

The Military, Money, and Myanmar: Breaking the Nexus

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Foreword

Members of the Special Advisory Council for Myanmar (SAC-M) have long been aware of the central role played by Myanmar's military in the country's economy. For the early decades of military dictatorship, under dictator Ne Win, the military sought to control the economy entirely. After that, under dictator Than Shwe, the military opened the economy to some private sector activity while maintaining its role as the predominant economic actor. In our former roles as United Nations independent experts on Myanmar, we investigated and reported on the economic interests of the military and demonstrated how the military continues to dominate the economy.ⁱ

This long period of military economic dominance has had four principal consequences for Myanmar. First, it has enriched the military as an institution and the military leaders and their families individually, at the costs of the impoverished population of Myanmar. Second, it has enabled the military to resist and defeat attempts to bring the military under civilian oversight and control, thereby undermining democratic reform in Myanmar. Third, it has destroyed Myanmar's economy, which before the military seized power in 1962 was one of the richest in Asia. Fourth, it has financed the military's unrelenting brutal wars against the Myanmar people. The military leaders have proved their competence in enriching themselves and in oppressing Myanmar's peoples and their total incompetence in building a prosperous and fair national economy.

When SAC-M was established on 1 March 2021, a month after the military launched its latest coup, SAC-M adopted its Three Cuts Strategy: cut the weapons, cut the cash and cut the impunity.ⁱⁱ The second 'cut', cut the cash, was directed towards ending the flow of money and other wealth to the military war machine so as to disable the military's capacity to wage war and inflict human rights atrocities and to attack the corruption and criminality that enriches the military leaders.

SAC-M members are international lawyers and human rights experts, not economists. When we identified a need for an economic blueprint for cutting the cash to the military and building a new economy for a new federal democratic Myanmar, we recognised that we did not have the expertise to do this ourselves. So, we turned to the most respected expert on Myanmar's economy for his advice and assistance. Dr Sean Turnell has studied, researched and advised on Myanmar's economy for over thirty years. He was the economic policy advisor to Myanmar State Counsellor Daw Aung San Suu Kyi during the 2015 to 2020 period of National League for Democracy government. He was arrested in February 2021, soon after the military launched its coup, and was imprisoned for 650 days.ⁱⁱⁱ He now serves as Special Advisor to the legitimate National Unity Government's Interim Central Bank.

ⁱ One example is the report of the United Nations Human Rights Council's Independent International Fact Finding Mission on Myanmar, *The economic interests of the Myanmar military* September 2019 A/HRC/42/CRP.3 at <https://www.ohchr.org/en/hr-bodies/hrc/myanmar-ffm/economic-interests-myanmar-military>.

ⁱⁱ Special Advisory Council for Myanmar <https://specialadvisorycouncil.org/>.

ⁱⁱⁱ Sean Turnell *An unlikely prisoner* Viking 2023.

Dr Turnell's paper for SAC-M shines a much-needed light on Myanmar's economy under the current military junta. It presents a clear picture of where the military's funds come from and what needs to be done to cut the cash. But it goes further than that. It presents the steps that need to be taken, commencing at once, to begin building a prosperous economy for a new, federal democratic Myanmar. The task of building this new economy need not and cannot wait until the military is defeated. It must be underway now. In fact, this new economy is already being built in the parts of Myanmar already under the control of the resistance organisations. The economic struggle must be waged alongside the military struggle and the political struggle.

The paper also indicates what individual states, private corporations and the international system can do to support change in Myanmar. Its analysis and recommendations will provoke policy discussion and financial action. The struggle in Myanmar is in the hands of the peoples of Myanmar but they look for international support. Here is how it can be provided.

SAC-M is grateful to Dr Turnell for accepting our commission to write this paper. Yet again, he is contributing significantly to the economic development of Myanmar's peoples. His paper points the way forward clearly and practically towards a prosperous future for Myanmar where the economy serves the people, not the military. That would really be a revolution!

Yanghee Lee

Chris Sidoti

Marzuki Darusman

SAC-M Advisors



Junta leader Min Aung Hlaing attends a military parade to mark the 78th Armed Forces Day in Naypyidaw, 27 March 2023.
(IMAGO/ Myo Kyaw Soe)

1. Key Messages

- The command that Myanmar's military has over the country's finances is at the heart of its ability to wage war on the people they are meant to protect.
- This nexus between money and oppression comes via the military's control of Myanmar's central bank, its tax system, the earnings of state-owned enterprises, and is extended via the military's dominance over banks and other financial institutions.
- Since the military coup of February 2021, and the mismanagement and brutality of the State Administration Council (SAC) junta that has ruled much of Myanmar since, this chronic scenario has become dramatically worse. In an economy bent to the needs of war, money and munitions, these terms are near synonyms in Myanmar today.
- Myanmar's people have not been passive to these depredations, and in the monetary and financial sphere, as well as on the battlefield, the forces of resistance to the SAC have been innovative and committed. Ancient and trusted monetary instruments that protect anonymity and freedom have returned; new institutions have been fashioned to fund the struggle against the junta's tyranny.

- The atrocities committed by the SAC junta have also prompted a response from other countries. This includes the imposition of sanctions on the junta's enabling financial institutions, as well as individuals who facilitate the flow of money to them. These sanctions are effective, especially in denying the junta the foreign exchange it needs to purchase advanced weaponry from abroad.
- Such international sanctions should be expanded in terms of the countries levying them, and to the institutions and individuals they target. Sanctions must extend to the central bank, as well as to the ability of Myanmar's financial institutions more broadly to make and receive international payments.
- Debt issued by the SAC junta should be regarded as odious, and its repayment not to be binding on future governments in Myanmar. There should be no incentives for other countries to financially support the SAC junta, nor profit from its misrule.
- Longer term, Myanmar's military must be financially subservient to the institutions of a democratic civilian government and parliament, subject to their oversight, and excluded from engaging in profit-making enterprise. Military owned and affiliated corporations should be detached from the military, privatised and their proceeds used as part of a sovereign fund to finance pension and other liabilities to Myanmar citizens broadly. Military-owned land and other assets should be transferred out of military ownership into a state property trust under the control of the democratic civilian government and parliament.
- Myanmar's banks must be restructured, recapitalised, and reimagined as vehicles for peace and prosperity instead of as the sinews of war. Foreign investment in the sector should be encouraged as one way to avoid cronyism, while a new state-owned development bank created out of the ashes of existing government banks should assist in stability.
- Myanmar's public finances must be placed on a sustainable stable basis, with a reformed and equitable taxation system complemented by a functioning market for government debt.
- A just and democratic fiscal framework between all levels of government in Myanmar, but especially between the centre and the states and regions, must be established. In the sphere of economic policy this must entail a greater decentralisation of decision making, which itself will resist the concentration of power in the ways long exploited by Myanmar's military.



2. Introduction

Non-elected military representatives arrive for a session of the Assembly of the Union (Pyidaungsu Hluttaw) in Naypyidaw. (IMAGO/Xinhua)



...only Myanmar may likely witness a diminution of military economic power.

Khaki Capital (2017)

The possibility mooted above, which appeared in a seminal work on the economic role of various militaries across Southeast Asia, captured a widely held sentiment towards Myanmar in the second decade of the 21st century: Myanmar was, at last, at the dawn of a new era of reform that would lead to a more peaceful, democratic and prosperous state. That, against all the pessimism and wrong directions elsewhere, Myanmar might just be the one country in Southeast Asia to escape the hovering menace that the region's militaries threatened so ubiquitously.

It seemed a well-founded hope. The National League for Democracy (NLD) administration that was in office from 2016 was committed to reducing the role of the military in Myanmar's economy, and well understood the threat the military's economic dominance posed. Firstly, to Myanmar's economic performance and the living conditions of its people. Decades of military rule in Myanmar had left little more than a legacy of chaos, immiseration and poverty, turning Myanmar into the perennial economic laggard of the region. Secondly, to the prospects of peace and democracy itself as the military's economic interests lent further incentive to their resistance to the reform efforts (economic and political) of civilian authorities. The military had a lot of privilege and rent extraction to protect. In 2019, when the fruits of this resistance were apparent to all who were open to see it, the United Nations Human Rights Council (UNHRC) identified just what the NLD Government was up against:

...the Tatmadaw¹ uses its web of commercial interests, established through military-linked companies and subsidiaries, relationships with State-owned enterprises and private crony companies, to secure financial resources to support its activities and personnel. In doing so, the Tatmadaw insulates itself from accountability and oversight. Through controlling its own business empire, the Tatmadaw can evade the accountability and oversight that normally arise from civilian oversight of military budgets...

UN Human Rights Council's Independent International Fact-Finding Mission on
Myanmar (UNHRC, 2019, p.62)

Forewarned does not imply forearmed, however, and notwithstanding that they understood what they were up against, there was little Myanmar's civilian government could do once the tanks started rolling on 1 February 2021. The long-feared coup had arrived, and a new darkness for Myanmar descended.

The purpose of this Briefing is to broadly outline the extent of military control of Myanmar's economy, but especially via its command over the country's finances – and then to suggest how this might be brought to an end: In the short term whilst the current junta persists; in the immediate period in the wake of its termination; and in the longer term as Myanmar rebuilds its political economy. In this emphasis on finance, however, this Review will depart subtly from other studies on the economic role of the military in Myanmar that have focused on state-owned enterprises and their revenues (the excellent 'Cutting the Cash' already issued by SAC-M, for instance), and on the military controlled Myanmar Economic Corporation (MEC) and Myanma Economic Holdings Limited (MEHL).² Such attentions on these are amply justified, and in my view are of such quality that they need and cannot be replicated by me. My focus here in this paper thus is otherwise, and concerns a special focus on money itself, and the institutions that hold it and allow it to flow to the SAC junta.

¹ The disputed but official name for Myanmar's armed forces.

² For the most thorough analysis that exists on MEC and MEHL, see United Nations Human Rights Council, Independent International Fact-Finding Mission on Myanmar (2019).



Soldiers are seen patrolling the street in front of the Central Bank of Myanmar building during anti-coup demonstrations in Yangon in February 2021. (SOPA Images)

3. The Nexus: Money and the Military



There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency.

J.M. Keynes

3.1 The Original Sin

Money has always been a problem in Myanmar. For most of the population, most of the time, this money problem has simply been the lack of it.

For Myanmar's military rulers, getting money of some form has never been a problem. In control of the central bank for most of the last seven decades, Myanmar's military has enjoyed complete discretion over their own budget. What the military wants in budget allocations, it typically gets.

Often this desire exceeds the capacity of Myanmar's state to deliver in ways consistent with the country's wellbeing. This is especially the case when the money sought is foreign exchange. Money

obtainable only after it has been earned by Myanmar's exporters, the military routinely bends the organs of state to its acquisition of foreign currency, by however means necessary, and whatever the consequences.

In terms of Myanmar's domestic currency, the kyat, the military's needs are covered by the stroke of a pen and the clatter of the printing presses. Some of it is sourced by taxation in the normal manner, some via the earnings of state enterprises, but recourse to borrowing from the central bank – more meaningfully labelled 'printing money' (quite literally in Myanmar's case) – is the default choice.

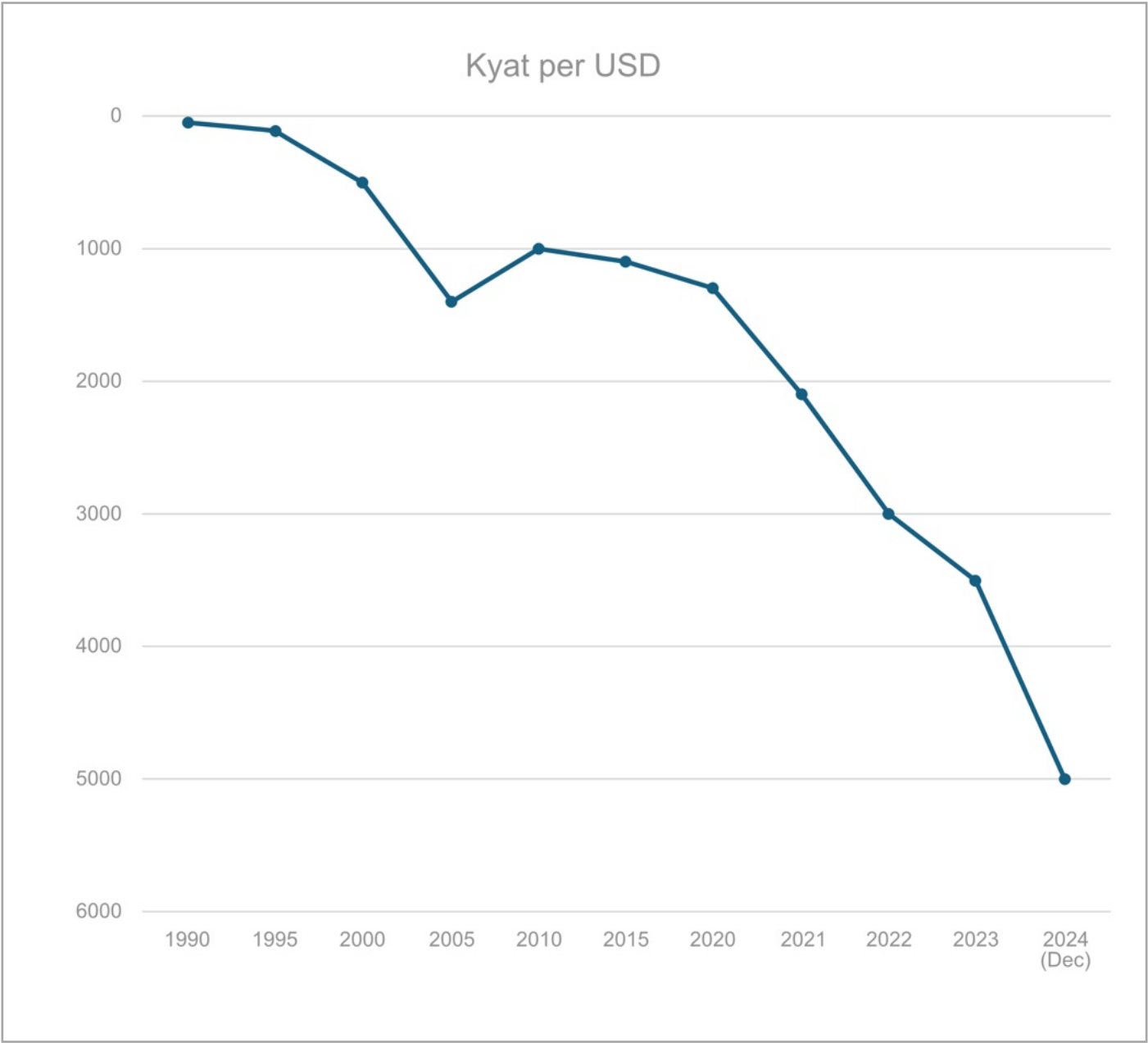
The consequences of this money printing are predictable, and predictably destructive: chronic inflation, a forever depreciating exchange rate, arbitrary expropriations – profound monetary instability.

Of course, every now and then people unacceptable to the military acquire some of this money. When that happens the response of Myanmar's rulers has been unequivocal, and immensely destabilising. Demonetisation, declaring various denominations of the kyat as no longer legal tender. Declared of value by fiat; rendered worthless the same way. Four times have such demonetisations been rolled out to disastrous effect, but the idea never seems to go away.³

Debauching the currency via inflation, that inevitable by-product of the military's monetary ways and means, has done the same job as explicit demonetisation announcements. More slowly, subtly, but inexorably. Money is said to have three roles in a modern economy: a medium of exchange; a unit of account; a store of value. The latter is no longer a role the kyat fulfills for anyone with choice. As a unit of account it is a volatile standard. As a medium of exchange it is reduced to routine transactions of low worth.

³ For a thorough discussion of the phenomenon, see Turnell (2009).

This chronic demonetisation of the kyat is apparent too in its declining ‘price’ internationally, the exchange rate. Tabulated below in terms of the kyat/United States dollar (USD) exchange rate, the kyat’s fall is a picture that thousands of words from the SAC junta are unable to un-paint:⁴



⁴ The 2024 rate is as at end-December 2024. In August 2024 the market exchange rate of the kyat temporarily fell even further in informal trades, hitting a low of K6,350:\$US1 in that month. It has been hovering around the K5,000:\$1US since, but remains highly volatile. For more on this low point, see Vincent MacIsaac, ‘Myanmar’s Junta Is Funding Its War Through Forex Scams, Economists Say’, *The Irrawaddy*, 20 August 2024, <https://www.irrawaddy.com/news/burma/myanmars-junta-is-funding-its-war-through-forex-scams-economists-say.html>.

Myanmar's mosaic of monetary instability was an ever-in-mind backdrop to macroeconomic policymaking during the period of civilian rule in Myanmar under the NLD. This being the case, tackling the core problem – money printing-financed spending – was its centrepiece. Entering into an agreement with the IMF to monitor progress, the NLD government reduced money financing in successive increments until, in 2019, the practice had come to an effective end. Covid-19 required a one-off elastic margin, but the trajectory (likewise supported by the IMF) was set.⁵

Since the coup the spending incontinence of the SAC junta has become one of its defining features. Much of this expenditure has been on the military itself (annual appropriations up nearly 100% since the coup), 70% of which is financed once more by printing money.⁶ Myanmar's national debt is up 50% since the coup, even as spending on health and education are both down. Myanmar's GDP, which fell 18% at the outset of the coup, is now 50% below where it should be even by conservative estimates of its expected trajectory.⁷ Poverty rates have more than doubled. With newly installed price controls, the reintroduction of conscription and all manner of other coercive measures, the SAC junta has adopted the economics of the quartermaster rather than that of the market. Marginalisation of monetary allocation, of market mechanisms, and their replacement by force and fiat is the new order. What has taken place is a new type of demonetisation of Myanmar's economy. A seizing up of the formal monetary economy. The prospect of the elimination of money as a unit of trust, as the critical item of inter-subjective reality that allows the peaceful organisation of life, looms large in Myanmar today.

Of course, much of this is counterproductive to the military itself. The more it undermines the kyat as a meaningful monetary unit, the more the junta must rely on coercive measures to acquire resources. Trust, formal market relations and mechanisms decline further – prompting more coercion, more violent expropriation – and so it goes on.

3.2 Controlling the Central Bank

Enacting many of the deleterious policies of the SAC junta has been the Central Bank of Myanmar (CBM). The CBM is, of course, the key monetary institution in Myanmar. Sitting atop the network of institutions that finance Myanmar's military and its wars, the junta moved quickly after the coup to erase any independence the CBM hitherto enjoyed. Now headed (as Governor) by junta loyalist Daw Than Than Swe, she has surrounded herself with a deputy from the military, and a cohort of colonels appointed as key section heads.⁸ The reformers who once occupied the key roles at the CBM during

⁵ The author details this in Turnell (2023, pp.49-61) and Turnell (2024, *passim*).

⁶ World Bank (2023)

⁷ On this trajectory, see World Bank (2024, p.5).

⁸ 'Myanmar regime replaces governor', *Central Banking*, 22 August 2022, <https://www.centralbanking.com/central-banks/governance/7952486/myanmar-regime-replaces-central-bank-governor>

the years of civilian government, and who were attempting to steer the institution away from its military orientation, were arrested following the coup. Many of them remain in prison. Below the top ranks of the CBM, other military ranks pepper the institution.⁹

Of course, like central banks everywhere, the CBM is in charge of the physical production of kyat currency notes, not just their existence as bank balance sheet items. In a country such as Myanmar, with conflict all around and much infrastructure destroyed, this is a key fact. In short, much of the money printing referred to in these pages is physical, and takes place at the Wazi Security Printing Works. As much as 30,000 billion of kyat banknotes have been printed since the coup (compared to just over 3,000 billion during the civilian government's last year in office).¹⁰ Note printing at Wazi had been supported (the supply of raw materials, inks, system components) by the German firm Giesecke and Devrient, but this company suspended deliveries shortly after the coup.¹¹ Since then, problems of note design and production have been a constant, as have supplies of currency note-quality paper. A supplier from Uzbekistan is alleged to have provided part of the solution, but seemingly the quest for the needed printing supplies, and thus the persistence of this key vulnerability, lingers.¹²

3.3 Foreign Exchange Follies

Supplying money domestically in all its forms is a key role the CBM plays in supporting the SAC junta, but so are its activities in securing foreign exchange – and starving everyone else of the same. Indeed, to the extent that the CBM – or, indeed, the SAC junta itself – has anything that might be called a macroeconomic or monetary ‘policy’, this scramble for foreign exchange is more or less it. The author counts at least a dozen CBM notifications, directives and other instructions in this area since the coup. Illustrative measures include:¹³

- Forced conversion of foreign currency accounts into kyat at an arbitrary exchange rate favourable to the junta;¹⁴
- Forced conversion of export and other earnings by Myanmar firms into kyat at a rate favourable to the junta;

⁹ Most egregiously, the key economic reformer of Myanmar's financial system under the NLD Government, former Deputy Governor of the CBM, Dr Bo Bo Nge.

¹⁰ Mizzima, ‘Myanmar junta trying to reverse economic woes by printing more banknotes’, 7 June 2024, <https://eng.mizzima.com/2024/06/07/10614>.

¹¹ ‘Giesecke and Devrient suspends deliveries to state security printer in Myanmar’, Press Release, Giesecke and Devrient, 31 March 2021, <https://www.gi-de.com/en/group/press/press-releases/giesecke-devrient-suspends-deliveries-to-state-security-printer-in-myanmar>.

¹² ‘Myanmar – Is Russia involved in the Printing of Burmese Banknotes’, MRI Bankers Guide to Foreign Currency, 18 March 2022, <https://mriguide.com/myanmar-is-russia-involved-in-the-printing-of-burmese-banknotes/>

¹³ For an excellent summary and analysis of all of these measures, and their importance to the SAC junta, see Bissinger (2024).

¹⁴ Aung Naing, *Myanmar Now*, 23 August 2023, <https://myanmar-now.org/en/news/junta-further-restricts-access-to-dollars-as-kyat-continues-to-fall/#:~:text=In%20April%202022%2C%20the%20regime,businesses'%20export%20earnings%20into%20kyat>.

- Forced conversion of worker remittances into kyat, and extra taxation of these incomes;
- The creation of multiple exchange rates, applied to counterparties according to their use in funding the junta's priorities;¹⁵
- The cancellation of foreign exchange-dealer licences to all but a few junta-aligned core enterprises, and the mass arrest of other currency traders;
- Arbitrary restrictions on foreign investors with operations in Myanmar in making dividend and other payments abroad;
- Instructions to Myanmar firms to suspend interest and principal repayments on approved loans made by foreign lenders. This directive is effectively a state-directed order to default. A more reputation-shredding policy for Myanmar's sovereign financing is hard to imagine.
- Efforts to move payments away from the USD via CBM mandates on the use of Chinese Renminbi instead (for China trade), and similar instructions regarding the Indian Rupee and the Thai Baht. Indeed, the latter is encouraged by the CBM for use in all manner of transactions, including those not involving Thailand.¹⁶
- Restrictions on imports, across a vast number of product categories. Not because the products were not important to businesses or consumers in Myanmar, but simply their purchase diverted foreign exchange from the junta's coffers.
- Given the role of gold as the default monetary form in extremis, injunctions and arrests of goldsmiths and dealers – complementing the crackdowns on foreign exchange dealers.

Notwithstanding all of the above, the SAC junta has run down the country's reserves to about US\$2.5 billion, little more than half of that available in 2020. Closely reliant on China (and, to a more limited extent, Russia), the junta is increasingly friendless, and only too willing to cede Myanmar sovereignty in their quest for foreign cash and support. Under the NLD Government, exploitative loans proffered by China as part of its so-called 'Belt and Road Initiative' (BRI), some of which were accepted by previous military regimes, were renegotiated in Myanmar's favour.¹⁷ Such loans are back again under the SAC junta, which has left Myanmar supine to China's financial advances.

¹⁵ This was a perennial of military regimes in Myanmar, to chronic distortive effects to the economy overall. For more, see Turnell (2009).

¹⁶ World Bank (2023).

¹⁷ For details, see Turnell (2024, pp.75-82).



4. Banks and Other Financial Institutions

“I sincerely believe...that banking establishments are more dangerous than standing armies.

Thomas Jefferson, 1816¹⁸

4.1 Myanmar's Crony Banks

Myanmar's banks have always been handmaidens of the military state. For much of Myanmar's history this was overt and centralised, culminating in the nationalisation of the banks in the 1960s and their ultimate concentration into just one institution - the disastrous monolith 'People's Bank of the Union of Burma'.¹⁹ The manifest failures of this institution saw it broken up in the 1970s, into the four somewhat specialised state-owned banks that remain with us today – the Myanmar Economic Bank (MEB), Myanmar Agricultural and Development Bank (MADB), Myanmar Investment and Commercial Bank (MICB), and the Myanmar Foreign Trade Bank (MFTB). From the outset the last two of these institutions were the primary vehicles via which Myanmar's military leaders conducted their financial

¹⁸ 'Thomas Jefferson to John Taylor', 28 May 1816, *Founders Online*, National Archives, <https://founders.archives.gov/documents/Jefferson/03-10-02-0053>.

¹⁹ For more on this and other aspects of Myanmar's monetary and financial history, see Turnell (2009).

transactions with the outside world, in company at times with the MEB and the central bank.

In the early 1990s, during what would be the first period of faux reforms brought in by Myanmar's ruling military regime – then known under the ludicrously sinister-sounding acronym of the SLORC (State Law and Order Restoration Council), later renamed the State Peace and Development Council (SPDC) – the formation of private banks was allowed. Within a few years there were twenty or so of these banks which, for a while, seemed to be growing strongly.

It was largely a con, then and later. In truth these banks were little more than ponzi schemes, while the lending side of their balance sheets revealed them as primarily providers of largesse and favour. This was partly to each other – just about all the banks were components of the crony conglomerates that had also grown up amidst the cosmetic reforms of the era – and partly to the state and the military. The services to the latter two were varied, from being the buyers of formal state debt and lenders to military enterprises, the vehicles for money laundering and appropriation of state property by regime insiders, to being lucrative post-retirement landing pads for former state officials and military officers. In 2003 it all nearly came to an end in a catastrophic banking crisis that swept the country and lasted a couple of years, before the players learnt how to play the shell game better. Thus did the system then move forward of a sorts, through the end of the SPDC, across the years of the so-called 'quasi-military' government of President Thein Sein (2011-2016), and to the arrival of the NLD civilian government in 2016.

For the reformers of the NLD Government, fixing Myanmar's banks, turning them into the financial institutions Myanmar needed to aggregate and allocate capital in economically and socially productive ways, was a top priority. In this they had their work cut out for them. Scarcely a bank was genuinely solvent in 2016, and the banks were well entrenched in their casino and influence-peddling ways. Strenuous efforts made to bring them into a safe harbour were gaining some traction by the time Covid hit towards the end of the NLD's first term in office. A few banks slowed their lending to military proxies, the state and to each other, and even started to support legitimate private business and consumers. Many (most) remained recalcitrant, and continued in firm alliance with the military and the darker recesses of the Myanmar state. In this stance a core of banks were open in their allegiance. This author was the recipient of what was surely just the least threatening of menaces articulated by these banks to Myanmar's reformers.

In the wake of the military coup in February 2021, the condition of Myanmar's banks sank to new depths. With the economy cratering, the exchange rate in free fall, trust in institutions of all kinds disappearing and with bank staff in open revolt against what was happening in Myanmar, a series of 'bank runs' foreshadowed system collapse. And that is what would have happened were it not for a junta now in power with a *modus operandi* that was based not on consent, but on the threat of prison and the barrel of a gun. The SAC junta has tools unavailable to a democratic government in preventing mass withdrawals from banks – simply, it outlawed them. In the weeks after the coup, and at multiple



Ayeyarwaddy Farmers Development Bank, branded as A bank, was identified by the UN Special Rapporteur on Myanmar as facilitating military procurements for the junta, as well as imports of raw materials and tooling equipment on behalf of the sanctioned military conglomerates MEHL and MEC in 2023. (A bank)

points in the years since, bank depositors in Myanmar have been denied access to their funds. Bank money – the liabilities of banks that in most places constitute the dominant share of monetary assets – is periodically a valueless commodity in Myanmar. Different in form to past episodes, yet another type of demonetisation it is.

But in all sorts of ways Myanmar's banks remain useful to the SAC junta. Free from the care of needing to look after their customers, returning to their familiar task of servicing crony conglomerates and the ruling military is the banks primary activity. At the domestic level this once more means becoming the most important buyers of government debt (the market in government bonds for the non-bank private sector, the creation of which was a key objective of the NLD Government, has effectively vanished). As such they are key financiers of the military at home. Critically, however, and as outlined at length by the UN Human Rights Council's Special Rapporteur on Myanmar (UNHRC 2024), they also facilitate the junta's international purchases, including of arms and fuel. This is both directly with the Defence Ministry as customer, as well as via the military conglomerates, MEC and MEHL.²⁰

²⁰ Openly named by the UNHRC in this context is the Ayeyarwaddy Farmers Development Bank (branded as A bank), and United Amara Bank. These two are not alone, however, and some of Myanmar's largest and most prominent private banks are likewise active in facilitating the junta's 'death trade'.

4.2 The State-Owned Banks

The major banking vehicles for the SAC junta's international arms procurement remain the state-owned banks. This was initially the MFTB and MICB, continuing their traditional role. In June 2023, however, the United States imposed sanctions on the MFTB and MICB, causing the junta to shift international banking duties to the MEB. In addition to arms procurement, the MEB also became the appointed vehicle for the inflow of foreign exchange earnings of state-owned enterprises and the payment/receipt of government charges and taxes. According to the UNHRC Special Rapporteur, following the United States (US) sanctions, international payments and receipts of the MFTB fell from over US\$500 million in the first quarter of 2023, to just over US\$80 million in the second quarter. Mirroring this and underlining its role as a step in, international payments and receipts facilitated by the MEB across the same period grew from less than US\$80 million to US\$495 million (UNHRC 2024, p.19).

As with the CBM after the coup, the state-owned banks have also largely been taken over by the military in terms of personnel. Representative of the trend is the MEB, which appointed a score of military officers to its management ranks.²¹

4.3 Foreign Banks and Myanmar

Of course, on the other side of the transactions involving the MFTB/MICB/MEB are international banks, partly from countries from whom Myanmar's junta was purchasing arms and fuel, but also those residing in financial centres such as Singapore, Hong Kong and Dubai. In the wake of sanctions and pressure more broadly, however, here too there has been a substantial realignment. Hitherto the financiers of choice for Myanmar's military and ruling elite, Singapore's banks have stepped back from such business. As revealed by the UNHRC Special Rapporteur (2024, pp.13-14), payments facilitated by banks in Singapore fell from US\$260 million in 2022 to just US\$40 million in 2023 (or from over 70% to just under 20% of all such international payments made by the SAC). An enlightening episode of the power of financial sanctions, nevertheless the gap left by the admirable actions of Singapore has been partially filled by Thailand-based banks, as well as various entities in Dubai (UNHRC 2024, p.13). The latter include firms working with several of Myanmar's private banks, which in turn are acting on behalf of members of the SAC junta, mostly by assisting the latter in spiriting expropriated assets abroad for personal gain.

²¹ Aung Naing, '19 Military Officers Selected for Management Roles at Myanmar's Largest Commercial Public Bank', *Myanmar Now*, 8 May 2023, <https://myanmar-now.org/en/news/19-military-officers-selected-for-management-roles-at-myanmars-largest-commercial-public-bank/>.



By 2019, mobile financial services firm Wave Money had 'banked' over 10 million people who had previously been excluded from Myanmar's formal financial sector. (Wave Money)

4.4 Mobile Money

Of all the 'technical' innovations introduced by the NLD Government in its attempt to dilute the stranglehold of the military state and its allies over the financial system, none was held in greater hope than mobile money. Inspired by the examples of M-Pesa in Africa, and then by the giant Chinese Fintechs, WeChat Pay and AliPay, a raft of liberalising measures were introduced to bring about a similar transformation in Myanmar. The revolution nearly happened. By 2019 the market leading mobile financial services firm, Wave Money, had effectively 'banked' over 10 million people hitherto excluded from the formal financial sector. Wave's imitators (admittedly, some of these were subsidiaries of the incumbent banks) added millions more, and by the end of the same year 80% of Myanmar's population were connected one way or another via mobile payments.²² The 'democratisation of finance' seemed at hand.

Come the coup, and mobile payments became a weapon of oppression, and a facilitator of state surveillance. Beginning just weeks after the military's attempted takeover in February 2021, an escalating series of orders on mobile money firms have seen them become the providers of intelligence on their customers – monitoring and reporting daily transaction frequency and volumes, counterparties and locations, as well as anything 'suspicious':

If you do a certain number of repetitive transactions, let's say, at the start of each month, then surely they'll take notice'.²³

²² K4DM (2024, p.10).

²³ Mobile money customer quoted in K4DM (2024, p.10).



A clerk checks US hundred dollar bills at a foreign currency exchange counter in Yangon. (U Aung)

5. Money as Freedom

“Money is coined liberty.
Fyodor Dostoyevsky, 1911²⁴

5.1 Hundi

The SAC junta's command over formal money creation and distribution has stimulated alternative monetary arrangements that create spaces for freedom. Most obviously this has emerged via the return to prominence of the 'hundi' system. An ancient practice known in most parts of the world (under a variety of names), hundi allows the transfer of monetary value via networks of trust that are usually invisible to monetary and other authorities.²⁵ During the NLD reform era it was the expectation that the rise of 'mobile money' and attendant technologies would finally bring about the demise of hundi. The coup was perhaps history's reminder that non-state monetary systems constitute still, in extremis, the only basis for Dostoyevsky's notion of coined liberty.

Hundi's role as a means to escape its clutches is a thought that fixates the SAC junta, which accordingly has spent great effort to end the custom. An exercise in futility that has at its centrepiece

²⁴ 'Money is coined liberty' – the phrase, repeated often in libertarian monetary circles, has its origins in Fyodor Dostoyevsky's (1911) *The House of the Dead*. (London: J.M. Dent, 1911).

²⁵ For details of the workings of hundi (and similar) networks, see Turnell (2009, pp.29-32).

archetypal moments of ‘rounding up the usual suspects’ by arresting hundi dealers, it also highlights in yet another way that, in the SAC junta, there exists a regime that has both forgotten and learnt nothing.

5.2 Money of the Spring Revolution

Money’s role as a vehicle for liberty also manifests itself in the creativity of Myanmar’s opposition in funding itself. Apparent from the outset of the coup as Myanmar citizens donated in cash and kind to the resistance, while boycotting payments to the state and its entities, over time these have taken innovative online forms.²⁶ Innovative crowdfunding via social media, online lotteries, cheeky campaigns of selling-off the houses of junta officials, all have played a part in a genuinely grassroots upswell of financial support given by Myanmar diaspora all around the world.²⁷ This author has been both an observer and participant of these efforts, which show few signs of waning.²⁸

Even more interesting perhaps, and with surely long term effect in a future Myanmar, have been the works of the National Unity Government (NUG) and groups associated with it to create a parallel and semi-formal financial system that exploits the technological revolution currently transforming global (and local) finance. The ambitions here are vast – an online Spring Development Bank (SDB) to fund the revolution and spearhead reconstruction later, a stable-coin cryptocurrency to store, make secure and facilitate payments, bond and initial coin offerings to fund the SDB and much else – even the consideration of a nascent shadow central bank.²⁹ Activities created and managed by accomplished (but primarily young) Myanmar financial and IT professionals, the collective vision implied for Myanmar stands in stark contrast to the Hobbesian struggle that is all that can be summoned up by their opponents in the ruling junta.



²⁶ On the boycotts, see ‘Electricity Bill Boycotts Spark Trouble For Myanmar’s Power Sector Amid Waning Investor Interests’, *Fitch Solutions*, 25 November 2021, <https://www.fitchsolutions.com/bmi/power-renewables/electricity-bill-boycotts-spark-trouble-myanmars-power-sector-amid-waning-investor-interests-25-11-2021>.

²⁷ For a detailed discussion of many of these initiatives, see International Crisis Group (2022).

²⁸ Despite assertions to the contrary. Anecdotal information gathered by the author (I cannot claim certainty in the matter, but I am confident of its broad truth) is that such fund-raising has collected in excess of US\$50 million amongst the diaspora communities I have visited.

²⁹ The website of the Spring Development Bank, at which can be found further details on all of this, can be found at: <https://springdevelopmentbank.com/>.



An anti-military coup protester holds a placard reading “Don't give tax to the rebel [Min Aung Hlaing]” during a peaceful demonstration against the attempted military coup in Yangon in February 2021. (Sipa USA)

6. Breaking the Nexus

“...faced with a powerful military, a newly emerging democratic regime will either need to make costly concessions or face a high probability of a coup. This coup threat disappears once the military is reformed.

Acemoglu, Ticchi and Vindigni (2008)

6.1 Before the Fall: Hastening the Junta's Demise

Sanctions

The most effective and complete way via which the nexus between money and the military in Myanmar will be severed will come at the latter's defeat at the hands of the Myanmar people. At that point, and as discussed further in Part 7 of this Briefing, both constitutional change and the wholesale transformation of Myanmar's economy must set about a permanent amputation.

In the meantime, international efforts to reign in the actions of the SAC junta have come via the

imposition of economic, financial and Magnitsky-style individual sanctions.³⁰ Led by the US, such sanctions have been levied by the European Union (EU), the United Kingdom (UK), Australia, Canada, New Zealand, and even, as noted (in effect), by Singapore. Such sanctions target the leadership of the SAC, junta ministers and deputies, members of Myanmar's judiciary, senior officials of state-owned enterprises (SOEs) and military businesses, as well as arms brokers, and people involved generally in servicing the military.

Amongst the sanctioning countries there are wide divergences with respect to the nature, breadth and scope of the measures levied. Meanwhile, no formal sanctions upon the SAC junta have been applied by India, Japan, South Korea or, with the exception of Singapore, any of the ASEAN countries.

Prominent amongst the SOEs sanctioned, and critical to the flow of revenues to the SAC, is the Myanma Oil and Gas Enterprise (MOGE). By far Myanmar's largest earner of foreign exchange via its exports of natural gas (primarily to Thailand and China), MOGE is comprehensively sanctioned by the EU. The US sanctions on MOGE ban US financial institutions from providing financial services to it, effectively ruling out the use of the US dollar as a currency for payment to MOGE. Importantly though, in surely a concession given to US-ally Thailand as a significant MOGE customer, the US sanctions do not preclude other countries dealing with MOGE, using currencies other than the US dollar.

The other important thing to note on US sanctions as they relate to MOGE is that there are no 'secondary' sanctions against other country financial institutions providing financial services to MOGE, just so long as these do not involve the dollar. Such financial institutions are thus not confronted with a choice of dealing with MOGE or US entities.

MEC and MEHL, the aforementioned military conglomerates, are sanctioned by all the countries with substantial sanctions of Myanmar's junta.

Bank Sanctions

The MFTB and MICB are both subject to sanctions from the US, Australia, and Canada. According to the US Treasury's Office of Foreign Assets Control (OFAC), these two state-owned institutions 'facilitate much of the foreign currency exchange within Burma and enable transactions between the junta and foreign markets, including for the purchase and import of arms and related materiel.'³¹ As

³⁰ The most effective of such Magnitsky-style sanctions (against individuals involved in 'gross violations of internationally recognised human rights') are those levied by the United States under its 'Global Magnitsky Human Rights Accountability Act', S.284 – 114th Congress (2015-2016), 18 April 2016, <https://www.congress.gov/bill/114th-congress/senate-bill/284/text>.

³¹ United States Treasury, Office of Foreign Assets Control (OFAC), 'Treasury Sanctions Burma's Ministry of Defense and Regime-Controlled Financial Institutions', Press Release, 21 June 2023, <https://home.treasury.gov/news/press-releases/jy1555>. Australia joined in sanctioning the MICB and MFTB in February 2024, Minister for Foreign Affairs, Australia, 'Further sanctions on the Myanmar military regime', Media Release, 1 February 2024, <https://www.foreignminister.gov.au/minister/penny-wong/media-release/further-sanctions-myanmar-military-regime>. Both banks were under restriction in Canada on account of sanctions dating back to 2012, United Nations Human Rights Council, Special Rapporteur on the situation of human rights in Myanmar, 'Banking on the Death Trade: How Banks and Governments Enable the Military Junta in Myanmar', 26 June 2024, <https://www.ohchr.org/sites/default/files/documents/hrbodies/hrcouncil/sessions-regular/session56/a-hrc-56-crp-7.pdf>.

noted above, however, and notwithstanding its now dominant role in facilitating the junta's international transactions, the MEB has yet to be sanctioned.

Certain individuals associated with Myanmar's private banks are also subject to sanction, but the banks as a category are not yet sanctioned in the way, for example, that Russian banks are denied access to international payments networks.

Likewise not employed thus far against Myanmar's banks are secondary sanctions – measures that impose penalties on persons and organizations not subject to the sanctioning country's legal jurisdiction, but which are engaged in the same dealings prohibited under primary sanctions. An example of secondary sanctions are those imposed by OFAC against Iran's Islamic Revolutionary Guard Corps (IRGC). Here a person or entity who is not a 'US person' but who deals in assets linked to the IRGC may be penalized by OFAC. This is true even when there is nothing in the dealings that involve the US. Secondary sanctions thus impose a choice of the variety noted with respect to MOGE above. In the example here, a non-US entity can do business with the likes of Myanmar's banks or with the US, but not both. For most, the choice will not be a difficult one.

Of perhaps greatest interest with respect to the sanctioning of Myanmar's banks concern the US action to freeze the assets of the Central Bank of Myanmar. This timely move, which took place just 9 days after the coup, effectively seized just over US\$1 billion in funds held in the Federal Reserve Bank of New York by the CBM.³² The seizure was authorised under a Presidential Executive Order (EO 14014) that froze access and the movement of 'All property and interests in property that are in the United States' of the SAC junta including the Central Bank of Myanmar. The Order closely resembles similar actions against the central banks of Afghanistan, Iran, Russia and Venezuela.³³

Anti-Money Laundering Actions

Myanmar has long had a problem meeting international standards with respect to money laundering, as determined by the world's leading institution on the matter, the 'Financial Action Taskforce' (FATF). Hardly surprising given the ignoble origins of so many of Myanmar's banks, but before the coup the NLD Government had been doggedly attempting to do something about it. Following their attempted takeover the SAC junta has ignored the issue, except to use it as an excuse to go after their opponents. Nothing constructive has been done, and on 21 October 2022 Myanmar was put on FATF's blacklist.³⁴

³² See Executive Order 14014, Joseph R. Biden Jr, President of the United States of America, 'Blocking Property With Respect to the Situation in Burma', February 10, 2021, <https://public-inspection.federalregister.gov/2021-03139.pdf>. Simon Lewis and Humeyra Pamuk, 'U.S. blocked Myanmar junta attempt to empty \$1 billion New York Fed account', Reuters, 5 March 2024, <https://www.reuters.com/article/business/exclusive-us-blocked-myanmar-junta-attempt-to-empty-1-billion-new-york-fed-a-idUSKCN2AW2MC/>.

³³ The actions against the central bank of Afghanistan, authorized by Executive Order 14024, were partly drawn upon the Order (EO 14014) used against the CBM.

³⁴ The designation was affirmed in October 2024. For more on the FATF designation, what it means and what is ahead, see 'High-Risk Jurisdictions subject to a Call for Action - 25 October 2024', Financial Action Taskforce, <https://www.fatf-gafi.org/en/publications/High-risk-and-other-monitored-jurisdictions/Call-for-action-october-2024.html>.

This is a most serious designation. Disguised perhaps by FATF's technocratic-sounding instruction that financial transactions from Myanmar now required 'enhanced due diligence', the impact is to effectively exclude the country's banks from the international financial system. In October 2024 FATF announced that, with no improvements in the situation since the blacklisting, unspecified (at this point) 'countermeasures' would be considered.³⁵ These measures, on top of the bilateral sanctions discussed here, are a significant blow to the international weapons procurement aspect of Myanmar's military-money nexus.³⁶

Future Sanctions

An opportunity presents itself for the international community to assist in breaking the nexus between money and the Myanmar military by more comprehensively sanctioning the country's banks:

- To this end, sweeping sanctions that include all of the state-owned banks should be imposed by countries concerned with ending Myanmar's dystopia. For a handful of countries this means simply adding in the MEB (and the MADB) to their existing designations.³⁷ For other countries, it means a new approach. Either way, the measures introduced will require little beyond adhering to the FATF notifications discussed above.
- In most practical ways, such sanctions should also apply to the country's banking system more broadly – thus including Myanmar's privately owned banks. Again, this will act to simply (but explicitly) codify the measures necessary to comply with FATF's rulings, but it will also make clear that a game of sanctions 'whack-a-mole' will be minimised. In excluding Russian banks from the international financial system, a cohort of countries (led by the US and the EU) have removed these institutions from the SWIFT messaging system. Myanmar's banks should be similarly excluded.³⁸
- Secondary sanctions, as defined above, should be applied against persons or entities dealing with MOGE, or with Myanmar's state-owned banks.
- Against objections that such sanctions will impose unacceptable humanitarian costs on the Myanmar people, transactions that involve agricultural commodities, medicine and medical supplies, payments to certain non-government organisations and the like could be exempted. To further objections that sanctions will force Myanmar into the hands of Russian or China-based

³⁵ The announcement that countermeasures could be considered in 2025 can be found at the same website, 'High-Risk Jurisdictions subject to a Call for Action - 25 October 2024', Financial Action Taskforce, <https://www.fatf-gafi.org/en/publications/High-risk-and-other-monitored-jurisdictions/Call-for-action-october-2024.html>

³⁶ See also UNHCR (2024, p.35).

³⁷ The MADB is not currently very internationally active. But, as a possible next cab in the rank, it should be explicitly noted.

³⁸ The 'Society for Worldwide Interbank Financial Institutions' (SWIFT) is a network linking banks worldwide that provides instructions for transferring money. It is a cooperative owned by its members (primarily banks) and, whilst headquartered in Belgium, sits at the heart of global payments, <https://www.swift.com/>.

international payment systems, one might invoke the reality that this is the drift anyway.³⁹ The SAC junta has thrown its lot with the axis of global disrupters, much to Myanmar's disadvantage. Making it harder for the junta to fund and equip its military will never completely succeed in terminating their means of support abroad, but to partly use a cliché that nevertheless contains more than a kernel of truth here – a perfect outcome should not be the enemy of a helpful one.⁴⁰

- As noted above, the Central Bank of Myanmar is itself the subject of a US asset freeze. This highly effective action could be augmented by others. Beyond simply an asset freeze, for instance, the US could impose a ban on all transactions and interactions with the CBM, beyond just freezing its US-based assets. Of course, other countries could and should align themselves with the US actions, in the manner of the international coordination of measures taken against the central bank of Russia in the wake of the invasion of Ukraine.⁴¹
- But most helpful of all future actions regarding the CBM would be to not just freeze its assets, but to follow up by redistributing these to the opposition to the junta. This is controversial territory, clouded by a general assumption (founded in no little confusion) that central bank assets enjoy diplomatic immunity – a sort of numismatic shadow of the protections surrounding diplomats themselves. As the small number of scholars active in the field point out (see, for instance, Brunk 2022) this is not universally the case. There are international norms that apply to judicial awards that insulate central bank assets, but not to actions outside of these. In practice, central bank assets have come into play in various circumstances down the years, some of which might be of merit when contemplating Myanmar.⁴²
- Of particular interest in this context are the examples of Afghanistan and Venezuela, both of whose central banks have been sanctioned by the US and had their US-based assets seized and redistributed away from their ruling regimes. In the case of Afghanistan, these assets were divided – and US\$3.5 billion (around half the total) allocated to a 'third party trust' to function as a credible

³⁹ Such alternative systems have thus far made little headway, but for a discussion, see Freidin (2024).

⁴⁰ Sanctioning Myanmar's banks to the extent and in the ways noted above is a necessary but not sufficient condition to financially disarming the SAC junta's banking activities. Decades of living in the financial underworld has made Myanmar's military a practised player in sanctions evasion, partly via transacting with other pariah nations, partly by using offshore accounts held by individuals and entities acting as proxies for the ruling junta. The former are of value to the junta in the procurement of arms, but limited by technical and logistical capacities of such allies. Of more and broader use are junta proxies, the international operations of Myanmar's prominent crony enterprises, Myanmar nationals with bank accounts abroad, as well as foreign entities and individuals. These proxies, incorporated and resident in such places as Thailand, Singapore, Hong Kong and Dubai are sometimes able to convert sanctions-vulnerable international transactions involving a Myanmar counterparty and a foreign entity, into a domestic transaction between Myanmar proxies. To the extent that such proxies use the same bank, such transactions need not be visible at all to anyone beyond the bank and the counterparties. They could even be in USD, since in such internal transfers no payment settlements need go through a US correspondent bank.

What to do? – Encourage members of the Myanmar community, the diaspora and at home, to identify the proxies, the beneficial owners and their connections to the junta. As this author knows well, Myanmar communities around the world are the true source of knowledge and wisdom in all of these matters. They are often under-used in the matters discussed here, even though they concern them above all, and in whose name so much is supposedly motivated.

⁴¹ For these, see 'Sanctions on Russia's Central Bank', International Institute for Strategic Studies, July 2023, <https://www.iiss.org/publications/strategic-comments/2023/sanctions-on-russias-central-bank/>.

⁴² For an outline of these actions, see Wuerth (2018).

steward to the interests of the people of Afghanistan, and charged with the responsibility to 'protect, preserve, and disburse assets for (their) benefit'. This Afghan Trust is based in Switzerland and is run by a board of five people, three of whom are Afghan citizens (representatives of the civilian government deposed in 2021), the other two American and Swiss.⁴³ In the case of Venezuela, seized assets of the central bank were given to the control of the country's opposition (recognised by the US as the legitimate government).

- Though the circumstances are more obviously different, the question of what to do with assets of the central bank of Russia, frozen in a number of jurisdictions since the invasion of Ukraine, is relevant for Myanmar in its timeliness – and for the creative thinking it has stimulated. Some participant countries have reservations in confiscating the assets from Russia and redistributing them directly to Ukraine, primarily on the basis of breaches of international legal norms that such state-to-state ownership transfers might entail. As a consequence have come some highly innovative alternatives:⁴⁴
 - Maintaining the frozen assets in an Escrow Account (at the EU central bank, the Federal Reserve, and so on), but paying income earned on them (the assets are primarily in the form of interest-earning government bonds) to Ukraine.⁴⁵
 - Maintaining the frozen assets in an Escrow Account as per above, but using both the principal and interest as collateral against which Ukraine can borrow.
 - Investing the frozen assets in Ukraine Government bonds, and thus use them directly to compensate for war damage and fund Ukrainian resistance to the invasion.
 - Using the frozen assets as collateral against which other countries and institutions (G7 countries, multilateral financial institutions such as the World Bank, and so on) might lend to Ukraine.
- The reader will appreciate that there could also be a mix and matching of any or all the above, and the variety of forms Russia's frozen assets might be used in ways to benefit the people of Ukraine are sundry. In July 2024 the EU directly transferred €1.5 billion in income earned on frozen assets to Ukraine, while in December 2024 the US announced that it had made a US\$20 billion loan to

⁴³ For details of the Afghan Fund, see Alexianu and Hakim (2023). <https://www.lawfaremedia.org/article/the-afghan-fund-the-limits-of-sovereign-immunity-recognition-law>

⁴⁴ For a discussion of some of the many variants, see Franchini and Iversen (2024).

⁴⁵ The SAC-M recommended efforts precisely along these lines in June 2024:

"SAC-M urges the US Government to return the more than US\$1 billion of frozen Myanmar national reserves held by the US Federal Reserve since February 2021, or at least the substantial interest accrued since then, to the legitimate representatives of the Myanmar people: the NUG, EROs, and broader civil society. These funds would provide a lifeline for resistance authorities to address the massive humanitarian needs of the population and strengthen governance capacity and service delivery in areas of the country under their expanding control."

'US Gov't and UN Member States Must Provide Direct Support for Myanmar's Resistance Actors Now', Special Advisory Council – Myanmar (SAC-M), 13 June 2024, <https://specialadvisorycouncil.org/2024/06/us-and-un-must-provide-direct-support-to-myanmars-resistance-actors-now/>

Ukraine against the collateral on the immobilised Russian reserves residing in the Fed.⁴⁶

- Of course, none of the 'models' of central bank actions discussed here are a precise fit or adequate for Myanmar's circumstances. The idea of a third party trust, for instance, largely avoids the question of who might comprise a legitimate government (though raising its own questions of representation – who decides?). A live question for Afghanistan perhaps, but not for Myanmar where the forces arrayed against the SAC junta surely compound legitimacy, organisation, unity and territorial control sufficient to create a sovereign entity for the purposes here.⁴⁷ If this is the case, do we need to consider such entities in the Myanmar case, or even make distinctions between frozen assets, earnings made off them, or use as collateral?
- All tricky waters in what is merely international customary law, but rough geopolitics. Yet, reason and goodwill enough too for workable mechanisms to assist the people of Myanmar in their struggle.

Odious Debt

...if a despotic power incurs a debt not for the needs or in the interest of the State, but to strengthen its despotic regime, to repress its population that fights against it..., this debt is odious for the population of the State.

The debt is not an obligation for the nation; it is a regime's debt, a personal debt of the power that has incurred it.

Alexander Nahum Sack, 1927⁴⁸

- An ancient idea given new impetus in recent times, declaring debt to be odious not only provides debt relief to countries whose people have not consented to taking it on for proper purpose, it also acts to disincentivise lenders to support illegitimate and unrepresentative regimes. Not assured that they will be paid back, financiers of human rights abuses might decide not to expose themselves to loss. The Myanmar junta is illegitimate and unrepresentative and, since it is not the government of Myanmar, it has no power in international law to contract or borrow on behalf of the State. The State of Myanmar is not responsible for the debts of the unlawful military junta.
- In international law the idea of odious debt is contested and unproven, yet it has proven useful in

⁴⁶ See European Commission (2024); US Treasury (2024).

⁴⁷ As SAC-M's Chris Sidoti convincingly argues, Myanmar has a government, the NUG, that is 'both de jure and de facto the government of Myanmar'. This is unlike the situations in Afghanistan and Venezuela, neither of which have a legitimate (de jure) government that is also in control of the majority of the territory of the State (de facto government). Sidoti also points out that the Myanmar situation is also starkly different from Russia/Ukraine, where the issue is one country (Ukraine) benefiting from the assets of another country (Russia). Giving the NUG legal control over the Myanmar assets in foreign banks, he thus argues, prompts a simple and clear 'yes'. I am grateful for Chris's advice in this context.

⁴⁸ Sack cited in Howse (2007, p.2).

a number of circumstances to produce more just outcomes.⁴⁹ The normative sources of the notion of odious debt are ancient, as noted, and come out of basic conceptions of fairness – for instance, that individuals are not liable for debts incurred fraudulently in their name. In the context here, nothing is surely as fraudulent as the idea the SAC junta represents the will of the people of Myanmar. The country provides a near perfect case study of a ruling regime whose debt can only be considered odious.

- As argued by the Nobel Prize winning economist, Michael Kremer, declaring a regime's debt to be odious is also a highly effective sanction against such bad actors, and one that has considerable advantages over the trade and financial sanctions most commonly applied (and discussed in these pages).⁵⁰ These advantages are at least twofold in terms of curtailing the harm inflicted upon suffering populations by despotic regimes: Firstly, by denying funding for the acquisition of the weapons themselves. Secondly, by not creating a debt burden for the population of a country to live under, however acquired.

6.2 After the Fall: Keeping the Military Out

Following the termination of the SAC junta a new civilian government in Myanmar must ensure that the military never again controls the economy, or in any way resources itself beyond the allocations of the civilian authorities. Regardless of the precise form it takes, amongst the first actions of this government should be to:

- Write a new constitution to bring the military under the control and oversight of the civilian government, and remove the discretions and powers granted to the Commander in Chief of the Armed Forces.⁵¹
- End the practice of the military dictating its own budget.
- Remove from the military any funding mechanisms beyond parliamentary control, and forbid the military and any associated entities from engaging in commercial enterprise of any kind.

Of course, such political/legal moves are a necessary but not sufficient condition for removing the military from Myanmar's economy. Following the end of its own ruling military regime in the Reformasi of the late 1990s, Indonesia too sought to exclude the armed forces from engaging in business and the economy. Article 39 of the Indonesian Military Law of 2004 mandated that the country's military, universally known by the acronym the 'TNI', end its involvement in business, and

⁴⁹ For a discussion of historical examples, see House (2007).

⁵⁰ Together with Seema Jayachandran, Michael Kremer has been at the forefront of contemporary efforts to use the odious debt concept to protect human rights against the actions of despotic states (Kremer and Jayachandran, 2002, 2003).

⁵¹ Of course, the 2008 Constitution needs to be thoroughly revised – but a good start might be made via this measure.

ordered the Government to take over military businesses within 5 years (Honna 2017). The issues are complex but, as with similar laws elsewhere in Southeast Asia, this promising legislation has never been enforced. Indeed, in recent times pressure has mounted for its repeal.⁵²

Myanmar needs a law like Indonesia's but, with that country's experience in mind, it must be a law that is enforced. Aiding this outcome will be the other measures and policies discussed below, as will the fact that Myanmar's military, upon its fall, will surely be in a much weaker position than the TNI was at the time of its (temporary) exit from Indonesia's political economy arena from 1998.

All of course raises a more fundamental tactical point with respect to the moment of transition upon the fall of the SAC junta – the importance of reforming the military quickly, while it is weak, and while a new civilian government enjoys peak political 'capital'.

On the economic front, meanwhile:

- Specific actions must be taken with respect to the Myanmar military's conglomerates, MEC and MEHL. Simply, these corporations must be ended. Their supposed welfare functions with respect to retired and serving soldiers do not bear scrutiny.⁵³ In any case, military personnel are no more deserving (indeed, perhaps less so) than the general population of retirement incomes and other services. A civilian government in Myanmar should and will have greater liabilities to honour than those to the military.
- One option for MEC and MEHL would be to break them up and privatise them. Sell off their profit-making activities to legitimate investors (foreign or local) and use the proceeds to help fund the government's general spending needs on health, education and infrastructure to drive growth. Alternatively, they could be placed under a conservatorship arrangement while full investigations into their activities are carried out, after which ownership could be transferred into a nascent Myanmar sovereign wealth fund.⁵⁴ This Fund could in turn become the core of a scheme to finance future pension and other welfare schemes more broadly.
- The two banks belonging to MEC and MEHL (Innwa and Myawaddy banks respectively), should be immediately wound up. Any military funds in them at the time of winding up should be transferred either to the government directly, or placed in the sovereign wealth fund.
- Already predominantly insolvent before the coup, Myanmar's privately owned banks will be in a near-irredeemably poor state upon the fall of the junta. Notwithstanding this, customer access to their accounts should be immediately guaranteed, while deposits themselves should be protected

⁵² For more on recent developments in Indonesia here, see 'Not the Military's Business', *The Jakarta Post*, 22 July 2024, <https://www.thejakartapost.com/opinion/2024/07/22/not-the-militarys-business.html>.

⁵³ For more on where the profits of MEC and MEHL may truly flow, see UNHRC (2019).

⁵⁴ During the conservatorship period any revenues accruing to MEC and MEHL should be paid either to the government directly, or set aside for the Fund.

via an explicit deposit insurance scheme (funded by the government initially – later via a charge on the banks). All banks should undergo an Asset Quality Review (AQR), after which banks deemed viable could be allowed to continue in business, but subject to filing a plausible trajectory towards solvency.

- Banks that are not deemed viable, or whose ownership and governance pose unacceptable risk to the transition (including those banks with especially close military and/or criminal ties) should be closed and their assets transferred to a newly created Asset Management Company (AMC) for resolution. The AMC would attempt to yield value from the assets taken in – pursuing arrears, restructuring loans, selling whole or discounted assets to investors in distressed debt – and broadly reduce the damage done to Government finances from the need to restructure Myanmar's banking system. Such an AMC was drawn up in principle by the monetary reformers in the NLD Government and so in this matter, as in others, there would be no need to reinvent the wheel.
- New 'cleanskin' banks, likely centred around advanced online payments platforms, should be encouraged. Along with an open invitation to reputable foreign banks, such institutions would become key players in a new, competitive financial environment in Myanmar absent the vested interests and military ties. Naturally prominent in mind here is the resistance movement's Spring Development Bank.
- Myanmar's state-owned banks should likewise be reformed. Reviving a plan agreed between Myanmar's past civilian government and the World Bank (and given formal assent in 2018), the two largest state-owned banks, the aforementioned Myanma Economic Bank and the Myanma Agricultural Development Bank, should be merged, the combination providing a stable 'anchor institution' in the otherwise febrile environment that will characterise banking in Myanmar for some time to come. The merged entity should be restructured and revitalised, again along the lines already agreed between the civilian government, the World Bank and certain private international banks brought in for the purpose.
- Foreign banks should be encouraged to set up shop in Myanmar. Some are there already, most arriving during the NLD and reformist era, but today they do little business. In the future they could prove vital – not just in terms of supplying always scarce capital, but in bringing to Myanmar trade, investment and other connections, as well as advanced technologies and methodologies of banking. In Myanmar's history, foreign banks have tended to avoid being part of the cronyisation of business and have been a strong force for competition.
- Also encouraged in Myanmar's financial future should be microfinance. Usually operating below the radar of Myanmar's military and their crony allies, microfinance has provided significant capital to Myanmar's farmers and small-scale businesses.⁵⁵ It is a ready fit for Myanmar's agricultural

⁵⁵ The one exception to this being Myanmar's largest microfinance outfit, Pact Global Microfinance (PGMF), that had long been coveted by parties in Myanmar that were close to the military. PGMF was closed down after the coup following efforts of the SAC junta to appropriate its assets.

sector, whose revitalisation must be central to Myanmar's broader economic renaissance. Microfinance is an example of financial services that disperses rather than concentrates economic power, and thus outside the money-military nexus of concern here.

- Mobile money has been discussed in these pages both as a vehicle for change and hope, and then as yet another apparatus for military oppression. Yet, such mobile phone based financial services must be a part of Myanmar's future, just as they are elsewhere. Recapturing the promise of mobile money, while creating the safeguards against its abuse, must be a priority in a new civilian and reformist order.⁵⁶

These financial actions aside, so much of what Myanmar needs by way of immediate government action following the end of the junta is simply for it to 'get out of the way'. The rule of the SAC junta has seen the destruction of market processes and prices, and these need to return as the basis of reallocating resources to their best use. Renewing markets in Myanmar will require eliminating the great panoply of regulations and decrees of the SAC. The latter best and most simply achieved by declaring them null and void because of the unlawfulness of their enactment/promulgation. Freeing the exchange rate, interest rates, ending price freezes, import controls, foreign exchange surrender requirements and, most important of all perhaps, ending the infringement conscription imposes on the freedom of the person. In short, draining the swamp of military-enabling dirigisme.

The natural accompaniment to these sort of liberalising measures is a program of reforms to restore Myanmar's public finances in the longer term – removing all vestiges of the money printing 'original sin', while promoting financial stability more broadly. As I have stressed throughout this Briefing, it is financial instability, the lack of capital formation in Myanmar beyond the military as dominant institution, that has done so much to make Myanmar chronically a 'khaki economy'. To these ends then:

- Myanmar should adopt a 'fiscal rule' that limits budget deficits. Under the NLD Government this cap was set at 5% of GDP. Given the extraordinary reconstruction needs following the fall of the SAC junta, perhaps this could be expanded to 6% - at least for a transition period.
- Money printing to finance government spending, again excepting for a transition period that should be explicitly limited, should be eliminated. An update of the agreement reached by the NLD Government and the IMF could be re-enacted. In this transition period, the government should make small investments in infrastructure such as ports, roads and other logistical capital to reduce transport costs of moving goods around the country, as well as for export. Likewise for emergency humanitarian and similar spending. In these areas international support in the form of FDI and ODA should be strenuously courted.

⁵⁶ Naturally this will not be easy. How to protect privacy in the online banking world is a global problem that eludes easy solutions. Myanmar's example on this front shows just how high the stakes can be.

- Consistent with a future State established on peaceful lines and a just fiscal federalism, military spending can be dramatically reduced – releasing significant financial (and real) resources to health, education, infrastructure, and all the other spending lines needed to drive Myanmar's economic turnaround.
- A natural and necessary accompaniment to these reforms of Myanmar's affairs is the development of a functioning bond market. A critical component of any nation's public finances, and historically a key vehicle for nation building (as the primary avenue for long-term government borrowing), a bond market for Myanmar was at the cusp of being operative at the time of the coup. It has collapsed since, but its recreation must be a priority in the post-junta Myanmar.
- Myanmar's taxation system will need wholesale reform.⁵⁷ Hitherto no less a vehicle for the channelling of resources to the military and for dispensing favour to connected entities and chosen individuals, Myanmar's taxation arrangements were in the process of reform before the 2021 coup. Regression on tax has been the outcome of SAC junta policy, but creating a viable tax system in Myanmar must be a core feature of a fiscal system that eludes capture and cronyism, while providing the revenues needed for a functioning state. In a practical sense, what will be needed is a tax base that is as broad and simple as possible, with low taxation rates and minimal concessions and exemptions. The latter to minimise the opportunities for corruption, as well as to ease administration. Flat, transparent, predictable should be the tax watchwords for the indefinite future.⁵⁸ With respect to types of taxes, the proposals of the NLD Government's reformers for a uniform revenue tariff, a low rate commercial or sales tax, selected excise duties, mining and natural resource taxes, and a reformed property tax administered at the local level should all remain options.
- Special tax incentives of the sort designed to encourage investment in particular areas should be discouraged. This recommendation will dismay some readers of this Briefing, who might point out the use of tax incentives elsewhere in encouraging industry. In my judgement, in Myanmar such instruments are not worth the greater risk they might bring in opening the door once more to cronyism and favour.
- Finally, and critically, a just and democratic fiscal framework between all the levels of government in Myanmar, but especially between the centre and the states and regions, is essential. In the sphere of economics this must entail a greater decentralisation of decision making, which itself will tell against concentration of power in the ways long exploited by Myanmar's military. Upon this fundamental question of just what Myanmar is as a political entity, so much depends.

⁵⁷ I am much indebted throughout this section on taxation, and much else besides, to the advice of the world's leading expert on national tax design (and old friend of Myanmar), Professor Bob Conrad of Duke University.

⁵⁸ At some relevant point introducing more progressive rates into the tax system – especially in relation to income – would be both wise and socio-politically useful.

7. Recommendations

For the NUG and Myanmar's Democratic Movement:

- Continue the innovative and creative financial initiatives. What is done, however, should always be beyond reproach, 'more royal than the king' in terms of probity and governance. At stake is not just funding the resistance now but, via the success of the Spring Development Bank, the bond issues, the ICOs and stablecoins, is the opportunity to lay down the long term foundations of Myanmar's financial future.
- Campaign to have all debt instruments issued by the SAC junta declared as 'odious', thus casting doubt they will be honoured by future governments of Myanmar. This will disincentivise financial support for the junta from countries such as China, as well as entities within Myanmar collaborating with its misrule.

For the International Community:

- Make the SAC junta's access to finance as difficult as possible, recognising this is directly correlated to its ability to wage war against the Myanmar people. For most countries, this means joining the US, the UK, the EU, Australia, Canada and a number of other countries in sanctioning Myanmar's state-owned banks, and other private Myanmar banks as their activities come to light. For the already sanctioning countries, tightening the financial restrictions on the junta should include better coordinating their actions to ensure consistency and to close loopholes for the junta to exploit. To this end, sanctioning the Myanma Economic Bank should be a priority, as should freezing any assets of the CBM held in offshore accounts.
- For the US specifically, the most important source of support to the democratic opposition in Myanmar, exploring the means by which the CBM assets frozen by the New York Federal Reserve might be released for humanitarian purposes stands out as a munificent and productive action. This Briefing has outlined some models by which this might be done, but creative solutions are surely there for the taking. Naturally, these same solutions should also apply to other countries as they too immobilise assets of the CBM. Of course, given the dominance of the US dollar in international transactions of all kinds, the burden of imposing secondary sanctions on Myanmar's state-owned banks also falls primarily upon the US.
- Support the financial innovations of Myanmar's democratic opposition. This should include specific sanctions exemptions for institutions such as the Spring

Development Bank, as well as assistance with respect to institutional recognition and regulation.

- For countries with substantial numbers of Myanmar migrant workers and refugees seeking to send money home, do not facilitate the junta's efforts to tax and otherwise exploit such people through compulsory payments channels. Adopt a liberal approach in allowing an open market for international payments providers, consistent with accepted international practice.⁵⁹

For the Multilateral Financial Institutions

- The World Bank, International Monetary Fund and the Asian Development Bank all suspended disbursements and any projects involving the SAC junta effective from the day of the coup. This common approach to the illegal junta should continue, even as these institutions monitor developments in Myanmar. As per the recommendation with respect to financial regulators above, however, the MFIs should support and cooperate with the NUG and other legitimate actors in Myanmar. The MFIs will play a key role in Myanmar's future. It's time to consolidate their links with the actors who will be their partners.

⁵⁹ See for instance the practices outlined in World Bank (2007).

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