Policy Brief, 11/2021

EIAS European Institute for Asian Studies

Uncertainty Looming Over EU Investments in Myanmar Amid Political Crisis

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November 2021

Abstract

More than half a year has passed since the military coup in Myanmar by the Tatmadaw. This has put an end to a decade-long period of democratic transitioning, which started in 2011 under Prime Minister U Thein Sein (Hlaing 2016). In October 2021, eight months after the coup, the situation in Myanmar is still far from stable. The US, UK and EU restrained their actions in regards to the coup and have mainly applied restrictive measures in the form of sanctions on Myanmar. Since 2011, the EU has been investing significantly in the country. Given the EU's prior trade and investment engagements, as well as its focus on democratic reforms, what is at stake for the EU in the country and what future can there be for EU companies in Myanmar?

This EIAS Policy Brief will further examine the economic consequences for EU businesses in Myanmar. The first part focuses on the development of EU-Myanmar relations, while the second part provides an overview of the EU's investments in the country's economy and democracy-building. Finally, it briefly assesses the post-coup situation, adding concluding remarks on the future of EU businesses in Myanmar.

Keywords: *Myanmar, ASEAN, Southeast Asia, 2021 coup, military junta, European Union, EU, investments, sanctions, military coup, trade, democracy*

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EU-Myanmar Relations

Myanmar might not be the first country that comes to mind when thinking of investments. Yet, after the 2011 liberalization initiated by President U Thein Sein, Myanmar started to be regarded as "Asia's last frontier" (Tay & Tan 2014) as the country finally opened up to the outside world after years of isolation. Aside from relations with China, Myanmar had been cut off from the world as many western countries refused to trade with the country in view of human rights violations perpetrated by the Tatmadaw. After 2011, the European Union – as well as other western actors – re-engaged with Myanmar but the relationship between the two has been a complex one.

The military has dominated the political scene since Myanmar's independence from the UK in 1962 and the coup led by General Ne Win, including major protests from the people of Myanmar against the regime. In 1988,, the military was confronted with massive protests known as the 8888 Uprising (Pedersen 2011). Another major one was the Saffron Revolution in 2007, where even Buddhist monks took part in the protests against the military (Renshaw 2013). Myanmar's past has seen a number of violent crackdowns on freedom and democracy. Especially during the 8888 uprising many European countries severed their ties with Myanmar to avoid funding the military's repression. In 1996 the EU adopted a Common Position on Myanmar, which enforced an arms embargo, visa bans and prohibitions of investment (Jörn & Sidhu 2015). In 1997, after the ILO reported that the junta was using forced labour, the EU suspended Myanmar's GSP privileges for industrial and agricultural products (Jörn & Sidhu 2015; Tanaka & Kudo 2021). These measures became increasingly stricter over time as the junta was not making any progress towards democratisation. For instance, the EU imposed the expulsion of Tatmadaw members from every EU member state. In 2007, after another violent crackdown, the EU even banned exports of mining and logging industries (Jörn & Sidhu 2015).

The EU has also had a complex multilateral relationship with Myanmar. Along with the US, it vehemently opposed Myanmar joining ASEAN in 1997. The 1999 ASEAN-EU annual meeting was cancelled because the EU refused to allow Myanmar to participate. The clashes between Myanmar and the EU nearly reached a point where meetings had become irrelevant. It was only in 2002 that Myanmar was allowed to participate in the ASEM meetings (Jörn & Sidhu 2015). In 2014, they collided once more when the EU wanted ASEAN to allow 10 new members to join the ASEM meetings. In exchange, ASEAN wanted the EU to allow its three new members (Laos, Cambodia and Myanmar) to participate in the EU-ASEAN meetings. A deal was reached and Myanmar was allowed to join at a lower governmental level. This confrontation shifted the EU position toward a more dialogue-based one. Since then, the EU's position on Myanmar has softened, especially since the cyclone Nargis hit in 2008 and the EU donated 51.8 million USD in relief efforts (Jörn & Sidhu 2015).

A few years later, in 2011, Myanmar started its democratic transition introducing various economic and socio-political reforms including a multi-party democratic system, the establishment of the three pillars of state power, ensuring democratic practices such as freedom of assembly and expression, as well as economic reforms like the creation of a national bank law, a foreign direct investment law, etc. (Hlaing 2016). These changes prompted the EU to end its hostile behaviour towards Myanmar and opened up diplomatic and trade relations.

EU Investments and Trade with Myanmar

EU-Myanmar investments increased after the aforementioned liberalization of its economy in 2011. Some EU member states established chambers of commerce in the country such as the CCI France Myanmar in 1996, the Germany-Myanmar Business in 2015, the Italy-Myanmar Business Association and the Greece-Myanmar Chamber of Commerce in 2020. All of them are affiliated partners of the EU-Myanmar Chamber of Commerce established in 2014. In 2011, the EU lifted its sanctions and adopted the "Everything But Arms" scheme for Myanmar. In 2020, the EU was ranked Myanmar's third largest trade partner, just after China and Thailand, accounting for 11.7% of the country's total trade flows. Exported EU goods to Myanmar were worth almost 516 million EUR and involved mainly machinery, transport equipment and chemicals, whereas imported goods from Myanmar were worth 2.6 billion EUR, including mainly textiles, manufactures, footwear and agricultural products, the total trade being worth 3.1 billion EUR. As shown in the figure below, EU trade flows with Myanmar increased year-on-year after 2010. The imports, which were worth less than 500 million EUR in 2010, increased to almost 1,500 million EUR in 2017 and skyrocketed in 2019, reaching almost 3,000 million EUR. The exports ranked significantly lower but overall maintained the same intensity.

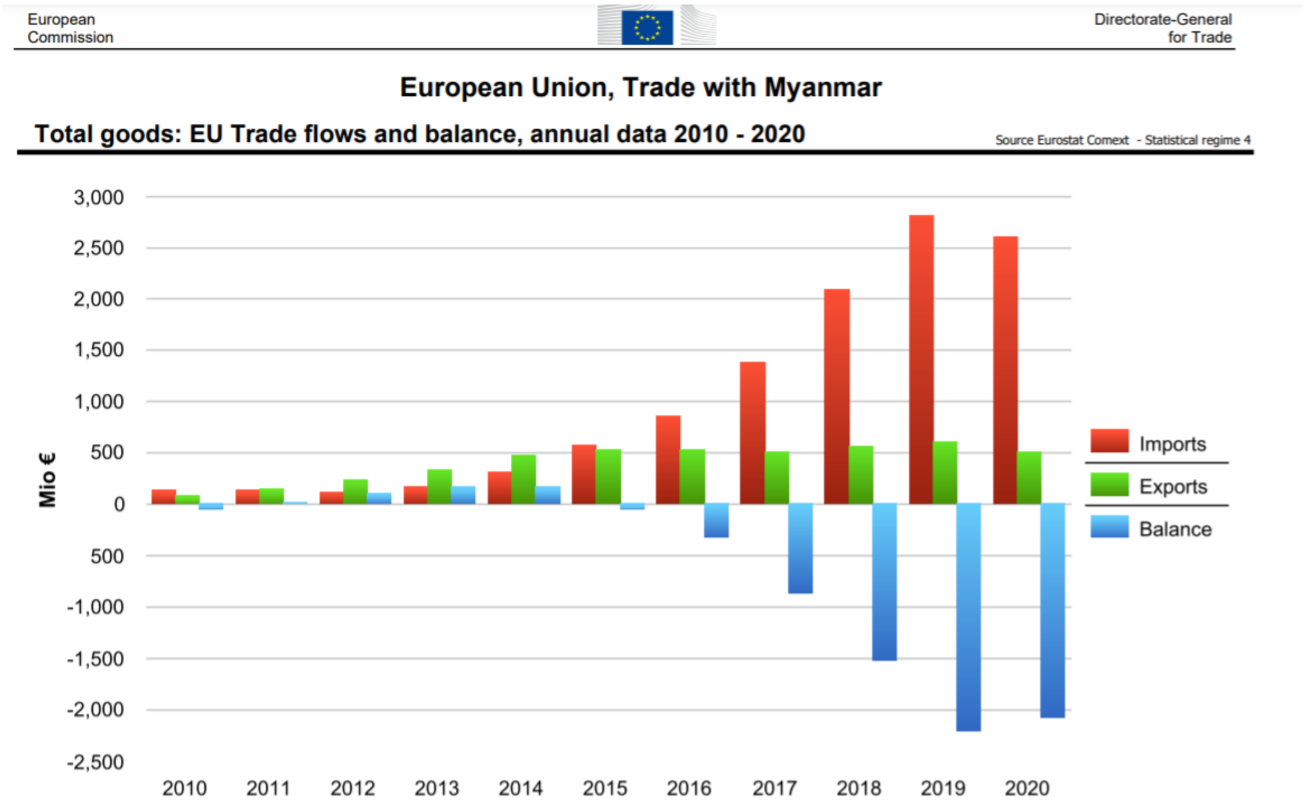

Figure 1 EU-Myanmar Trade 2010-2020

In 2013 the EU reinstated its GSP scheme for Myanmar after it had been halted in 1997 due to labour violations. Moreover, the EU implemented an "Investment Protection Agreement" to assure a fair and safe investment environment between the two partners. Overall, the EU's GSP contributed a great deal to improving Myanmar's economy. Its duty free exports increased from 573 million EUR in 2015 to an estimated 2.8 billion EUR in 2019. According to Tanaka & Kudo (2021), in 2018 80.6% of Myanmar's exports to the EU were garment. As a result, Myanmar's GDP grew significantly, enjoying more than a 6.0% increase annually since 2010.

EU Investments in Myanmar's Democracy-building

The EU had been investing significantly in assisting Myanmar in its transition toward democracy, bolstering its normative power status in the international scene. Despite on-going sanctions,when cyclone Nargis hit in 2008 , the EU donated 51.8 million USD for relief efforts. Again, in 2009, the EU pledged 35 million EUR for a programme known as the Livelihoods and Food Security Trust Fund (LIFT) (Jörg & Sidhu 2015). After 2011, investments in improving Myanmar's democracy increased as the sanctions were lifted. The EU initiated a Bilateral Development Cooperation of 688 million EUR for the years 2014-2020, the second largest after Afghanistan. The initiative focused on 4 areas:

- Rural development (241 million EUR)
- Education (241 million EUR)
- Governance, Rule of Law and State Capacity Building (96 million EUR)
- Peacebuilding Support (103 million EUR)

Besides this, the EU financed other projects such as "STEP Democracy", to support Myanmar's political and civil actors to build democratic institutions, "My Justice", to improve access to justice and legal aid for the poor, the "Joint Peace Fund", supporting a lasting settlement of ethnic conflicts, and "SMART Myanmar", to promote sustainable consumption and production of garments produced in Myanmar. Furthermore, an EU-Myanmar Task Force was established in 2013 to provide support in the transition to democracy,s the first in Asia and fourth in the world. More recently, the EU had allocated 2 million EUR to help Myanmar fight the pandemic.

The 2021 Post-Coup Situation

According to the April 2021 Eurocham Myanmar survey, the political crisis has had a more negative impact on businesses in just two months than an entire year of COVID-19. Despite the pandemic, the number of companies terminating their activities was almost zero and many were actually planning to increase their operations. The EU-funded initiative "SMART Myanmar" even implemented the Myan Ku Fund to assist garment workers who became temporarily unemployed due to the pandemic. This situation changed after the February 2021 coup, when numerous companies recorded no income at all and their activities dwindled. As a consequence, an increasing number of contracts have been terminated and salaries decreased. Furthermore, a larger number of workers used more unpaid leave or stopped working altogether.

The termination of activities due to the pandemic was minimal, whereas the political crisis significantly increased the trend. According to the data presented in Eurocham's survey, 66.98% of Western companies recorded a reduction between 25% and 75% compared to 50% in 2020. The most impacted sectors are agriculture (93.75%), logistics (83.87%), banking (70.59%) and infrastructure (70.65%). The incomes after the coup decreased more than during the pandemic of 2020. 14.15% of Western companies had no income at all for two months. The main reasons why businesses were impacted are, indeed, direct consequences of the political crisis in the country such as "bank operations not working", "disruption of internet", "staff cannot travel/work on site", "lack of safety for employees" and "impossible to plan for the future", among the most cited.

Finally, it is clear that, although only a small part of companies are planning to terminate all operations for good, their plans have changed to a certain extent. Reportedly, 33% and 30% of the companies respectively changed their plans slightly or entirely, with a 22% whose plans temporarily halted. Furthermore, 36% of the companies still do not know what to do by the end of 2021, whereas 32% decided to keep operating in Myanmar but without further investing. A significant number (16%) is also thinking of gradually reducing their operations. The situation is extremely uncertain for most businesses and that uncertainty transpires in the reaction of the Myanmar-based garment industry.

The garment industry in particular reacted more actively to the coup. They are now facing a difficult dilemma: should they stay or should they go. As highlighted previously, the garment exports were the most significant to the EU as between 2012 and 2018 it rose by 500%, reaching 5.7 billion USD in 2019. This growth was only possible thanks to the aforementioned EU's GSM which has also contributed to the economic development of Myanmar. Employees of the garment industry support their families by sending half of their salaries to their relatives. Notwithstanding, since the coup the safety of the workers has been jeopardized and the industry had to face outsourcing problems which halted the operations in March 2021. When operations resumed, the attendance was still very high, indicating that workers are still willing to work, but the companies fear that the situation might worsen again. Coupled with the issue of trying to remain as ethical as possible, the industry is trying to find a way out of the dilemma. Meanwhile, they also showed commitment to Myanmar by donating to the relief effort for the Covid-19 pandemic. They allocated 3 million EUR to the EU fund and raised 500,000 USD to purchase Covid-19 relief tools.

Exiting the country would have disastrous consequences for the locals who would lose their salaries with no real alternatives at hand. Removing the GSP would also be problematic both for Myanmar and foreign investors as Myanmar would lose the progress made on ESG practices and the skilled labour obtained after serving the tightly-regulated European market. For this reason, the Myanmar-based EU businesses decided to stay (for now), as leaving would severely impact the livelihood of the people.

Conclusion

Judging from the on-going clashes between the NUG and the Tatmadaw, as well as the unsuccessful attempts for a dialogue-based resolution by ASEAN and its envoy, the political crisis does not have a clear end in sight and the situation might worsen by the end of 2021. On the other hand, some positive progress has been made as on 7 October 2021, the

Commission de-facto recognized the NUG. This shows that, despite the tumultuous past, the EU does not want to leave Myanmar behind. Nevertheless, the future still looks uncertain for EU companies as the junta seems to hold onto power tightly, even after it was excluded from the October 2021 ASEAN Summit. As the GDP growth is forecasted to plunge to -18.4 in 2021, investing further in this environment would be extremely difficult. Given the situation, it does not come as a surprise that the German wholesaler's Metro already shut down all of its operations in Myanmar at the end of October 2021. This might mark the beginning of a bigger exodus of EU companies from the country, unless the situation is to turn for the better.

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