tbody>
</table>

Note: Scores on a scale from 0 to 100 beginning in 2012 and 0 to 10 in prior years. All scores have been adjusted for 2012 scaling.

of the world's largest oil, gas and mining companies, including BP, Chevron, ExxonMobil, Royal Dutch Shell, and De Beers, are EITI-supporting stakeholders. Additionally, over 80 investment institutions support EITI as signatories of the "Investors' Statement on Transparency in the Extractives Sector."

EITI works off of two components: disclosure of payments and revenues, which is supposed to generate the information needed to reduce corruption, and the establishment of country-level multistakeholder bodies, which in principle absorb and propagate this information with the aim of enforcing accountability.

The aim of the first component is to build double entry accounts that can be checked for consistency. Governments must require extractive firms operating within their territory to disclose payments to governments to explore or extract energy or minerals, and governments must record revenues that they receive from extraction. A third-party independent administrator reconciles these figures. A current source of contention is whether those payments are aggregated or reported on a company-by-company basis, as is now required by laws in the United States and European Union. Myanmar can choose to make such reporting mandatory.

The second component is the establishment of a formal multistakeholder group that evaluates the information provided by the firms, the government, and the third-party administrator. Finally, an outside body validates the reports in conjunction with the stakeholder group. This is supposed to close a loop between the government and the governed.

While EITI was originally oriented toward the oil sector, precedent has been established for its application in mining more generally, and even forestry and fisheries. There is no reason Myanmar cannot also apply EITI to the production of timber and not just oil, gas, and minerals.

The effectiveness of EITI is in significant part a function of the degree of buy-in by host governments. The pact is voluntary. A corrupt government may simply not participate. There is no mechanism for directly sanctioning noncompliance, though there may be reputational or signaling costs. EITI focuses on a single point in the production chain (the transfer of money from the firm to the government) and ignores critical upstream stages (contracting and procurement) and downstream activities (expenditure).

The stakeholder body is also potentially a point of weakness depending on the preexisting strength of civil society and on the attitude of the government. EITI creates a platform for communication between the government, the companies, and civil society and establishes a set of internationally accepted norms and procedures. But in countries that have recently transitioned from more autocratic forms of rule, the press and the NGO sector remain weak, making effective civil society participation difficult. And in some countries, the government literally appoints the stakeholder representatives, allowing it to pack the body with cronies who may have little interest in rocking the boat. EITI may also spur national legislation to strengthen regulation of the extractive sector.

Myanmar should use international initiatives such as EITI and FCPA to leverage its reform efforts while building indigenous institutional capacity.

One barrier to implementation has been a simple lack of accounting expertise. The NGOs Publish What You Pay and Transparency International train budget activists, and the Revenue Watch Institute has developed educational materials for journalists and civil society groups. The World Bank has launched an “EITI++” program that assists host governments from the initial bid tendering stage through expenditure management. Ultimately EITI is only as effective as there are mechanisms, including a free press, that allow citizens to hold their government accountable. In this regard, Myanmar’s recent moves toward greater budget transparency and enhanced civil and political freedoms, including critically, press freedoms, make it more likely that EITI will function successfully as intended in Myanmar.

Producers from nonsignatory countries are steadily becoming entangled in the policy regime. One prong is EITI itself: As more countries begin implementing EITI and validation standards tighten, more and more companies will be subject to host government pressure to participate.

The other prong consists of laws and regulations in the US, EU, and other jurisdictions. Foreign firms listing on US stock exchanges must observe US law, which is rigorous with respect to transparency and disclosure. In 2015–16 companies are expected to begin reporting to the Securities and Exchange Commission extractive sector payments to foreign governments. Together the US and EU regulations would cover about 70 percent of value in global extractive industries, though the rise of China and other non-Western investors in extractives
will no doubt water down the market power of Western firms, governments, and civil societies.

Bribing public officials is broadly illegal throughout the world due to the 1977 Foreign Corrupt Practices Act (FCPA), which American authorities have applied extraterritorially, and the counterpart 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and similar national and regional laws. These laws potentially constitute powerful tools for anticorruption activities within Myanmar, insofar as Myanmar authorities could appeal to counterparts in the US, EU, and other jurisdictions with strong antibribery statutes for assistance in investigation and prosecutions. For example, the government of Ghana successfully enlisted the US Department of Justice to investigate corruption in that country’s oil industry that involved a firm located in the United States. Similarly, the new democratic government in Guinea has cooperated with US and Swiss authorities to pursue allegations of corruption by foreign investors under the previous authoritarian government in that country’s oil and mining sectors.

CONCLUSION

Myanmar faces important decisions that will determine the trajectory of governance reform and condition long-run growth. Since 2010, the pace of reform has been nothing short of stunning, yet significant challenges remain. Myanmar should use international initiatives such as EITI and FCPA to leverage its reform efforts while building indigenous institutional capacity.

Myanmar should look favorably on bids by firms based in jurisdictions with strong antibribery laws and enforcement, thereby “piggy-backing” on the more rigorous standards of foreign partners. When evaluating potential foreign participants in resource extraction the government of Myanmar should consider whether those firms are subject to the laws of the United States, the European Union, or other jurisdictions with strong antibribery laws and have histories of extraterritorial legal cooperation and give preference to those firms (regardless of nationality) whose behavior in Myanmar will be constrained by anticorruption statutes elsewhere.

REFERENCES


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