

Evaluating the effects of economic sanctions against Burma



Nationalekonomiska institutionen

av

Gabriel Andréasson

Supervisor: Yves Bourdet

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Abstract

Burma is governed by a totalitarian military junta. Western countries are pressuring Burma towards a democratization process by imposing sanctions against the country. The effects of these sanctions are difficult to measure as many factors have to be taken into consideration. As circumvention of the sanctions is invariably being pursued, alternative trade routes and partners are beginning to develop. Thus, the sanctions implemented affect various and alternative sectors despite their attempt to target specific goals. It is these effects and repercussions that must be considered when evaluating the impact of sanctions.

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List of abbreviations

ASEAN	The Association of Southeast Asian Nations
FATF	Financial Action Task Force
GDP	Gross Domestic Product
SIDA	Swedish International Developing Agency
MFS	Minor Field Study
NLD	National League for Democracy
TEU	Treaty on European Union
WTO	World Trade Organization

1. Introduction

1.1. Statement of purpose

The aim of this study is to evaluate the effects of sanctions against Burma. The controversy about whether sanctions bring about political change has been a widely discussed issue.¹ Though sanctions have been used since Franklin Roosevelt imposed sanctions on Japan in 1940, it is still difficult to establish a proper method of imposing sanctions.² The reason is that evaluation of sanctions always has been on an ad hoc basis considering every situation as unique.³ This is why it is interesting to evaluate the various effects of sanctions against Burma.

To understand the effects of sanctions against Burma it is important to recognize the present situation in the country. Burma's economy continues to rely heavily upon agriculture which accounts for 56 percent of Burma's GDP (Gross Domestic Product) and employs approximately 70 percent of the labor force. Many of Burma's estimated 19 million farmers struggle to survive and 25 percent of Burma's approximately 47 million people continue to live below the poverty line.⁴ According to Transparency International, Burma was ranked as the second most corrupt nation of 163 countries surveyed in 2006. The inter-governmental FATF (Financial Action Task Force), a group aimed at preventing money laundering, affirmed that Burma remains the only country on its blacklist, after Nigeria was removed from the list in June 2006.⁵

Due to continued human rights abuse, sanctions have been intensified or introduced by several countries with the EU and the US as the leading actors.⁶

¹ http://www.cfr.org/publication/13853/are_economic_sanctions_good_foreign_policy.html

² http://www.economist.com/world/international/displaystory.cfm?story_id=8058039

³ <http://www.econlib.org/library/Enc/Sanctions.html>

⁴ http://www.ibiblio.org/obl/docs4/HRDU2006_08-Livelihood_Ch05.pdf

⁵ Ibid

⁶ <http://www.mizzima.com/MizzimaNews/News/2007/Sep/Today-demonstration.html>

On September 5, 2007 the Government drastically raised fuel prices, further burdening its already impoverished population.⁷ In response, protests were held in Yangon by monks and civilians. The government brutally broke down the protests, injuring and killing several people, including monks, during the military crackdown on the 26th and 27th of September 2007.⁸

1.2. Contents of the study

With the intention of evaluating the effects of sanctions the theoretical aspects will be considered at the outset to understand the different policies available and for what purpose they are used. Various sanctions such as unilateral, multilateral, trade and financial sanctions will be compared and discussed from an efficiency theory perspective. The sanctions implemented against Burma will be examined, including the effects of trade diversion and trade creation. Consequently, the effects of the sanctions will be presented as direct and indirect effects.

Sanctions have been in place in Burma since the early 1990s in response to the military regime's human rights violations. The sanctions have always been debated as to whether they are achieving the desired outcome or if they only exist as a political tool to satisfy the domestic audience of the sanctioning countries.⁹ Comparisons of trade patterns between the sanctioning and the sanctioned countries are seen as direct effects measured in trade statistics. A challenge of sanctions' implementation is to predict the indirect effects. Hence, the effects of sanctions have a more widespread effect through negative spillovers in other sectors such as unemployment and poverty, which is presented as the indirect effects.

⁷ <http://www.un.org/apps/news/story.asp?NewsID=23711&Cr=myanmar&Cr1>

⁸ <http://www.mizzima.com/MizzimaNews/News/2007/Sep/Today-demonstration.html>

⁹ <http://wwics.si.edu/subsites/ccpdc/pubs/sum/2.htm>

1.3. Material and limitations to the research

The aim of this thesis is to achieve an overall understanding of the entire impact of the sanctions. The thesis consists of a combination of theoretical research as well as empirical research in Burma. To evaluate the direct as well as the indirect effects of sanctions against Burma both quantitative and qualitative approaches have been applied. The methodology used is based on various theories on sanctions which have been relevant in this case.

Burma's military junta is very protective in its distribution of information and statistics to any organization outside the country.¹⁰ This limits the amount of data available and thus mirror trade data has been used instead. The qualitative research is limited and based on selected places and people in Burma. In addition to the random selection, in depth interviews have been conducted with informants in Burma and officials in different organizations in Thailand. Estimations from the qualitative data will be used to strengthen arguments regarding particularly the indirect effects.

The qualitative research in Burma is limited due to the restrictiveness of pursuing active research in the country. Restrictions against discussing or interfering in any internal issue of Burma have to be signed for in the visa application before entering the country.¹¹ The former research and sources about Burma have been of importance though in need of complementation of empirical research. Some papers have been dealt with sanctions' effects against Burma, though with a narrower appraisal.

1.4. Outline of the thesis

The thesis is separated into five chapters. The first chapter explains the purpose of the thesis, as well as the history of sanctions implemented in Burma to gain some background information of the topic. Chapter two presents sanctions from a theoretical perspective

¹⁰ <http://burmacampaign.org.uk/aboutburma/humanrights.html>

¹¹ <http://www.traveldocs.com/mm/visat.pdf>

introducing varieties of sanctions with various purposes and desired outcomes applied to the case of Burma. In chapter three current sanctions against Burma will be specified. Furthermore, chapter four will focus on the multiplicity effects of sanctions against Burma. Finally, in chapter five, the outcome of the results in the thesis will be discussed.

2. Economic sanctions - Theoretic considerations

2.1. Purposes of Economic Sanctions

Sanctions are described as actions initiated by one or more international actors against one or several others to achieve a certain objective. Sanctions are sometimes claimed to be economic powers maneuvered by narrow interest groups or certain national interests. Another purpose could be government-inspired withdrawal of aid or other activities taking place in the target country, or threat of withdrawal of customary trade or financial relations. Motives behind international use of sanctions are claimed to be based on three purposes of national criminal law which are; punish, prevent and recover. Sanctions imposed to punish a country for their actions committed as well as those imposed to prevent a country from carrying out certain actions are foremost short term. When rescuing a country from some kind of harm, as in the case of Burma, the sanctions are many times on a long term basis or until required goals are met.¹²

An economic sanction is an immediate response to an issue within international affairs, and in many cases highly motivated by special-interest groups. For example, there are no sanctions against countries with questionable human rights records, like China and Saudi Arabia, due to their economical and/or political importance.¹³ Individual countries and major powers in particular, often impose economic sanctions even when there is little probability of forcing a change in the target country's policy. Politicians may act to signal displeasure to the transgressor and to appease their own domestic constituents. Hence, sanctions can appear as simply a formal acknowledgement of a problem, with the desired results never achieved.¹⁴ Major powers such as the EU and the US have used sanctions to appease their own constituencies. Also, moral and historical statements are made to send warnings to future offenders of the international order, leaving the actual effect on the target country to be secondary.¹⁵

¹² <http://www.econlib.org/library/Enc/Sanctions.html>

¹³ Rarick (2006) p. 2

¹⁴ <http://www.econlib.org/library/Enc/Sanctions.html>

¹⁵ Ibid.

2.2. Varieties of Sanctions

There are two ways in which a country can impose sanctions on a country; trade and financial. Trade sanctions limit the target country's exports or restrict their imports. Financial sanctions impede finance and reduce development aid. They can be applied in two different ways; either unilaterally or multilaterally. Unilateral sanctions involve selected actors or countries imposing the sanctions. Conversely, multilateral sanctions involve several countries taking part in the sanctions, leading to a total block out.

2.3. Trade sanctions

Trade sanctions are performed by government's initiative to limit export and import to deny the target country critical goods which can be defined as any goods that the target government could use to worsen the conditions in the country. If the sanctioning country is an important actor in the world market, then the sanctioned country could be forced to pay higher prices for substitute imports.¹⁶ Trade sanctions are often unilateral, causing trade to divert rather than to be cut off. The import prices paid, or export prices received by the target country increase, or decrease, after the imposition of sanctions. If there are several alternative trade partners, the impact of sanctions will have less effect.¹⁷ Trade sanctions usually have a tendency to hurt the country's population severest due especially to export controls which limit the trade of private companies.¹⁸

¹⁶ Ibid

¹⁷ <http://internationalecon.com/Trade/Tch110/T110-2A.php>

¹⁸ <http://www.econlib.org/library/Enc/Sanctions.html>

2.4. Financial sanctions

Financial sanctions are implemented by interrupting commercial finance or by reducing or eliminating government loans and aid assistance to the target country's government. The purpose is to reduce financial support thus making alternative creditors hesitant or demand higher interest rates. If the target country has a poor financial situation, then the probability is higher that the government imposing the sanction against official financing or other development assistance will gain deeper influence due to the financial vulnerability. Therefore, private banks and investors might easily be scared off by the prospect that the target country will face a credit squeeze in the future. The most effective kind of financial control is freezing of a target country's assets, including bank accounts held in the sender country. Financial sanctions tend to hit government-controlled activities such as banks and corporations.¹⁹

2.5. Unilateral and multilateral sanctions

Sanctions can be carried out by one or several actors as unilateral or by an absolute embargo as multilateral. The difference is that unilateral sanctions permit circumvention due to a higher number of alternative trade partners on the market compared to multilateral sanctions which reduce circumvention substantially due to lack of alternative trade partners. The efficiency of sanctions varies greatly depending on if they are unilateral or multilateral. The graph in figure 1 describes the different effects.

¹⁹ Ibid.

Figure 1: Unilateral and Multilateral international sanctions

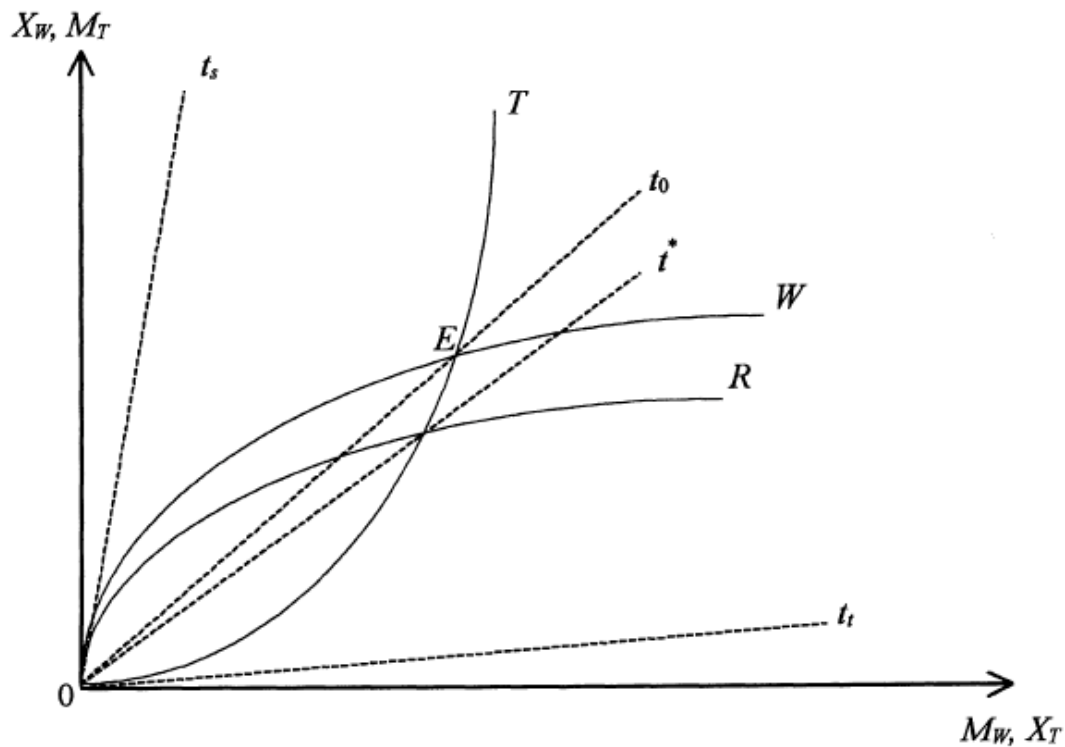


Figure 1 shows initial offer curve equilibrium between a sanctioned country, in this case Burma, (offer curve T) and its current trade partners in the World illustrated in offer curve W . The horizontal axis measures export from Burma, X_T and the vertical axis shows quantities of the import good for Burma, M_T . Any point along Burma's offer curve shows trade equilibrium, which is welfare maximizing. The further Burma moves out from the origin, 0, along its offer curve the more it is able to buy imports at a lower cost in terms of exports per import and thus its terms-of-trade improve, enhancing the welfare in the country. The offer curve for the World, W , shows its export and is also the same as the good that Burma imports. The World imports the good exported by the sanctioned country and vice versa. There is an assumption that the sanctioned country has a comparative advantage in the good X_T . For Burma this could be applied to rubies since 90 % of the world's rubies stem from Burma.²⁰ Initially the target country is the only supplier of X_T on the world market, making all other countries potential importers of X_T and exporter of good M_T . Point, E , is the trade equilibrium between the World and the sanctioned country. The intersection shows

²⁰ <http://features.us.reuters.com/cover/news/MAN51776.html>

equilibrium where given terms-of-trade, t_0 , link imports and exports together. If the World imposes multilateral sanctions on Burma and enforces a total embargo eliminating the opportunity for trade between the two former partners, trade would shift equilibrium from point, E, to an autarky position at the origin, 0, and at the same time worsen the terms-of-trade in Burma from, t_0 , to, t_t . The World will also face considerable costs from its terms-of-trade changing into t_s . This shift would be welfare worsening for all parts.²¹

The economic effect of unilateral sanctions where sanctions are carried out by one or several countries, in this case especially the US and the EU, results in the rest of the world's new reduced offer curve, R. The cause is that the sanctioning country's offer is removed from offer curve W at each terms of trade. The opportunity to continue trading with those nations not taking part in the sanctions, in this case foremost Burma's neighboring countries, means that the target no longer is reduced to autarky but instead at the worsened terms-of-trade at, t^* . The greater the share of Burma's pre-sanctions trade accounted for by the sanctioning country, or the larger number of sanctioning countries relative to non-sanctioning countries, the greater is the magnitude of the shift from, W, to, R. As the number of sanctioning countries increases, we get closer to the case of multilateral sanctions where the targets terms-of-trade, t^* , are approaching the autarky terms-of-trade, t_t . The less elastic the rest-of-the-world offer curve, R, is the greater the extent of the deterioration of Burma's terms-of-trade.²²

2.6. Sanctions Costs

Usually for a coercion to take place, the costs of the sanctioning country should be smaller than the costs of the sanctioned country. A country imposing sanctions must weigh the cost of implementing the sanctions against the possible damage and likelihood of the other actor

²¹ Kaempfer (1999) pp. 41-42.

²² Kaempfer (1999) pp. 42-44.

to give in for the demands set by the sanctioning country. Only when such a threshold is met, either by one or several countries together, can sanctions prove to be successful.²³

There are many aspects of costs which are considered in aggregate-level data measuring economic sanctions. There is an uncertainty of how to define whether or not a sanction was successful compared to the costs. There are difficulties in measuring the size of the penalty and the impact on the economy of both the sanctioning and the sanctioned country. That is why both direct and indirect effects have to be taken into account in order to evaluate the effects of sanctions.²⁴

2.7. Choice of policy measure

The choice of which policy measure to implement depends on the nature of change desired. The more ambitious change the more likely it is that stronger measures are considered such as military action. In the case of Burma a draft resolution was proposed by the Security Council of the UN in January 2007, but it was vetoed by both Russia and China.²⁵ The alternative, modest in comparison to military action, is sanctions. Before implementing sanctions, the degree of assistance the target country is expected to receive from third countries must be examined. The more assistance a country receives the less effect the sanctions will have. Burma's greatest trading partners are located within ASEAN (The Association of Southeast Asian Nations) and especially significant are Burma's three neighboring countries China, Thailand and India, none of which are taking part in the present sanctions, which will be further evaluated in chapter 4.1.²⁶

The healthier a country's political stability is, the less likely it is to succeed with any policy and a lower probability of a successful outcome of sanctions. The Burmese government has prioritized security and thus caused a setback of the Burmese economy and social system

²³ Drezner (1999) p. 4

²⁴ Tsebelis (1990) pp. 5-6

²⁵ <http://www.un.org/News/Press/docs/2007/sc8939.doc.htm>

²⁶ http://app.mfa.gov.sg/internet/press/view_press.asp?post_id=3388

for many years, leading to a politically unstable situation.²⁷ The prior relationship with the sanctioning and the sanctioned country also affects the outcome of the sanctions. A country with good relations to the target country would have a greater chance to impose economic pressure. US relations in trade with Burma used to be rather active before sanctions were implemented, causing an absolute drop in imports from the US.²⁸

Sanctions are expected to be more effective the greater the cost is to the sanctioning country. Costly sanctions can be viewed as a more credible threat and therefore are more likely to bring compliance. The greater the relative size of the country compared to the sanctioned country the more likely it is to be successful. The withdrawal of trade by a large trading partner will normally produce larger terms-of-trade effects than trade withdrawal by a smaller trading partner.²⁹ Because of Burma's close connections to their neighboring countries, trade is partly continuing through trade diversion. Thereby, reducing the intended losses of the sanctions is possible.

²⁷ <http://news.bbc.co.uk/2/hi/asia-pacific/7058610.stm>

²⁸ http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113423.pdf

²⁹ Kaempfer (2003) pp.5-8.

3. International sanctions against Burma

3.1. Guidelines for implementing sanctions in the EU, US and UN

Guidelines for implementing sanctions by the EU aim to target those individuals or entities responsible for undesirable policies and actions. They must be in accordance with international law and respect human rights and fundamental freedoms.³⁰ In addition, the measures imposed must always be proportionate to their objectives. Hence, targeted sanctions must be deemed as appropriate reaction to a violation. The WTO (World Trade Organization) Agreements³¹ should be taken into consideration as well when implementing sanctions. Sanctions in the EU are set up in accordance with the UN treaty principles of the UN Charter and its foreign and security policy to establish a dialogue with the UN to achieve the greatest effect. If necessary, the implementation of autonomous sanctions will take place in an effort to fight terrorism and proliferation of weapons and as a restrictive measure to uphold respect for human rights, democracy, the rule of law and good governance. In this case, the UN has chosen not to implement sanctions while both the EU and the US have chosen to do so. The sanctions are set up in accordance with the common foreign and security policy set out in Article 11 in the TEU (Treaty on European Union).³²

The US system for implementing economic and financial sanctions is more comprehensive. The US government has imposed more sanctions than the total number of sanctions imposed by all other nations. US sanctions target countries which support international terrorism, the manufacture of weapons of mass destruction, the abuse of political and civil rights, and confiscation of US-owned property. The US strives to coordinate financial sanctions with other groups or countries, though most of the time US sanctions are undertaken on a unilateral basis even if, as in this case, the relevant UN Security Council Sanctions Committee has not approved their use.³³

³⁰ http://www.ec.europa.eu/justice_home/doc_centre/rights/doc_rights_intro_en.htm

³¹ <http://www.wto.org>

³² http://www.europarl.europa.eu/factsheets/6_1_1_en.htm

³³ Hufbauer and Schott (1998) pp.179-180

According to articles of the UN Charter, the Security Council will determine the existence of any threat to peace, violation of the peace or act of aggression and then make recommendations on what measures are to be taken to maintain or restore international peace and security. Additional articles explain the decision of what measures, not involving the use of armed force, are to be implemented by the Members of the United Nations. If those measures prove inadequate, further measures such as demonstrations, blockades and other operations could be put into operation. Further, Article 50 states that “If preventive or enforcement measures against any state are taken by the Security Council, any other state, whether a Member of the United Nations or not, which finds itself confronted with special economic problems arising from the carrying out of those measures shall have the right to consult the Security Council with regard to a solution of those problems.”³⁴ All of these recommendations by the UN are to be considered by others such as the EU and the US before implementing sanctions. In the case of Burma, the US and the EU have gone forth with their sanctions despite articles provided by the UN charter.

3.2. EU sanctions against Burma

The EU chose to implement sanctions against Burma according to the guidelines presented in the previous chapter for reasons such as; the failure of military authorities to enter discussions with the democratic movement, and the neglect of human rights and fundamental freedoms.³⁵ The government’s failure to allow a genuine and open National Convention, the continuing house arrest of Daw Aung San Suu Kyi and detention of other members of the NLD (National League for Democracy) have also contributed as reasons for their sanctions. The restrictive measures implemented respect the international obligations of the European Community and its Member States in accordance with the WTO Agreements.³⁶

³⁴ <http://www.un.org/aboutun/charter/>

³⁵ http://www.ec.europa.eu/justice_home/doc_centre/rights/doc_rights_intro_en.htm

³⁶ <http://www.wto.org>

EU sanctions concern any assistance that could contribute to military activities and/or technical assistance for services and maintenance of arms and related material. Financial provision or assistance related to the military and their activities is also prohibited according to the sanctions program. This includes import of any goods where the financial return might benefit the military junta. The sanctions program does not contain any form of military equipment intended exclusively for humanitarian or protective use or building of institution program by the United Nations and the EU. Exceptions are materials which are intended for use by the EU and UN in crisis management operations. Operations such as; protective clothing, for example jackets and helmets that are temporarily exported to Burma by UN and EU personnel for their personal use, and demining equipment and material to use in these operations. In addition to these overall sanctions, there are very specific sanctions against certain people and their families in Burma who are personally affected by the sanctions just mentioned.³⁷ Some examples include; freezing of funds and economic resources of members of the government and also of people, entities or bodies associated with them, and a ban on financial loans or credits available to any of these people. These conditions are also applicable to participants in any Burmese state-owned enterprises.³⁸ On 27 April 2006, the EU announced its extension of the sanctions against Burma for another year in accordance with the EU Council Common Position on Burma.³⁹ The European Union decided to enhance the sanctions on the 15th of October 2007 to include an embargo on import of wood, gems and metals from Burma. Further enhancement toward a full ban on new investments may be considered, if the UN envoy's political talks with the regime, led by Mr. Gambari, do not evolve into a political process involving economic incentives and economic support for the people of Burma.⁴⁰

³⁷ http://www.opsi.gov.uk/si/si2006/uksi_20062682_en.pdf

³⁸ http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l_148/l_14820060602en00010029.pdf

³⁹ http://www.ibiblio.org/obl/docs4/HRDU2006_08-Livelihood_Ch05.pdf, p. 4

⁴⁰ <http://www.eubusiness.com/Asia/1192473122.6>

3.3. US sanctions against Burma

The US arms embargo on Burma, which began on the 16th of June 1993, include suspension of all licenses, defense articles, or defense services by US manufacturers. The sanctions prohibit the exporting of manufacturing licenses, technical assistance agreements, technical data and commercial-military exports of any kind subject to the Arms Export Control Act. The US export control regulations specify that re-export controls apply to all US supplied military components. Thus, any US origin good exported further into Burma would require a US export license. In this case, due to the US embargo on Burma, such license would be close to impossible to obtain for exports to Burma.⁴¹ US sanctions include a ban on all imports from Burma, a ban on exports of financial services by US citizens to Burma, and an asset freeze on certain named Burmese institutions. This differs from the EU, which only bans imports associated with income to the military junta. Additionally, visa restrictions are in place to include the managers of state-owned enterprises and their immediate family members. The Treasury Department reports that millions of dollars worth of transactions have been blocked since the prohibition of the provision of financial services to Burma. In addition there is a ban on new investment in Burma, a ban on arms sales, limits on humanitarian assistance, and an elimination of loans and assistance granted by international financial institutions. US sanctions are the most significant foreign policy intervention in the domestic affairs of Burma. The main objective of the policy is not engagement, but isolation in hopes that when the pain level rises high enough, the people of Burma will rise up and overthrow their government.⁴² On August 1st 2006, U.S. President George W. Bush extended the economic sanctions against Burma for another year.⁴³ On the 19th of October 2007 President Bush enhanced the financial sanctions by freezing assets in the United States of additional members of the military government and their associates. The US has called upon nearby countries to intensify their pressure on the regime to broaden the international support, thus making it more feasible that the policy will be effective.⁴⁴ The unilateral

⁴¹ <http://web.amnesty.org/library/Index/ENGASA200142007>

⁴² Ibid

⁴³ http://www.ibiblio.org/obl/docs4/HRDU2006_08-Livelihood_Ch05.pdf p. 4

⁴⁴ <http://www.nytimes.com/2007/10/20/washington/20prexy.html>

sanctions on goods by the US can only be successful if the US is one of the largest producers and exporters of the sanctioning good. The US does not have the same overall amount of production as they used to and have now slipped below 20 percent of its overall consumption, thus making its unilateral capacity to isolate others more constrained. Consequently, US sanctions against Burma are argued to be primarily for domestic political reasons and with little expectation of any actual change in the country.⁴⁵ The importance of multilateralism in sanctions almost rules out unilateral options for achieving effective policy objectives.⁴⁶

3.4. Countries outside the EU and US imposing sanctions

Norway has sanctions similar to the EU, banning arms sales, enforcing a broad visa ban and an asset freeze. Japan has frozen all new development assistance to Burma. Senior Japanese officials, including Prime Minister Koizumi, have called for the release of Aung San Suu Kyi and progress toward democratization.⁴⁷ Sanctions imposed by Australia are aimed mainly at junta family members going to Australian schools and universities.⁴⁸

⁴⁵ <http://wwics.si.edu/subsites/ccpdc/pubs/sum/2.htm>

⁴⁶ <http://wwics.si.edu/subsites/ccpdc/pubs/sum/nt.htm> Chapter 16.

⁴⁷ http://www.ibiblio.org/obl/docs4/HRDU2006_08-Livelihood_Ch05.pdf p. 4

⁴⁸ <http://www.nytimes.com/2007/10/20/washington/20prexy.html>

3.5. Different approaches to sanctions against Burma

The US, EU and UN all want the Burmese military junta to strive for a democratization process, but their approaches are not coordinated. Firstly, the US with its broad sanctions is trying to isolate Burma as a way of pushing the country and its people towards a revolution. Secondly, the EU uses targeted sanctions to reach the government as directly as possible. Thirdly, the UN, not through sanctions, but with constructive engagement, is the only one conducting a dialogue with Burma through Special Envoy Ibrahim Gambari. Since all three have different approaches to how to address the problem, it is difficult to see any result. The military government is using the different approaches to its advantage by blaming the sanctions for not being able to make progress in their development towards democracy. At the same time this argument is put forward when discussing coercion with the EU about the absolute embargo imparted by the US. Thus, the lack of collaboration between the three actors has negative effects and is used by the military government to its advantage.⁴⁹

⁴⁹ ICG Asia Report N°782 (2004) p. 5

4. Effects of sanctions

4.1. Third countries impact

Sanctions implemented by the West often have a tendency to be a dominant strategy that freezes a situation, without providing steps towards a resolution. They usually demand democracy and human rights improvement rather than implementing constructive engagement by institution building and economic structure planning. The sanctions might actually help the military rule since the generals have learned to live in isolation with internal disputes. Neighboring countries such as China, India and the ASEAN countries have an advantage dealing with the military government, since their political, economic, social and cultural links with Burma are undoubtedly stronger than those with the West.⁵⁰ Large countries, such as Burma, gain substantially from trade and at the same time does not suffer broadly from sanctions either, due to alternative trade partners. Burma's closest neighboring countries used to be former importing countries, but due to the sanctions they have become net exporters, and have thus benefited from the sanctions. The World's terms-of-trade do not improve as a result of sanctions.⁵¹ Thus, there will always be losses for Burma as well as for the sanctioning countries.

In January 2007 both Russia and China vetoed a draft resolution proposed by the United Nations Security Council.⁵² During a November UN meeting in 2007, China made comments on how to address the situation in Burma. A quote from China's UN ambassador was: "The Myanmar issue is an internal affair of the country and does not pose any threat to international or regional peace and security. This is the common wish of every nation that wants to sincerely help Myanmar"⁵³. ASEAN countries also share this view on noninterference in the internal affairs of Burma and do not concur with the sanctions implemented by the EU and US. Burma's neighboring countries such as Thailand and India also have the belief that sanctions are not the way to force Burma into change. When ASEAN leaders had an open meeting about how to deal with the problems in the country,

⁵⁰ ICG Asia Report N°782 (2004) p. 29

⁵¹ <http://www.econlib.org/library/Enc/Sanctions.html>

⁵² http://www.undemocracy.com/securitycouncil/meeting_5619

⁵³ <http://www.un.org/radio/news/html/15929.html>

Burma's Prime Minister Thein Sein stated that the situation in the country was a domestic affair and that Myanmar was fully capable of handling the situation by itself. Leaders of ASEAN agreed that ASEAN should respect Burma's desires and leave the country to deal directly with the UN and the internal community on its own.⁵⁴

4.2. Efficiency of the sanctions

The connection between power and economics in Burma is not totally clear due to the lack of a modern economy where the informal sector probably is larger than the formal sector. The leaders of the regime are earning more from rent seeking activities and corruption rather than production and services. The government has made itself very self-sufficient and independent from external economic linkages since the domestic economy is large enough for the army to extract what it needs.⁵⁵ Therefore, it is much more difficult to affect the government through sanctions since production and trade with the West is not the greatest source for sufficiency. Burma has a long history of being self-imposed to international opinion and has made the current regime rather resistant towards sanctions. Without any pressure from important trade partners who are crucial for the regime's continuous survival, the economic sanctions will be negligible.⁵⁶ The belief by the West that additional sanctions would be the right tool to break the regime has little objective basis. The non-sanctioning supporting countries of Burma do not share the same belief.

The active engagement pursued by the neighboring countries is consistently having difficulties in bringing about progress due to the sanctions which the Burmese government blames for not being able to commit towards a democratization process.⁵⁷

⁵⁴ http://app.mfa.gov.sg/internet/press/view_press.asp?post_id=3388

⁵⁵ ICG Asia Report N°782 (2004) p. 25

⁵⁶ Rarick (2006) p. 2

⁵⁷ ICG Asia Report N°782 (2004) p. 5

4.3. Sanctions against Burma and sanctions theory

Successful sanctions must meet three criteria. First, the target state must agree to a significant part of the coercer's demands. Second, economic sanctions must be applied before the target changes its behavior. Third, sanctions must be the primary reason for the target's change of behavior.⁵⁸ These three criteria aim to eliminate all other explanations for change of behavior. Several approaches are currently in place and it is therefore difficult to determine whether the sanctions are successful or not. Milikovic claims that in order to attain results from economic sanctions both trade and financial sanctions need to be in place in addition to the absence of support from third parties. In the case of Burma, both trade and financial sanctions are in place, but support from third party countries is continuing.

The sanctioning country's economy should be much larger than the receiving country's economy and international co-operation should exist when imposing sanctions. Also, the receiving country ought to be economically and politically weak.⁵⁹ Sanctions which are intended to change the behavior of a target country are very difficult to design and implement. Thus, the target country adjusts by finding alternative suppliers on the market and by building new alliances.⁶⁰ These are all relevant aspects in Burma where sanctions have been called upon due to violations against human rights and also due to the economic support from its neighboring countries. In an analysis of more than one hundred cases, the conclusion was that no generalization could be made since different approaches were applied, depending on the actual conditions to achieve greatest effect. When the goal is rather modest i.e. the release of political prisoners, only modest sanctions are necessary to achieve the goal, and the use of multilateral cooperation, which is fairly difficult to attain, is not of great importance.⁶¹ In most of the cases the target country was evidently smaller than the sanctioning country, economically weak and politically fragile. The sanctions against Burma have a much greater purpose than only releasing prisoners since they intend to change the

⁵⁸ Pape. (1998), p. 70

⁵⁹ Rarick (2006), p. 3

⁶⁰ <http://www.econlib.org/library/Enc/Sanctions.html>

⁶¹ Martin Lisa L. (1993) p.4

entire method of governance. Thus greater coordination of sanctions is needed, ideally multilateral sanctions.⁶²

4.4. Political effects

The political effect of sanctions against Burma has been the strengthened relationship between Burma and China. China is now one of the largest political supporters of the Burmese regime and an important supplier of military equipment.⁶³ The more corrupt the targeting government, the less effective are the sanctions since despotic regimes, as in Burma, ignore the deprived and suffering people of its country. Sanctions create trade diversion and impose costs and welfare losses for the whole economy. The sender country's businesses and consumers are the largest cost bearers of the foreign policy of sanctions. The US and EU sanctions are claimed to partly be imposed for "signaling" purposes to benefit their domestic position.⁶⁴

4.5. Direct effects

According to theory, the sanctions are supposed to diminish trade with the sanctioning country, thereby pressuring Burma to meet the demands set up in accordance with the sanctions.

The statistics available on Burma's trade show the pattern between Burma and the sanctioning countries compared to the trade between Burma and the rest of the world, which is used to determine possible changes in trade pattern.

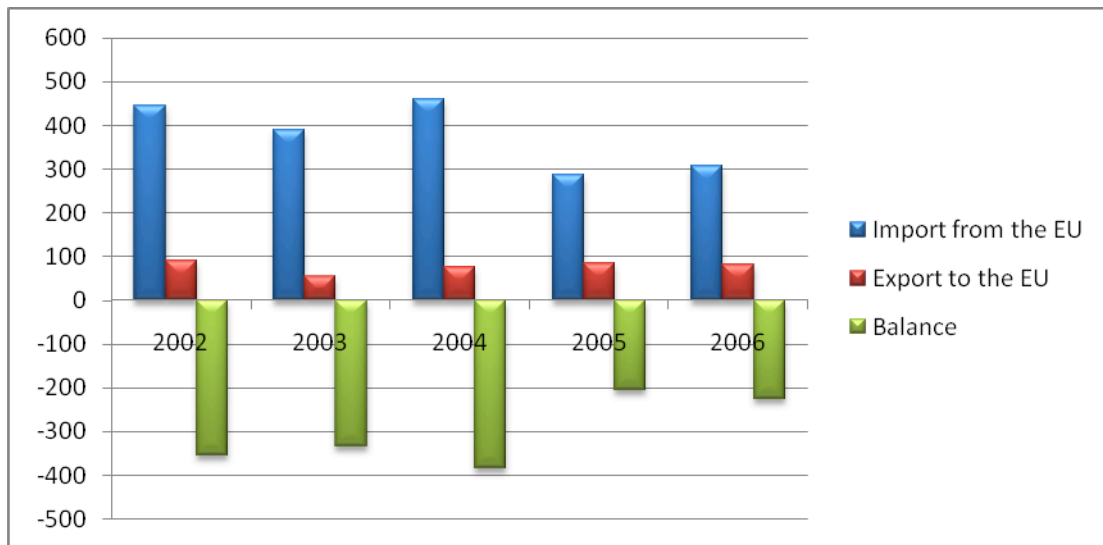
Figure 2 presents trade statistics between Burma and the EU, showing that mutual trade in both export and import has decreased. In figure 3 it is clear that the US has cut nearly all its imports from Burma from 2004 until today, and has also cut a great deal of its exports to Burma. Burma's trade with the rest of the world has increased as seen in figure 4. The outcome has been increased trade with other countries in the world.

⁶² [Ibid](#)

⁶³ Rarick. (2006) p. 3

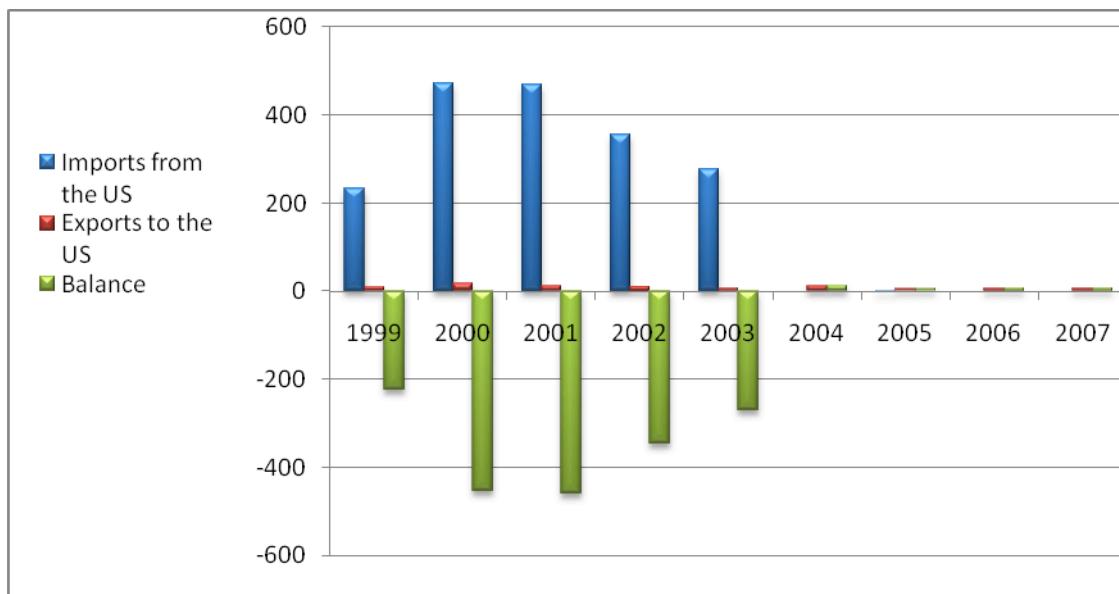
⁶⁴ <http://wwics.si.edu/subsites/ccpdc/pubs/sum/2.htm>

Figure 2: Burma's trade with the European Union in millions of dollars



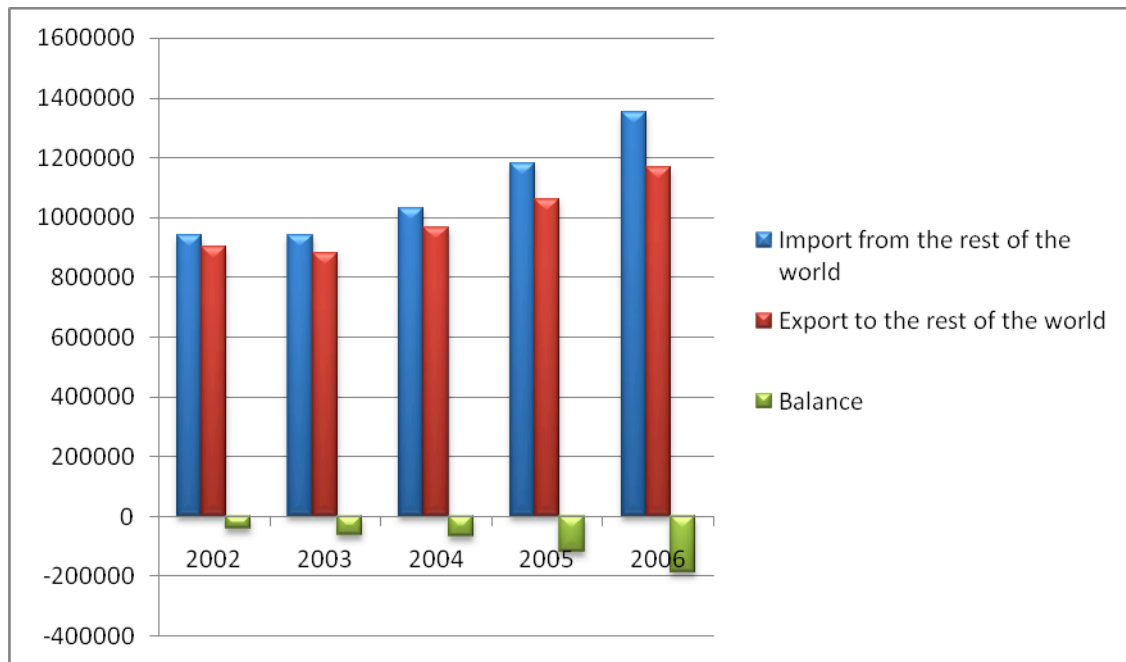
http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113423.pdf

Figure 3: Burma's trade with the US in millions of dollars



<http://www.census.gov/foreign-trade/balance/c5460.html#2007>

Figure 4: Burma's trade with the rest of the World in millions of dollars



http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113423.pdf

Figures 5 and 6 illustrate Burma's trade pattern of export and import as an index with 2002 as base year since that is the earliest year with common statistics of trade between Burma and the EU, US and the rest of the World. It is apparent that trade with the EU and US has decreased. The interesting part though, is that despite the decline in trade with both the US and the EU, trade with the rest of the world has increased. The result leads us to the conclusion of trade diversion where nearby countries have filled up gap in trade created by the present sanctioning countries.⁶⁵ Furthermore, it creates trade creation in these non-sanctioning countries which are gaining from the sanctions.⁶⁶

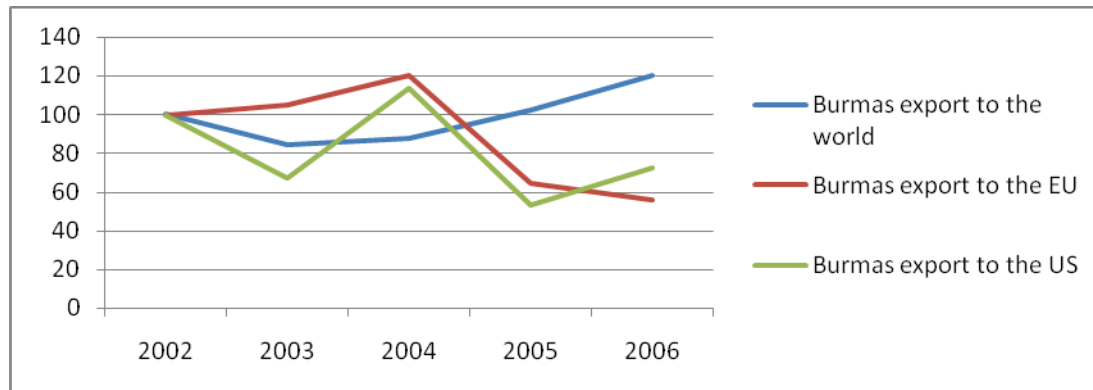
The alternative trade partners in the rest of the world are generally the neighboring countries where trade has increased drastically during the last years. Thailand's import from Burma doubled during 2005, the majority of which was natural gas. Similar effects have occurred in China which also has doubled its bilateral trade with Burma. China and Burma intensified their relationship during 2006 by signing trade agreements including deals regarding energy, information technology and agriculture. Both India and South Korea have shown interest in

⁶⁵ Ibid.

⁶⁶ Markusen (1995) pp. 314-316.

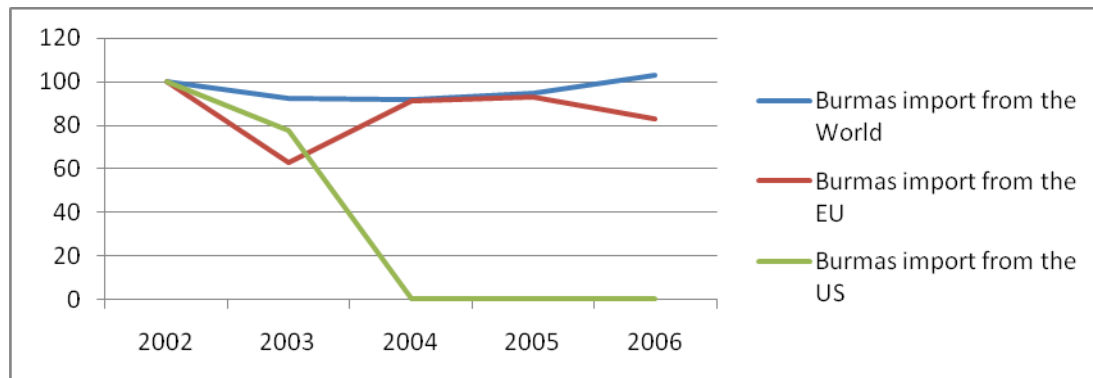
Burma's abundant energy reserves, and have also strengthened their relationships with the junta.⁶⁷

Figure 5: Burma's export shown as an index from 2002 up to 2006.



<http://www.census.gov/foreign-trade/balance/c5460.html#2007>
http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113423.pdf

Figure 6: Burma's import shown as an index from 2002 up to 2006.



<http://www.census.gov/foreign-trade/balance/c5460.html#2007>
http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113423.pdf

The 2003 U.S. ban on Burmese imports had a deep impact on employment in especially the garment industry. More than 100 garment factories, already in awful economic condition, that had relied on exports to the United States have now closed.⁶⁸ There are several vacant buildings in the garment industry in the industrial zone of the formal capital. This forced

⁶⁷ http://app.mfa.gov.sg/internet/press/view_press.asp?post_id=3388

⁶⁸ Rarick (2006) pp. 2-3

thousands of people out of work and poverty has increased, along with its related social problems. The result has been an estimated loss of around 50,000 to 60,000 jobs.⁶⁹

The tourism industry has decreased due to tourists' uncertainties about the government, thus worsening the outcome of the sanctions. Aung San Suu Kyi has, in support of the sanctions, encouraged tourists not to travel to Burma because the government uses forced labor for ready tourist-related sights and services⁷⁰

The support offered by Burma's neighboring countries is helping the junta to circumvent the impact of western sanctions. Due to financial sanctions, private shops can no longer accept credit cards, and so only the huge government owned hotels and shops accept credit cards, benefiting the government alone. Any larger transaction between smaller businesses must go through foreign banks or by using a huge amount of notes.⁷¹ The targeted sanctions implemented by the EU on gems, metals and teak wood have a modest effect since there are several ways to easily get around this problem. Despite export licenses and rules of origin there are still options available to circumvent the sanctions. Exports are carried out to Malaysia or Singapore where rules of origin are changed to the origin of that country before shipping it further to Europe. Another way to gain access is at any of the Thai border cities, such as Mae Sod, where any goods in any quantity can be brought across the border to be picked up on the Thai border. Once on the Thai border the goods will easily get the origin of Thailand and from there on, be available for export to anywhere in the world.⁷²

⁶⁹ Ibid.

⁷⁰ http://blogs.news.com.au/news/splat/index.php/news/comments/tourist_wants_info_on_myanmar

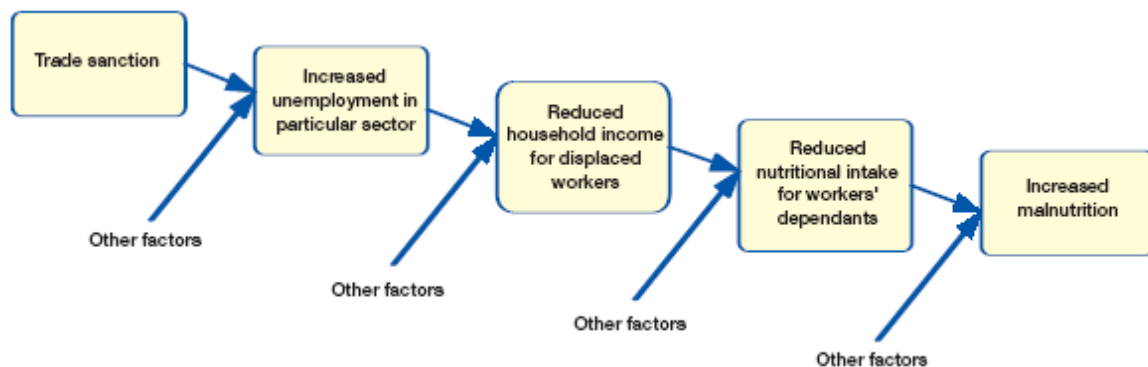
⁷¹ <http://www.fincen.gov/advis28.html>

⁷² Interviews with anonymous people.

4.6. Indirect effects

Indirect effects of sanctions have a snowball effect where not only targeted sectors, but also supporting sectors will decline, which increases overall unemployment in related sectors and reduces household income on the whole. The nutrition for workers decreases since the purchasing power declines, thus worsening the peoples' living conditions, eventually forcing them into a state of malnutrition. These effects are not solely explained by sanctions, and other external factors also have to be taken into consideration. This is illustrated in figure 7.⁷³

Figure 7: The process of intermediate steps of sanctions' impact on humanitarian conditions.



Indirect effects require qualitative information to find out how resources are mobilized, substituted or modified under sanctions. The qualitative data refers to conditions or information that can only partially be enumerated and therefore must be evaluated as to what impact it may have. The time lag between the imposition of the sanction and the actual implementation harms several areas such as the commodity stock, reserves and resources available in the target country.

There are many factors in the sanctions affecting the unemployment sector in Burma as, seen in box 2 in figure 7. Several countries and organizations have, due to the sanctions, chosen not to show Burma their support by withdrawing economic support and donations, such as

⁷³ <http://www.humanitarianinfo.org/sanctions/handbook/chapter5-6.htm>

Japan, which used to provide many job opportunities.⁷⁴ Foreign investors who are not sure about their country's opinion hesitate to invest due to fear of national laws (as in the US).⁷⁵ Factory closures in the garment industry are due to the strict US sanctions on import and investment. The result has been the loss of thousands of jobs in the garment export industry as well as other related sectors.⁷⁶ People who have just graduated, or already possess a good education, either leave the country, causing a damaging brain drain, or suffer from intellectual stagnation and loss of motivation. The high level of corruption and nepotism has deteriorated chances for educated people to find jobs, causing some to join the army, which has been the best way of advancement. The result has made an impact on the humanitarian development due to the lack of knowledge and expertise in the country.⁷⁷

When the unemployment sector is growing the overall spending budget for every household decreases, see box 3 figure 7. The social costs of the sanctions have been cunningly shifted to the population in several areas. The government solves the growing budget deficit by printing money which is not a solid long term solution; thus prices rise as wages stay the same.⁷⁸ At the same time forced labor is contributing to decreased household income since the government has to extract more from the people due to the sanctions.⁷⁹ The lack of foreign aid has not solely been cut by the sanctioning countries but also by the Burmese government due to domestic safety precautions.⁸⁰

The consequence, as shown in box 4 in figure 7, is a lack of nutrition for many workers. Since sanctions prohibit US companies from investing, other countries seize the investment opportunity due to lower competition causing a decline in average salaries, benefits and working conditions for workers in the factories. With fewer actors on the market, the conditions for workers have declined since the relative price of labor has dropped.⁸¹ Firms involved with international trade in Burma are major employers in teak, garments and gems

⁷⁴ http://www.ibiblio.org/obl/docs4/HRDU2006_08-Livelihood_Ch05.pdf, p. 4

⁷⁵ <http://web.amnesty.org/library/Index/ENGASA200142007>

⁷⁶ ICG Asia Report N°782 (2004) p. 17-18

⁷⁷ ICG Asia Report N°782 (2004) p. 26-27

⁷⁸ ICG Asia Report N°782 (2004) p. 25

⁷⁹ http://www.apheda.org.au/campaigns/burma_campaign/resources/1067568160_29942.html

⁸⁰ ICG Asia Report N°782 (2004) p. 18-19

⁸¹ ICG Asia Report N°782 (2004) p. 24

industries. Targeted trade sanctions lead those industries to reduce local funds for community and government functions, including provision of security, health and social services. Some industries even provide for direct support of health and education for their employees or their dependents, investments in infrastructure, communications, and sanitation in communities or pension payments for former employees. The sanctions against those industries result in withdrawal of these important activities. The indirect effects thus affect a greater deal of the population aside from those employed in that particular sector.⁸²

The final result, in box 5 in figure 7, is widespread malnutrition affecting the entire population. Severe malnutrition has spread over the country and more than one third of all children suffer from it. Families are struggling to feed their family members and rely mostly on rice and vegetables, missing out important protein found in meat and eggs. Burmese people spend on average approximately 70 % of their income on food.⁸³

These effects are hard to predict when imposing sanctions. It also deteriorates the evaluation process of sanctions since other factors influence the results making it difficult to foresee the outcome of the sanctions.

⁸² <http://www.humanitarianinfo.org/sanctions/handbook/chapter5-6.htm>

⁸³ <http://www.abc.net.au/news/stories/2007/10/03/2049824.htm>

5. Conclusion

Despite specific guidelines, with goals of cooperation, major powers that have tried to influence Burma have failed to coordinate any of their policies. It is clear to see from a theoretical perspective that multilateral sanctions would have a greater impact on Burma than the current unilateral sanctions. The support Burma receives from neighboring countries assists them in circumventing a great deal of the sanctions through trade diversion. With increasing trade with China, India and Thailand the trade is actually greater than before. Sanctions are most likely to be successful when directed towards countries small in size and dependent on trade. Burma is neither of these, since it has a large agricultural sector which is sufficient for the population, and has great trade support in by neighboring countries.

Another huge factor affecting the results of sanctions is targeting. Very rarely does any sanction solely hit the actual target without hurting the innocent population, whether it is trade, financial, absolute or targeted sanctions. Several factories have closed due to implementations of sanctions, leaving thousands of people unemployed. The tourism industry has suffered enormously due to the protests in September, and the enhanced sanctions have led to a considerable decrease in tourism revenue. Thus there are two huge sectors of low educated workers competing for employment. Consequently, the low wage situation which has emerged due to the competition in employment causes incomes to fall and results in a state of malnutrition of the people.

Considering all of these aspects, every sanction situation is unique and thus wider generalizations are difficult to determine. In the case of Burma the effects of sanctions have clearly not been the best way of pressuring the government into changing its behavior.

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