Overview of Myanmar Military Finances

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Key messages

- The military can access vast amounts of domestic currency over the short-term. It can monetize the debt, require state-owned institutions to purchase government debt, and pressure the Myanmar private sector to purchase government debt or otherwise support the regime.
- Military access to foreign currency is significant but constrained. The military controls at least USD 4 billion, roughly two-thirds of Myanmar's stock of foreign currency. It also controls about half of the remaining inflows following the collapse of several sectors that generated foreign currency, such as textiles and tourism.
- The largest inflows of foreign currency to the military as an institution are earned from natural gas, jade, metallic minerals, land rentals, telecommunications fees and perhaps from businesses involved in trade (e.g., port fees, transport and logistics companies, Myanmar National Airlines), totalling in the range of USD 2.5 billion per year. The military also likely retains its ability to borrow from sympathetic creditors.
- Jade and gems remain a crucial source of private foreign income for senior military officials, though they also profit from substantial domestic interests in a range of other sectors.
- The military retains and collects adequate foreign currency to meet its own medium-term requirements, though not enough to meet private sector or public service needs. Even without forceful targeted sanctions in place, the military is already being forced to choose between its own priorities and providing financing to import the fuel and equipment needed to generate electricity and food, fertilizers and medications people need to survive. If the State Administrative Council (SAC) continues to prioritize military goods and services, it will lead to immense popular suffering over the coming months.
- Limiting military access to foreign currency is the primary financial pressure point that could elicit a change in SAC's behaviour. Sanctioning the SAC regime's foreign assets generated from natural gas, mining, forestry, shipping (including port fees) and airlines—for instance by freezing deposits linked to state-owned Myanmar Foreign Trade Bank (MFTB) and Myanmar Investment and Commercial Bank (MICB)—would cut off roughly USD 2 billion per year in financing for the military. Such actions, and preventing military businesses from accessing foreign inputs, could help pressure the military to compromise on its own needs.
- The military has already starved public services and the private sector of foreign exchange, so further reductions in its access to foreign currency are likely to predominantly impact the military rather than civilians.
- In response to effective sanctions, the military might illegally seize foreign currency deposits at commercial banks, borrow large amounts of foreign currency from China and Russia on unfavourable terms, sell or lease land in exchange for foreign currency, print money to purchase foreign currency, or sell rights to exploit natural resources, fisheries and rivers for hydropower, simply to earn foreign income. These actions could harm the military's business relationships, provoke an even more violent backlash, or undermine the military's own objectives, for instance by spurring inflation.

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Introduction

Since the February 1st coup in Myanmar, domestic and foreign opponents of the military regime, including the Civil Disobedience Movement (CDM) and many OECD governments, have made efforts to identify financial means of pressuring the State Administrative Council (SAC) to give up power. Already, the CDM movement has boycotted many products directly profiting the military, such as Myanmar Beer, certain cigarette brands, telecom operator Mytel, and even a chain of bakeries owned by the daughter of a general. An app listing products and businesses to boycott, Way Way Nay, has been downloaded more than 100,000 times.[1]

Donors have suspended payments on existing projects and halted new ones, costing the Myanmar economy up to USD 3 billion per year and delaying electrification, access to clean water, agricultural support and vocational education, among other projects. Direct budget support on education and nutrition has been suspended. Still, the international community has taken modest action against the Tatmadaw specifically.

As of mid-April, Canada, the United States and the UK have added several names to the list of designated individuals whose assets can be frozen, sometimes listing specific businesses they own. They have also taken largely symbolic measures to sanction military conglomerates MEC and MEHL, whose business is primarily domestic, as well as the Myanmar Gems Enterprise, which is essentially a state regulator and tax collector, the Myanmar Timber Enterprise and the Myanmar Pearl Enterprise. Nearly two months after the coup, European governments sanctioned 10 individuals along with MEC and MEHL.[2] South Korea has suspended defence exchanges and banned arms exports. Australia suspended its minor defence cooperation but has not imposed additional sanctions. More significantly, the U.S. has frozen approximately USD 1 billion in central bank reserves held in New York.

Companies that have acted against military interests

The international private sector has arguably taken stronger action. Several companies have voluntarily suspended contracts with the military or the Myanmar state, which today, under SAC, cannot be distinguished from the military. For example, Singapore-based TRD consulting cancelled its contract with Yangon International Airport, stating that "we have no plan to supply anti-drone products to Myanmar until a lawful society is reestablished." Singapore-based Puma

[1] CDM has not harmed all military businesses. MEC-operated container trucks are still moving and able to charge eight times the normal rate because few other trucks are operating, partly because truck drivers at other companies are afraid of social punishment if they work.

[2] Other sanctions were already in place before the coup, such as an arms embargo, export ban on goods that could be used by the military, and an export ban on monitoring technology.

Energy Group, Myanmar's sole jet fuel supplier, suspended operations.[3] French power company EDF has suspended its USD 1.5 billion Shweli-3 hydropower project in Shan state, citing a breach of fundamental human rights. German technology company Giesecke+Devrient suspended delivery of material to produce banknotes to the state-owned security printer. S&P Dow Jones has suspended Adani Ports from its sustainability index after it was revealed that the company made payments to the military. Singaporean tycoon Lim Kaling has pulled out of a cigarette manufacturing joint venture with military-owned MEHL.

The international community continues to dither on forceful action against the Tatmadaw in response to the coup. While domestic politics and the complex logistics involved in imposing sanctions may be contributing factors, foreign governments and some domestic actors may not have adequate information on the military's financial pressure points. This brief attempts to inform that discussion. Understanding the Tatmadaw's revenue sources is not only critical to making sanctions and other forms of economic pressure more effective but also for acknowledging trade-offs and their limitations.

Military revenue and foreign currency sources

The military currently has access to nearly unlimited domestic currency. After all, it controls the treasury, budget allocations and the central bank. In theory, the military can raise Myanmar kyats simply by monetizing the debt (i.e. the central bank purchasing state debt) or requiring that state-owned banks, such as the Myanmar Economic Bank, purchase larger quantities of government debt. It is rumoured that the SAC regime has also pressured domestic banks and wealthy Myanmar residents to buy government bonds at the regime's preferred interest rate. Now that SAC directly controls all government licensing powers, bond sales can be induced through a combination of preferential access to business licenses and tendering opportunities, and threats, such as bank nationalisation or reduced access to licences and opportunities.

While excessive debt monetization could lead to high inflation over the medium-term, cash is now being hoarded by citizens and is therefore not circulating or being deposited in banks, largely due to persistent uncertainty and declining incomes. Furthermore, formal credit growth has come to an almost complete halt since private businesses cannot currently obtain bank loans due to restrictions of bank operations, banking sector fragility, and high risk premiums resulting from economic and political uncertainty. These two effects are putting a check on inflation. Monetizing the debt can provide the military with adequate domestic resources to finance its activities for many months if not years, though not indefinitely.[4]

The military does not, however, have access to unlimited foreign currency. Foreign currency is important to the Tatmadaw since it not only pays for military equipment (e.g., tanks, guns) and supplies (e.g., fuel), but is also needed to service military-owned companies that rely on foreign inputs. For

[3] The military has confiscated Puma Energy's infrastructure and used intimidation to force employees back to work to unload alternative sources of jet fuel.

[4] There are signs of high inflation for some goods already, though this is likely caused by supply challenges and a shortage of foreign currency rather than debt monetization.

example, military-owned factories rely on foreign equipment to keep functioning while military hospitals purchase medication from abroad. The SAC regime must also continue to service foreign debts, especially to China which owns 30% of Myanmar's sovereign debt at comparatively high interest rates.

Foreign currency stocks available to the military

The military's existing stock of foreign currency is difficult to verify. The IMF estimated that the central bank held USD 5.7 billion in reserves as of September 2019. Around USD 1 billion of these assets are held at the US Federal Reserve and were frozen by the US government in early February 2021. One person familiar with Myanmar foreign reserves confirmed that other foreign reserves were primarily held by three Singaporean commercial banks, Development Bank of Singapore, United Overseas Bank and Overseas Chinese Banking Corporation. Presumably, the military has access to these reserves since the Singaporean government has, to date, been unwilling to identify or freeze Myanmar state assets.

Prior to the coup, Myanmar had enough foreign reserves to maintain imports for three months. However, since then, exports have shrunk, import demand has crashed, and the military has confiscated much of the country's foreign reserves.[5] The scarcity of foreign exchange is evident in the 20% depreciation of the kyat versus the US dollar between 1st February and 19th April 2021, despite limits on kyat withdrawals and hoarding of cash.

The military has chosen to retain foreign reserves for its own needs rather than make them available to commercial banks to finance imports of fuels and other essential goods by the private sector, as the Central Bank of Myanmar had been doing for several years prior to the coup. Given that none of the military-owned companies are known to hold significant foreign assets—and are unlikely to given that the entire Myanmar private sector held approximately USD 2.2 billion in net foreign assets as of 2019—we can reasonably assume that SAC has direct access to approximately USD 4 billion in foreign currency.

How long can the USD 4 billion last without additional foreign currency inflows? Myanmar imported roughly USD 28 billion of goods and services in an average year, including USD 3 billion in fuel, more than USD 500 million in medication, USD 1 billion in cooking oil, and USD 1.2 billion in meat and vegetables. Prior to the coup, the textile and footwear industries generated a quarter of all foreign currency inflows for the country, a source that has all but dried up since February 1st. The natural resource sector, mainly natural gas but also metallic minerals, gems and forestry products, represented another quarter. Capital inflows into the domestic banking sector (now negligible due to financial sector vulnerabilities), foreign borrowing (now more expensive due to higher risk premia) and donor funding (partly suspended) represented another quarter, filling the trade deficit.

[5] Official exports shrunk by more than 20% and imports by more than 35% since October 2020.

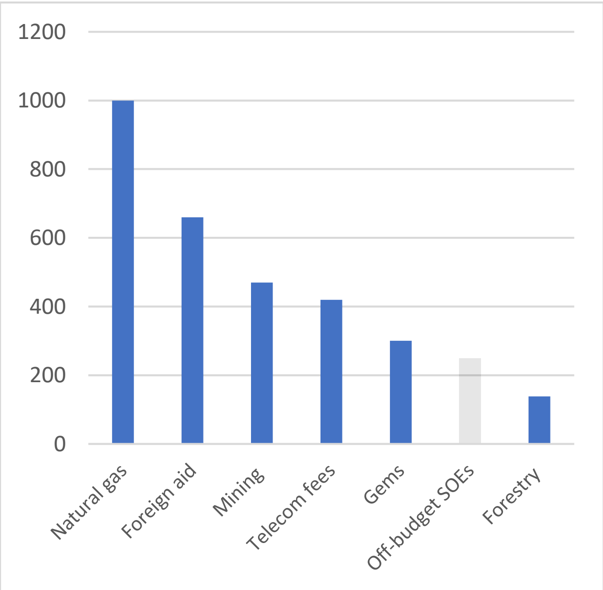
In short, without new foreign currency inflows, the military will soon need to ration foreign currency. The SAC regime will need to choose between purchasing fuel, medication, equipment and food for itself and providing foreign exchange liquidity for the rest of the population. Official state media has already signalled as much, suggesting that Myanmar needs to produce more palm oil, food, "personal goods" and hydro- and solar power to "cut spending on foreign exchange".

Foreign currency flows available to the military

The military earns foreign currency from three sources which we will examine in detail: (1) Official state foreign currency inflows; (2) Export of goods and services by military-owned companies (e.g., MEC, MEHL); and (3) Export of goods and services by companies owned by military officials.

Official state foreign currency inflows. Natural resources—oil, gas, minerals, gems and forestry products—represent more than a third of Myanmar's exports. However, this statistic undervalues their importance to the military, especially since the coup. Natural resources, especially natural gas, represent by far the largest sources of foreign currency available to the SAC regime. In 2017/18, oil and gas generated approximately USD 1 billion in foreign currency for the Myanmar state. The Yadana field is fast depleting and Yetagun production just stopped, but the other two fields, Shwe and Zawtika, are near peak production. Development of the promising A-6 bloc has been suspended by operators Woodside and Total. Natural gas revenues in Myanmar are not particularly sensitive to fluctuations in regional gas prices, meaning it is reasonable to assume that the SAC regime will earn approximately USD 1 billion annually from natural gas exports for the next few years.

State foreign currency earnings in most recent year (million USD)



The mining sector generated about USD 470 million and the gems sector made USD 300 million, notwithstanding the state collecting approximately 10% of royalties and taxes legally due on jade. The forestry sector generated another USD 138 million in foreign currency.

In 2020/21, licence fees from telecoms operators were expected to be USD 420 million, mostly paid in foreign currency. This is lower than in some previous years, when the government received large payments from telecom companies for their initial licence fees.[6]

In countries with underdeveloped tax collection systems, customs receipts often make up a large share of revenues as they are relatively simple to

[6] For example, Telenor paid USD 500 million for its initial license, Ooredoo paid USD 1 billion and Mytel paid USD 300 million.

collect. However, Myanmar has long been weak in collecting customs revenues; they were projected to be USD 400 million or 6% of total tax revenue on 2020/21, prior to the coup.

The state also earns foreign currency through port fees, shipping and Myanmar National Airlines sales. However, each of these is controlled by an off-budget state-owned enterprise that retains 55% of profits and does not submit financial information to the Ministry of Finance, Planning and Industry. Net foreign earnings from these entities remain unknown. However, MNA is currently unprofitable and trade earnings are down significantly from previous years.

Of donor funding—worth up to USD 3 billion a year (not including aid from China)—roughly USD 660 million was destined for the Union budget in 2020/21. The Ministry of Health and Sports and Ministry of Construction were each due to receive a quarter of foreign aid. Many bilateral and multilateral donors, including the EU, Asian Development Bank and World Bank, have suspended official development assistance payments immediately. Most donors have suspended all future projects.

That said, there are few constraints on the SAC regime's continued ability to borrow from external creditors. While bilateral and commercial loans from many countries as well as multilateral development bank loans are unlikely to be approved for political reasons, Chinese and Russian creditors, for instance, remain willing to lend to the SAC regime. Prior to the coup, the Union was borrowing from bilateral and private sector creditors at lower interest rates than many other governments in lower-middle income countries, even without publicly traded sovereign debt or a credit rating. This was partly a reflection of Myanmar's long history of tight fiscal policy. For instance, in the mid-2010s, China Development Bank charged 4.5% on 15-year yuan and euro loans channelled through the Myanmar Foreign Trade Bank (MFTB), while the Indian government charged 1.75% over 25 years. The economic impact of the coup and COVID-19 have likely made credit more expensive for the Union, but they have not cut Myanmar off from external financing.

MEHL and MEC foreign earnings. Military-owned and controlled conglomerates MEHL and MEC are much less profitable than is widely assumed. Based on leaked documents and publicly available data, we estimate that the MEC parent company earns approximately USD 30 million in profits in an average year whereas the MEHL parent company earns about USD 100 million.

Both MEHL and MEC have dozens if not hundreds of subsidiaries. While the companies' corporate structure remains opaque, we assume that parent company profits represent a share of subsidiary profits that are paid as dividends to the parent and then distributed to shareholders. MEC profits likely pay for military equipment while MEHL profits are distributed to acting and retired military personnel.

Of the businesses that collect significant foreign currency, MEHL-owned jade, gemstone and mining interests—such as the Myanmar Imperial Jade Company, Myanmar Ruby Enterprise and minority shares in the Letpadaung copper mine—earn between USD 100-500 million per year. Military income from travel and tourism are estimated at between USD 5-40 million per year, while land rents and port joint ventures earn between USD 50-300 million per year. Subsidiaries operating in the timber sector, such as Myanmar Rubber Wood Company, earn negligible profits; some, like Kanpauk Oil Palm Estate and Palm Oil Mill Project, are losing money.

We estimate that prior to the coup MEC and MEHL subsidiaries earned roughly another USD 200 million annually from purely domestic sales (e.g., Dagon Beverages Company, Myawaddy Bank, Mytel, Aung Thitsa Oo Insurance, Bandoola Transportation Company). MEHL and MEC are likely to suffer financially with a possible 80 to 90 percent decline from Myanmar Brewery, Myawaddy Bank and Mytel due to domestic consumer boycotts. The combined effects could be to reduce MEHL and MEC domestic revenue by between USD 100-150 million.

Based on our estimates, the Tatmadaw could earn as much as USD 850 million in foreign currency through MEC and MEHL in a good year, though it is more likely that foreign earnings are less than USD 300 million per year. Given the collapse of the tourism industry, a drop in real estate prices, loss of land rental revenue from some foreign investors, and weak gems prices relative to the mid-2010s, foreign revenues are estimated to be down significantly this year. Foreign currency earning would drop even more if Ethnic Armed Organizations were to take full or partial control of key mining areas. In short, the military cannot rely on MEC or MEHL to cover its immediate foreign currency needs.

Military officials' businesses. The Tatmadaw's senior leaders nearly all have private businesses, some of which earn foreign currency. While the profits of these companies are not necessarily available to the military as an institution, the sums are so large as to justify inclusion. Put simply, these revenue streams are likely those that military leaders are most keen to protect.

While military-owned businesses dominate several domestic sectors—including medical supplies, big-budget movies, construction, ecommerce and internet infrastructure—only a fraction earn significant foreign currency. Among these are companies involved in tourism. Military officials are known to own the Azura Beach Resort and the Mrauk-U Hotel, for example. However, the coup, COVID-19 pandemic and consumer boycotts have hit the military-owned hospitality industry hard; these enterprises are unlikely to be profitable at the moment.

The jade and gems trade represents by far the largest source of foreign currency for military leaders and their families. Official export data suggests a modest trade of roughly USD 250 million to USD 1.8 billion per year, with 2014 as an outlier when USD 12 billion in jade and gems were exported. However independent estimates suggest a jade trade 3 to 14 times higher than official figures in an average year (not including 2014) due to undervaluation and smuggling to the Chinese border. Similarly, 60 to 80 percent of gemstones produced in Myanmar bypass the formal trading and export system.

Many military leaders are involved in the trade. As one official put it, "If military families do not have a jade mining company, the others will kick them out. Those without one will be seen as black sheep. They will not be speaking the same language." For instance, former dictator Than Shwe's family and several members of his cabinet own dozens of large mining concessions in Hpakant, the largest jade mining area. The current military-appointed "acting president", Myint Swe, also likely has jade interests. The 2013 and 2014 gems emporiums earned just three military families USD 440 million in gross sales.[7] Jade prices and production have declined substantially since 2013/14, implying that profits are much lower than in the early- to mid-2020s, however they remain substantial.

The forestry industry officially generates between USD 350 million and USD 1.65 billion per year in exports over the last decade. However, like in the gems sector, actual timber exports may have been as much as 15 times official figures in certain years, especially since 2014 when the government banned the export of raw logs and export outside Yangon. Logging concessions along Myanmar's borders are predominantly allocated to local elites, which includes military officials and also crony companies and local militia leaders. Military officials also receive kickbacks for granting subcontracts on Myanmar Timber Enterprise concessions. While much of the timber produced in the central regions of Myanmar is legally exported through Yangon, the timber produced in the outlying states is generally illegally transported directly across the border to China or Thailand. The largest beneficiaries of this trade are the militias and Border Guard Forces allied to the Tatmadaw.

The metallic mining sector also generates some private revenues for certain military officials. For example, companies owned by officials are sometimes subcontracted by mine owners, including MEC and MEHL. Metallic mines in areas outside official state control also generate enormous revenues, though it remains unclear how the profits are distributed. For instance, Myanmar accounted for 39% of global heavy rare earth element production in 2020, though the government did not collect any revenues from these mines.[8] Many illegal mines are in territory controlled by Border Guard Forces and militias, some of which are allied to the Tatmadaw. The scale of military benefits from illegal mining activity is unknown.

The military as an institution is not known to earn significant profits from the illegal narcotics trade; the main benefit of preserving the sector is that it finances many of the most important militias that fight on the military's behalf in Shan State, and to a lesser extent some militias and Border Guard Forces located elsewhere. That said, some Tatmadaw commanders earn significant kickbacks from the drug trade. Moreover, drug money–primarily now from methamphetamines but also other synthetic drugs and heroin–has continued to play a significant role in Myanmar's economy, especially in the property market. The methamphetamine trade is worth several billion dollars per year and the opium / heroin trade is worth roughly USD 1 billion per year for the Myanmar economy. Given the collapse of legal commercial activities in Myanmar, the relative importance of drug money is likely to rise, and with it a potential source of financing for the military state, as well as a source of private sector investment.

Potential military response

We project that on-budget revenues this year could fall by between USD 5.3 and 8.3 billion, mostly in domestic currency. This represents a decline of around 25-40% relative to the revenues that could have

[7] These figures may under- or over-estimate benefits accruing to military families. They exclude illegal sales from smuggling. However, they also exclude the share of revenues that must be distributed to joint venture partners or contractors.

[8] Disaggregated mineral revenue data covers 2013-18.

been anticipated in the absence of a coup. These estimates assume that the SAC regime continues to collect natural resource revenues and that effective sanctions are not imposed by the international community.

The first step SAC is likely to take is to cut allocations to low priority ministries and those that require foreign inputs. The enormous USD 6.3 billion electricity budget, which makes up a full 30% of the government expenditure, is a prime target. In 2019, the Union government reformed electricity pricing, eliminating subsidies to households consuming large quantities of electricity. These subsidies previously accounted for well over half of the Ministry of Electricity and Energy's (MoEE) expenditure. However, since the pricing reform, spending by MoEE and its state-owned enterprises has not appreciably declined. This could reflect increased investment in expanding the grid, renovating the existing grid, spending on emergency power production, and/or investing in new plants for long-term power production, all requiring foreign currency. It also likely reflects the fact that there is widespread theft of electricity in Myanmar, which limits the impact of tariff reform.

Construction spending is likely to be cut and reoriented away from low-cost housing to roads, bridges and other infrastructure projects that are high priority for the military and require few foreign inputs. If some official creditors recognize the National Unity Government (NUG) as Myanmar's legal government, SAC may decide to stop repaying loans to those creditors. Education, health and municipal affairs ministries are unlikely to be much affected since they use negligible amounts of foreign currency. The Ministry of Defence and Ministry of Home Affairs received more than 15% of the Union budget between them last year; that share is expected to rise.

Directives issued by SAC in early March appear to indicate that it is also prepared to raid private banks to seize control of their private bank accounts, namely those of NGOs and merchandise traders. These accounts may be transferred to MEB and/or the military-owned banks. Despite SAC's claims in February that it will not nationalise the banks, the SAC regime could nationalize deposits or enforce directives that bankrupt private banks that are not sufficiently sympathetic to the regime. Confiscating a share of private banks' foreign assets would be relatively simple since some of commercial banks' foreign currency is already held with state-owned Myanma Investment and Commercial Bank (MICB) and Myanmar Foreign Trade Bank (MFTB).

Many of the Myanmar state's most valuable assets were sold off in the 1990s and 2000s, meaning the SAC regime cannot raise much capital from asset sales. Further, widespread instability and insecurity are depressing asset prices and the National Unity Government considers void any investment agreements signed between domestic or foreign companies and SAC. Nevertheless, if SAC is desperate, it could sell some state land holdings or rights (e.g., fishing concessions, mineral production licenses, forestry concessions, hydro power concessions) or some remaining low-value state assets (e.g., railways, dams).

Implications for CDM

CDM measures are having a large impact on the economic life of Myanmar citizens, especially actions related to transport, trade, finance, basic service provision and industrial action at private factories. Action is most effective when it minimizes the impact on the average Myanmar citizen but still signals opposition to the military. Boycotting goods and services where an alternative is readily available—such as Mytel, Myawaddy and Innwa banks, Red Ruby and Premium Gold cigarettes, military beer brands, military-owned restaurants and hotels, and certain tea and coffee mixes (e.g., Shwe Phe Oo teamix, Pyin Oo Lwin coffee)—achieves these objectives.

That said, CDM alone is unlikely to convince Tatmadaw leaders to negotiate or give up power. As documented in this brief, the military retains significant access to domestic currency and foreign reserves. Many former and serving senior military officials' have accumulated considerable private wealth, insulating them from economic shocks.

Implications for the international community

Even before the coup, foreign currency payments to the Union government disproportionately benefited the military. Much of the up to USD 2.6 billion Ministry of Defence budget was used to buy arms, ammunition, fuel and equipment from foreign suppliers. The decline in export revenues from non-natural resource sectors means that the military will rely even more on several large-scale official flows of foreign currency, specifically from the natural gas, gemstones, metallic minerals and telecom sectors. Given our estimates of foreign currency stocks and flows, the military's ability to maintain its historical rate of foreign spending on itself would not be hampered for at least several years without sanctions.

Effective sanctions limiting the SAC regime's ability to collect revenues from natural gas, mining, forestry, shipping (including port fees) and airlines could change the military's calculus. It would cut off roughly USD 2 billion per year in financing for the military. Chinese sanctions on jade sales and a crackdown on purchase of smuggled jade, gems, metallic minerals and forestry products would be equally significant, though are unlikely to be enacted. Cutting the SAC regime off from foreign credit could also be key, but would require substantial international agreement.

The military has demonstrated that it is willing to impose enormous suffering on the general population in order to maintain power, even without sanctions limiting its access to foreign currency. It controls enough foreign currency today to pay for basic necessities such as food and fuel for the population, but has chosen to stockpile these funds for itself rather than make foreign exchange available to those who need it most. With foreign currency already scarce and the military prioritizing its own purchases, additional sanctions on foreign currency inflows to the SAC regime may force the military to compromise on its own needs without causing significant additional harm for the average Myanmar citizen. Alternatively, it will be forced to respond in a manner that undermines its objectives and strengthens opposition to the regime.