

Gas attack - Sean Turnell

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Recent protests over gas prices in Burma raise a complex question: Why Is Burma -- which sits atop a massive reserve of natural gas -- such an economic basket case? Look no further than the military government's track record of abysmal economic management.

Formally classified as a "least developed" country by the United Nations, Burma is mired in deep poverty. Annual per capita GDP is around \$1,800 in terms of purchasing-power parity (\$300 at the market exchange rate). That's considerably below the income of the next poorest members of the Association of Southeast Asian Nations, Cambodia and Laos, which boast per capita purchasing-power parity GDPs of \$2,700 and \$2,100, respectively. Burma's unemployment rate is officially just over 10%, but the real figure may be closer to 30%, with many people in the labor force either underemployed or engaged in activities of very low productivity, such as subsistence farming.

Add to that a moribund financial system. At a time when even Vietnam is enjoying a booming stock market, Burma boasts all of about 400 bank branches (most of which are decrepit agencies of state-owned institutions), and only 20% of the population have bank accounts. Inflation is rampant -- averaging between 30% and 40% per year over the past five years (it's currently around 50%) -- thanks to a government that for years has financed extraordinary fiscal deficits by running the printing presses.

The picture appeared to have brightened, though, with Burma's emergence as a significant regional energy supplier. Burma's natural resources would provide a more prudent government with enough cash to plug its fiscal holes, bring inflation under control, and start making infrastructure investments. Large and exploitable natural-gas fields in the Gulf of Martaban and the Bay of Bengal could deliver income of around \$2 billion a year for the next 40 years. Most of that gas is exported to Thailand, but supplies about to come online are currently subject to a three-way bidding war between China, India and South Korea.

But the deal is already starting to go downhill. China thus far has not offered the highest price for the resources but is likely to win the bidding anyway. The junta apparently is prepared to sacrifice desperately needed revenue to thank China for vetoing sanctions against it this year at the U.N. Security Council.

Nor would the regime know what to do with the money if it received market price. Current inflows of resource money have been splurged on vanity projects for the generals, including construction of a new capital city called Naypyitaw (which translates as "seat of kings") and pay raises of up to 1,000% for civil servants and military personnel. In 2006, tax revenues amounted to little more than 40% of government spending, with the yawning finance gap being filled by borrowings from Burma's central bank. Such borrowings increased a further 20% in the first six months of 2007, illustrating that Burma's public finances are continuing to deteriorate.

Even when the junta tries to do the right thing, at least nominally, the results are absurd. Earlier this year, the State Peace and Development Council -- the junta's name for the country's governing body -- announced an agreement to buy a nuclear reactor from Russia for \$250 million. The SPDC claims the reactor will be used to produce medical isotopes. This in a country whose current annual health budget amounts to less than \$1 per capita. It is unlikely then that Burma's reactor will truly be used for medical purposes, but nor is it likely to be of much use in alleviating Burma's chronic electricity outages -- the cause of which is an electricity distribution network that cannot cope with even existing (inadequate) electricity generation. Burma is not yet a viable nuclear weapons state, but the real reason for the purchase of the reactor would seem to be strategic, stemming from a belief among the country's leaders that a nuclear reactor will confer some vague military prestige.

Beyond these extravagances, an important drain on Burma's foreign reserves also comes via its need to import processed fuels. Though a net producer of raw energy through its extraction of natural gas, Burma's worn-out and obsolete refining infrastructure means that it must import much of its usable fuel.

This shortage is especially acute in the case of diesel, the power source for the bulk of Burma's economy. About 60% of Burma's cars and -- more importantly -- buses run on diesel, and the fuel is also used heavily for electricity generation in the generators many businesses must have on hand to cope with numerous electricity outages. But Burma's domestic refineries can process only crude oil containing a limited amount of sulphur into diesel fuel. When the right kind of crude is not available, as is often the case, the country must import. And global prices have risen approximately 300% over the past five years (nearly 30% in 2007 alone).

Nothing in Burma is ever entirely clear, but the pressure from the SPDC's recent profligacy, and the drain this and rising processed-fuel imports have imposed on the country's foreign reserves, is the most likely cause of the increase in fuel prices announced last month. The Burmese people are used to the erratic and irrational decision-making of their rulers, but these latest increases in fuel prices hurt. Most people in Burma subsist on very small margins, and it takes little to imperil their basic survival. The protests on the streets of Burma last month are not primarily about abstract principle, but are the act of a people pushed to extremis.

They've been pushed before. In 1987 Burma's military leaders suddenly declared that whole denominations of the country's currency were no longer legal tender. No compensation was offered. Months later, to add insult to the original injury, the demonetized currency was replaced by a bizarre series of notes denominated in values (multiples of nine) that astrologers told Burma's then leader were auspicious. Impoverished Burmese citizens took to the streets back then too. Many were killed, some were imprisoned and countless more fled the country.

A subsequent internal coup changed some of the faces of the military regime, but Burma's disastrous trajectory continued. Last month's dramatic fuel price rises are not as

bizarre as the episodes of two decades ago, but they might prove as destructive. If so, a deserving victim of all of this could well be Burma's military regime itself. And from that, at least, might return hope to Burma.

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