

narcotics trafficking. A Central Control Board chaired by the Minister of Home Affairs was established in July; training for financial investigators was conducted in Rangoon and Mandalay in August and September, and the initial investigations were begun in July 2002. Using the provisions of the law, assets have been frozen and/or seized in several major narcotics-related cases. With assistance from UNODC, the Burmese government is also in the process of drafting a new mutual legal assistance law, which should lay the groundwork for judicial and law enforcement cooperation across borders in the prosecution of money laundering and other cases.

The Quality of Life in Burma

The Economy: Economic developments in Burma were punctuated in February and March 2003 by a banking crisis centered on several major private banks. Undermined by soaring inflation and government restrictions on interest rates, Burma's private banks were shaken to their roots by the collapse of several unofficial financial institutions in January 2003. During February, approximately 40 percent of the banks' deposits were withdrawn, obliging the banks to restrict withdrawals, call in loans, and apply to the Central Bank for emergency assistance. The run has focused on private banks, especially those with Chinese or Chinese-Burmese ownership. Government-owned and joint venture banks with government participation have not been affected, presumably because the public is more confident of government support in those cases. Burmese-owned private banks have also escaped the extreme pressures applied to the Chinese-owned banks, presumably again because depositors are more confident of government support in those cases.

Looking ahead, several private banks may fail within the next several months. Since the private banks hold a majority of bank deposits in Burma, this will have a major impact on their customers' savings and on the payments system throughout Burma. A good portion of the inflation that plagued Burma over the past two years was generated by the uncontrolled credit and investment operations of the informal financial institutions, which have now collapsed. With them gone and the banking system crippled by the current run, inflation should decline, while the kyat, now suddenly in short supply, strengthens. Since the start of the crisis in February, the values of both gold and the dollar have fallen by about 20 percent against the kyat, while general price inflation has moderated. Both trends should continue in the months ahead.

In the energy sector, some good luck has saved the government from the consequences of a string of disastrous public investment decisions. As it turns out, a crash government exploration program has turned up enough natural gas onshore to ensure against a recurrence of the severe load shedding and blackouts that plagued the economy in 2002. Where in January 2002 the nation's peak generating capacity was sufficient to meet only about two-thirds of the nation's peak demand, it now appears that all, or virtually all customers in Rangoon and other major cities are getting electricity on a regular basis. In 2004, several major hydropower projects are due to come on line and, provided that the new-found gas holds out that long, Burma may finally be able to put its long-running energy problems behind it.

In the fiscal budget, the situation continues to be desperate, but not so desperate as thought earlier. There, a failed fiscal concept, in which the GOB attempted to run the entire government on the basis of the profits of the state-owned enterprises, has left the GOB without any basis for long-term planning, as profits have turned to losses in one state-owned enterprise after another. In fact, in Burma's fiscal year 2001/2002, the deficits of the state-owned enterprises actually absorbed all the revenues collected by the government, leaving the government proper (i.e., the army, the navy, the health and education services, and all ministerial operations) to run on the basis of monies borrowed from the Central Bank. This has over the