

**POLITICAL ECONOMY OF U.S. SANCTIONS TOWARD MYANMAR: A  
COMPREHENSIVE STUDY**

By

**WAI SETT, Han**

**THESIS**

Submitted to

KDI School of Public Policy and Management

In Partial Fulfillment of the Requirements

For the Degree of

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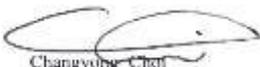
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**Dedication**

To Professor Kim, Byoung-Joo and Professor Kim, Taejong for providing guidance on the whole research

To Dr. Zaw Oo for his excellent leadership

To my parents and family for the support from the distance

To Pyae Pyae Phyo for her love and encouragement

To Ko Swe Set for stimulating the inspiration

**Abstract**

Do international sanctions make difference? This has been one of the central questions long debated in foreign policy circles and international relations academia. In this regard, the U.S. sanctions toward Myanmar is an important case involving the policy goal of regime change and democratization. This study focuses on three central questions: What is the economic impact of U.S. sanctions on Myanmar's export? How did the military regime respond politically to the sanctions? What is the overall degree of effectiveness of U.S. sanctions in achieving the policy goal? As from the first attempt, it is found that the main hypothesis of U.S. sanctions being ineffective in impairing Myanmar's export cannot be rejected due to significant results of increased export to non-US countries during the sanction period despite the zero export to the U.S. according to the gravity model analysis. However, the growth rate of Myanmar's export can be concluded as a slower rate when it is compared with the neighboring countries especially when newly industrializing countries such as Thailand and Malaysia are included in the analysis. The second attempt of analysis on the export structure proved that Myanmar become more dependent on natural resource exports especially natural gas and gemstones mainly to Thailand and China. From this analysis, it can be summarized that the military regime's responses to the U.S. policy actions manifested the high degree of political impact of sanctions.

**Keywords:** U.S. Sanction; Myanmar; Gravity Model; Political Economy

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## **I. Introduction**

Do international sanctions make difference? This has been one of the central questions long debated in foreign policy circles and international relations academia. In this regard, the U.S. sanctions toward Myanmar is an important case involving the policy goal of regime change and democratization. After 22 years of different episodes, the policy goals of the U.S. seem to be achieved despite the glitches observed in the constitution and the change process itself; the policy shift and the waiver process took 7 years after the first signal for engagement by the Secretary of State Hilary Clinton. This study was inspired by the unique political economy pattern of the U.S. sanctions toward Myanmar which stimulates to go deep with possible analyses that can explore certain impacts it has made to the nation. The aim of this study is to provide a comprehensive view of the case of U.S. sanctions toward Myanmar through analyses with different lenses. This study focuses on three central questions: What is the economic impact of U.S. sanctions on Myanmar's export? How did the military regime respond politically to the sanctions? What is the overall degree of effectiveness of U.S. sanctions in achieving the policy goal?

The first attempt is to test the hypothesis that U.S. sanctions were not effective in impairing Myanmar's export as the trade went up with other countries during the sanction period. This was brought about by the gravity model analysis on Myanmar's export for the changes before and during sanctions. It also looked for the comparison with neighboring countries, Thailand, Malaysia, Vietnam, Cambodia and Bangladesh to check the validity of argument with the regional trend. The second attempt to explain the economic impact of sanctions on Myanmar's export is an inquiry on the drivers of export before and during sanctions. In this sense, the study went into details such as changes in the export structure and trading partners. The third attempt is to understand more about the other side of the story through the analysis on the political impact of sanctions on Myanmar. The idea is to check

the U.S. policies after major historical events and the response pattern of the military regime to different levels of sanctions. Finally, this study attempted to assess the overall political economy impact using the analytical framework developed by Hufbauer et. al. in their great study of “Economic Sanctions Reconsidered (2007)”. The original case analysis for their study was reviewed and revised based on changes in the situation till present time to draw consistent conclusion on the success of U.S. sanctions toward Myanmar.

In the next section, the background information of the study was provided briefly followed by the general theory of economic sanctions in Section III including the nature of this foreign policy tool and the evaluation of success. In Section IV, it summarizes the brief overview of U.S. sanctions including the political background of Myanmar. In Section V, it provides the list of previous studies of U.S. sanctions toward Myanmar and other papers that used the gravity model to analyze Myanmar’s trade. In Section VI, the study provides the gravity model analysis and the further look into the export structure. In Section VII, the study uses the timeline as a political analysis of U.S. policy actions and reactions of the military regime continued with reviews and revisions of the analytical framework of Hufbauer et. al. In Section VIII, there is a brief conclusion that also includes the gaps of this study.

## **II. Background**

On October 7, 2016, one of the great news for the nation of Myanmar was directly aired from the White House. It was President Obama who revoked all the previous executive orders and waived the remaining sanctions toward Myanmar under the JADE (Junta's Anti-Democratic Efforts) Act 2008 by announcing the termination of the national emergency (The White House Office of the Press Secretary, 2016). This was the greatest turning point in the bilateral relations since last three decades which visualizes the brighter future of the relation of two nations; Washington’s Policy before this day can be described in one word as “sanction”. This was also the final step of deleting that very word, “sanction,” which was

executed as the bit-by-bit waiver process since 2012. The State Counsellor Aung San Suu Kyi, herself, witnessed this historic announcement during her visit to the U.S.

Before this day, 28 years ago, the nation of Myanmar faced the national tragedy of losing so much blood of sons and daughters in the coercive crackdown of the 8888 uprising. During the next one or two decades, the nation could hardly find a warm and friendly diplomacy from the U.S. and the West as they put continuous pressures to restore democracy and to demand Aung San Suu Kyi, the opposition leader who was detained under house arrest for many times, and other political prisoners back on the stage. In this regard, “sanction” was the language they mainly spoke to State Law and Order Restoration Council (SLORC), later renamed as State Peace and Development Council (SPDC), the military junta ruled till the end of 2010.

It is known that the nation was alienated in the international community and notorious for military generals’ power in politics and economy; they were denoted frequently as villains in the international media. However, the nation had gone through these dark days until the new constitution was materialized by the power transfer to the civilian government in 2011. Even though there was a big doubt on President Thein Sein administration which was composed by the former military generals, the reforms were visible enough to make it possible to shift the Washington’s Policy; President Obama witnessed the change.

### **III. Theory of Economic Sanctions**

Throughout the history, economic sanctions have been a political tool in the case of offense toward a certain nation. The first enforcement of statecraft which can be denoted as an economic sanction, so far, is observed in Greek city states dated in 432 BC. Even though historians argued about different causes of the Peloponnesian War between Athens-led Delian League and Sparta-led Peloponnesian League, the Megarian Decree was the important turning point in power dynamics as it aimed for the economic pressure toward Corinthians

who were members of the later party. Under the decree proposed by Pericles and approved by the Athenian Assembly, the small, landlocked polis called Megara, the supporter of Corinth, was embargoed prohibiting the access to Athenian markets and ports (Bonner, 1921).

From the Peloponnesian War till the World War 2, sanction regimes were enforced as a prewar or war-complementary statecraft. It was only since the Post-war era when the sanctions were categorized as a foreign policy motive and an alternative to war (Hufbauer, Schott, Elliott, & Oegg, 2007). In modern days, objectives of economic sanctions vary from modest policy goals such as anti-terrorism, anti-narcotic, democratic regime change and human rights promotion to settle expropriation claims, and cybersecurity. The economic pressure is strategically imposed to disrupt military adventures, enhance nonproliferation of weapons of mass destruction and nuclear weapons, or impair the military capability by limiting the dual-use technologies or war resources (Hufbauer, Schott, Elliott, & Oegg, 2007).

Sanctions are defined as “the withdrawal of customary trade and financial relations for foreign and security policy purposes” (Masters, 2015). Major powers consider sanctions as an alternative of the lower cost and risk to the military action when the national interest for taking action is less than vital or the diplomatic action is not feasible. However, this very tool is used to coerce, deter, punish, or shame “target” entities that threatens the national interests of the “sender” or the international order. Sometimes sanctions are also imposed to buy more time before the international system can activate full fledge intervention (Masters, 2015).

When the sender imposes a sanction on the target, the interest of the sender is not merely showing disapproval toward the actions of the target. Economic sanctions normally have a triple signal toward target, allies and domestic constituencies; the enforcement is differently meaningful for different parties (Hufbauer, Schott, Elliott, & Oegg, 2007). To allies, the sender implies that it is still a trustworthy partner who can ensure deeds after words and violation of the interests of the league is not tolerated. To domestic constituencies,

imposing sanction means the government is doing something to safeguard the nation's vital interests; pleasing voters is the essence of liberal democracy. In such case, the use of sanctions as a foreign policy tool should be debated if it is instrumental or mere demonstrative.

In the theory of economic sanctions, there has been a long debate on defining the success. The two big questions, in this case, would be on the standard for and degree of contribution by sanctions. The set of success of factors are different based on the standard for sanctions, instrumental or demonstrative, which must be viewed with different deductive lenses (Pape, 1997). Even if the foreign policy goals are met, another question on the composition of exogenous and endogenous factors should be considered for the degree of contribution by sanctions.

Even though sanctions are used extensively till nowadays, these episodes are not complete solutions and, in many cases, the success is less obvious. Hufbauer et al. proposed several possible limitations based on the study of previous experiences of the United States as a sender. It is to be highlighted that the problem lies in the sender itself when the ends it aimed and the means it conducted are, often, unmatched. It is clear that the higher the aims the stronger the action should be. No matter how sanctions are well-crafted, there are always antidotes that allow targets to avoid impairment impacts; citizens of the target may rally for unification in support of target regime; commercial alternatives in the form of trade diversion toward other countries may substitute the previous trade creation with the sender (Hufbauer, Schott, Elliott, & Oegg, 2007).

The role of other actors such as sender's allies and target's allies also determines the success of sanction episodes. Hufbauer et al. denoted target's powerful allies who support the target during sanction to offset the hostility as "black knights"; sender's allies may also perceive as alienated if they have a desire to continue the trade with the target, a conflict of

interest with the sender (Hufbauer, Schott, Elliott, & Oegg, 2007). In some cases, the interests of domestic businesses of the sender may even be compromised for political and foreign policy purposes which may lead to domestic resistance toward sanctions to the target.

#### **IV. U.S. Sanctions Toward Myanmar**

##### **A. Political Background of Myanmar During Sanction Period**

In modern days of Myanmar, the year of 1988 left a big scar in the country's history. The biggest pro-democracy uprising initiated by the student movement spread out the whole nation which was contained coercively by the military regime killing thousands of civilians; the new military regime was formed as "State Law and Order Restoration Council (SLORC)." In 1990, SLORC held the multiparty election in which the National League for Democracy (NLD) led by Aung San Suu Kyi, who was detained and put under house arrest in 1989, won 82 percent of the seats. But SLORC threw out the election results and held the military-dominated National Convention in 1993; hundreds of pro-democracy activists including elected members of the parliament were arrested. In 1997, Myanmar became the member state of the Association of South East Asian Nations (ASEAN) and the military regime was renamed as the "State Peace and Development Council (SPDC)." For Aung San Suu Kyi, since 1995 release, she was put under house arrest for two more times, in 2000 (released in 2002), and in 2003 (released in 2010). In 2007, the saffron revolution, a political protest led by Buddhist monks, broke out and again contained coercively by SPDC.

The story of democratic reforms began in 2004 with another National Convention to draft the new constitution with the provision for 25 percent military seats in parliament which was approved in 2008 through national referendum. Since 2011, after the first election in 20 years, the nation started the new face of democratic government even though the military-backed Union Solidarity and Development Party (USDP) won the majority of the seats in the

parliament and Thein Sein became the first president under the new constitution. Along with democratization and political transformation, Myanmar has taken initial steps for its reforms on 1) political, 2) economic and social, 3) public administration and 4) private sector by laying the foundations and frameworks.

In 2012, Aung San Suu Kyi and many other members of NLD party were elected as members of parliament in by-election. The second election was taken place in 2015 in which Aung San Suu Kyi and NLD party won the landslide victory. Recently, she assumed the office as the State Counsellor, the Minister of President Office and the Minister of Foreign Affairs while Htin Kyaw became the new president since Aung San Suu Kyi cannot be president due to the provision limiting presidency of the person whose spouses or children being foreigners.

## **B. Brief Overview of U.S. Sanctions toward Myanmar**

Even though the diplomatic relation went back and forth after the independence of Myanmar, the US policy toward the nation was normalized – granted as one of the countries which enjoyed the Generalized System of Preference (GSP) and the Most Favored Nation (MFN) since 1976 and the U.S. supported with development aids and the International Military Education and Training (IMET) until 1988 (Martin, 2012). The US policy started to change since 1988, when the biggest pro-democracy uprising in Myanmar was contained coercively by the military spilling the blood all over the nation and the new military regime was formed. After the resolutions from the Senate and the House of Representatives, Regan administration suspended all the U.S. aid to Myanmar including counternarcotics programs and arms sales followed by the amendment of the Generalized System of Preferences (GSP) program which stopped the preferential trade and the designation of drug-producing and trafficking country which stopped loans of international financial institutions by Bush administration in 1989 (Martin, 2012).

In response to the ignorance of 1990 election results, the Congress passed the Customs and Trade Act of 1990 which granted presidential authority to impose sanctions by which Bush administration refused the bilateral textile agreement in 1991 (Martin, 2012). As the first time obvious response by SLORC on the threat of possible sanction, Aung San Suu Kyi was released in 1995 after the introduction of the bill of Free Burma Act of 1995. In 1996, Clinton administration issued the presidential proclamation for suspending visas and the Congress approved a new sanction in 1997 for all non-humanitarian assistance, visa ban of government officials and voting against assistance in international financial institutions (Martin, 2012).

The peak of U.S. sanctions episode reached in early 2003 with the Congress approval of the Burmese Freedom and Democracy Act 2003, a full fledge sanction, and the Executive Order of Bush Administration under the Act after the forceful crack down of Aung San Suu Kyi and NLD leaders (Martin, 2012). After the saffron revolution 2007, the Congress passed the Tom Lantos Block Burmese JADE (Junta's Anti-Democratic Efforts) Act and two Executive Orders were also issued by the Bush Administration.

Following the democratization process in Myanmar, President Obama appointed a new ambassador in 22 years, announced the waiving of “bans on the exportation of financial services and new investment,” and “the ban on imports” except those blocked by the JADE Act and Executive orders, and the Congress passed the law to grant the presidential authority to waive IFI assistance in 2012 (Martin, 2013). In 2013, President Obama issued another executive order to withdraw the general prohibition of imports other than jadeite, rubies or jewelries containing them and waive the financial sanctions (Burma Sanctions Program, 2015). Finally, on October 7, 2016, President Obama announced the termination of the national emergency and revoked all sanctions toward Myanmar after the meeting with the State Counsellor Aung San Suu Kyi (The White House Office of the Press Secretary, 2016).

## **V. Existing Studies**

Given the political situation and the U.S. sanctions episodes described earlier, the political economy of Myanmar has changed dramatically during two decades. Especially, the U.S. sanctions had a huge impact on the country's trade flows both in products exported and trading partners. In 2000, textile and apparel export was 42% of total exports of the country which became less than 10% in 2011 while the growth in minerals, oil and gas sector export was substantial from 6% to 39% within 10 years (Anukoonwattaka & Mikic, 2012). During the sanctioned period, Myanmar's export was pushed up over last decade not only to Thailand and China but also to India with the primary sector products for major proportion of above 60% in 10 years including natural gas, beans and wood logs (National Export Strategy of the Republic of the Union of Myanmar 2015-2019). That makes the country's export vulnerable to the shocks in Thai market and Sino-Myanmar relations. Moreover, other empirical results also showed that Myanmar is more prone to the "Dutch Disease" than other Southeast Asian countries because the counterfactual predicted values of non-resource exports during 2004-2011 are less than the actual exports if the effects of natural resources are taken into account (Kubo, 2014).

In order to further assess the effectiveness of U.S. sanctions toward Myanmar, Nyun conducted a political and economic assessment based on the framework of Hufbauer (Nyun, 2008). From the political perspective, he argued that the U.S. could not influence Myanmar's Asian trade partners, even though their Western allies joined, which offset the sanctions by increased trade with Thailand, China, India and other ASEAN neighbors; U.S. also deteriorated the relationship with Myanmar. From the economic perspective, he analyzed that the U.S. sanctions divested the U.S. political ideas about freedom, democracy and human rights through economic struggle. In addition, prior trade linkages were very limited to impose the immediate cost to the U.S. but U.S. domestic business interests were deteriorated

as a long-term cost undermining the chance of success. Moreover, the foreign policy objectives were unclear putting human rights and democracy at the front, indirectly demanding for regime change, without major improvements in past 2 decades. It was also culturally insensitive to aim for rising up and demanding change in a Buddhist agrarian society which worsened the inequalities between military and civilians. Since Nyun's study using political and economic framework of Hufbauer was conducted in 2008 during the military junta, there is also a room to capture recent changes in political economy of Myanmar both qualitatively and quantitatively.

Furthermore, Myanmar has a strong untapped trade potential due to the weak trade with advanced economies. After the sanction episodes of European Union and U.S., the nation can be reintegrated with the world economy to fill the potential gap faced in last decade (Ferrarini, 2013). Ferrarini also argued that macroeconomic stability, infrastructure and human capital development, financial reform including the foreign exchange regime at home and taking advantage of regional opportunities through adjustments of industrial structure, and full positioning as a natural logistic hub can enhance the export growth and trade diversification.

Even though there are previous studies and literature which assess the impacts of the U.S. sanctions toward Myanmar, there is still a room for the empirical analysis of export patterns before and during sanction period in order to test the ineffectiveness of sanctions to impair the Myanmar economy as a target in the presence of regional "black knights." In this regard, the gravity model of international trade can be used to analyze attribution of sanctions on Myanmar's export over different periods and toward different trade partners. However, Ferrarini's study and Kubo's study, mentioned above, have already applied the gravity model to generate the counterfactual analysis on Myanmar's trade potential. In this study, the

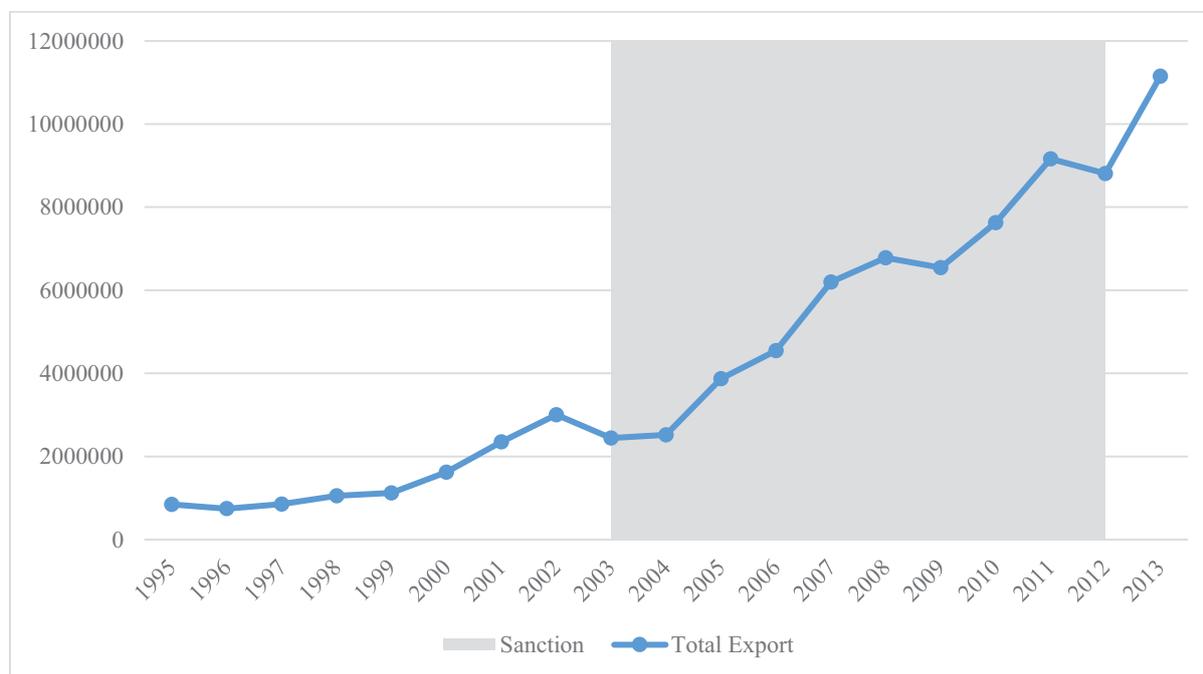
gravity model will be applied to analyze the direct impact of sanctions on the export to non-US countries rather than counterfactual predictions.

## VI. Economic Impact of U.S. Sanctions toward Myanmar

### A. Overview of the Myanmar's Export Trend

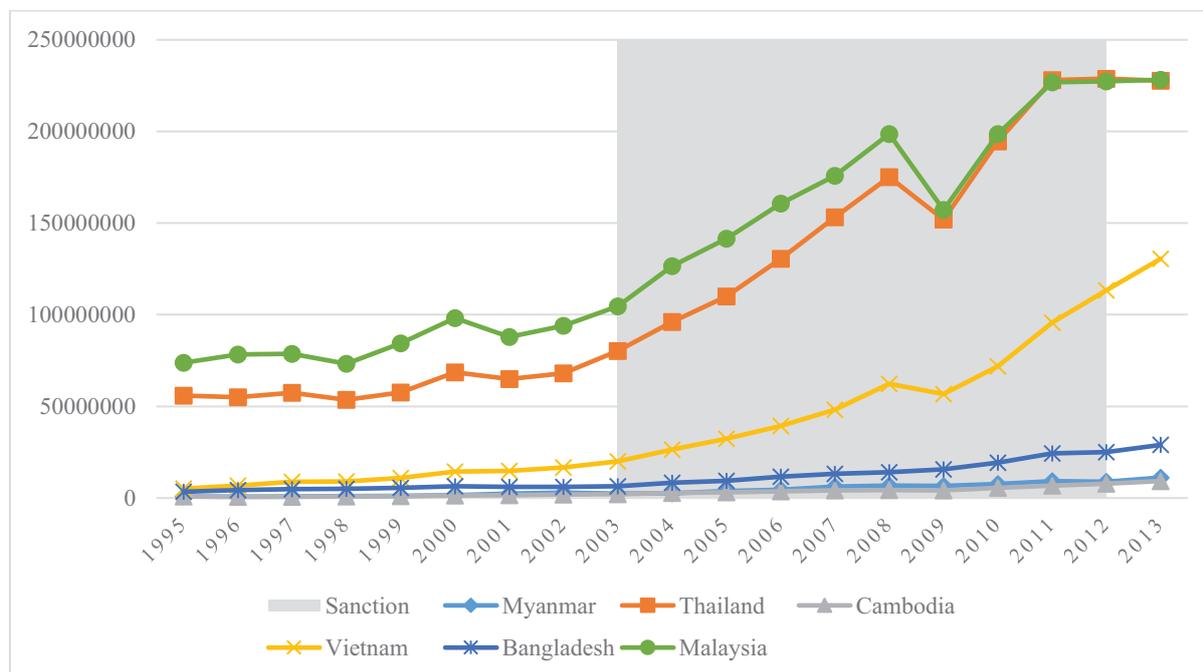
Before the deeper regression analysis using the gravity model, the growth pattern of Myanmar's export can be reviewed as a prima facie case. Figure (1) describes how Myanmar's export to all trading partners for all commodities changes from 1995 to 2013. The overall trend can be interpreted as an exponential growth since 2000 resulting a ten-fold increase to \$11,152,167 in 2013 from 1999-volume of \$1,121,195 despite the sanctions imposed by the U.S. starting from 2003.

Figure (1) – Myanmar's Export Volume to All Trading Partners (1995-2013)



Source: UNCTAD, UNCTADstat (2016). Retrieved from <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>

Figure (2) – Export Volumes of Myanmar, Thailand, Cambodia, Vietnam, Bangladesh and Malaysia to Top 20 Trading Partners (1995-2013)



Source: UNCTAD, UNCTADstat (2016). Retrieved from <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>

In Figure (2), when the growth rate is compared with other countries with the similar level of initial export volume in 1995 such as Bangladesh and Vietnam, it is found that Myanmar was growing at a much lower rate like Cambodia. Despite the differences of initial export volume in 1995, Thailand and Malaysia can be displayed as the countries of export success and Myanmar’s export growth can be analyzed as being slow rather than significantly exponential in comparison with the neighbors during the period of U.S. sanction.

**B. The Gravity Model Analysis**

The gravity model has long been used for the empirical analysis of international trade flows. Since after the introduction by Tinbergen (1962), thousands of studies proved the impacts of different political, economic and geographical variables on the trade flows including economic sanctions. The name “gravity” comes from the Newton’s law of gravity

which bears the similitude as the exports being directly proportional to the economic mass of two countries and inversely proportional to the distance (Shepherd, 2012). In this study, the usual heavy-duty trade analysis tool, the gravity model, is used as the first attempt to answer the question of the impact of U.S. sanctions toward Myanmar. It is to analyze the economic impact of U.S. sanction by interpreting its impact on Myanmar's export to all trade partners other than U.S. in comparison with the trends before the sanction period and also in comparison with the trends of neighboring countries – Thailand, Cambodia, Vietnam, Bangladesh and Malaysia. From the countries sharing the border with Myanmar, China and India are not suitable candidates to include in the study because of their large economies. Laos is also not one because it is a landlocked country without port facility. Therefore, three more continental Asian countries which are, as well, ASEAN members – Cambodia, Vietnam and Malaysia were added to the study.

### **C. Data and Methodology**

In this study, two different sets of panel data are used for bilateral export values and GDP for the time period of 1995-2013 from the UNCTAD Data Center. The choice of source and time period was made due to the limitations in data availability in other sources for Myanmar as well as Taiwan, which is the major trade partner for the exporters in the study. However, the time period is long enough to analyze the impact of U.S. sanctions (2003-2012) since it includes eight years before the sanction. The first dataset covers Myanmar's export to all trading partners including 147 countries during the period of study alongside with their GDPs. In the second dataset, bilateral export values of six countries on analysis, Myanmar and five neighbors, to their top 20 trade partners during the period of study are included, again, alongside with their GDPs.

For other gravity covariates in both datasets such as bilateral distance, contiguity and colonial historical linkages, the bilateral dataset from CEPII (The Centre d'Études

Prospectives et d'Informations Internationales) developed by Mayer and Zignago (2005) is used. In this study, weighted distance measures from the dataset are used which are calculated based on the bilateral distances of two largest cities weighted with the population share of the city in each country. Other bilateral dummy covariates include contiguousness (*contig*), common official language (*comlang\_off*), colonial link (*colony*), common colonizer after 1945 (*comcol*) and being the same country before (*smctry*).

Finally, the dummy variables of interest are created as *sanc*, *nonus* and their interaction term *sancxnonus*. For the time period of U.S. sanctions toward Myanmar, *sanc* takes 1 and otherwise, including all time periods for other five countries, takes 0. If the importer is U.S., *nonus* takes 0 and for the trading partners of all six exporters other than U.S., *nonus* takes 1.

As mentioned above, the main econometric model of this study is the gravity model which can be specified in its intuitive form as below:

$$X_{ij} = \beta_0 Y_i^{\beta_1} Y_j^{\beta_2} D_{ij}^{\beta_3} \quad (1)$$

where  $X_{ij}$  is the export from origin country  $i$  to destination country  $j$ ,  $Y$  is the gross domestic product of each country,  $D_{ij}$  represents the trade cost between each pair of countries. In order to estimate the coefficients of variables, the equation can be transformed into natural logarithms as below:

$$\log X_{ij} = \beta_0 + \beta_1 \log Y_i + \beta_2 \log Y_j + \beta_3 \log D_{ij} + u_{ij} \quad (2)$$

Since the introduction of the model by Tinbergen (1962), the trade cost is specified with the bilateral distance between two countries as the main proxy variable with other additional dummy variables such as neighborhood and Commonwealth preference which is later expanded to different factors affecting the bilateral trade cost. In this study, the trade cost will be specified with the bilateral weighted distance (*distw*), contiguousness (*contig*), common official language (*comlang\_off*), colonial link (*colony*), common colonizer after

1945 (*comcol*) and being the same country before (*smctry*) which adds up to the equation (2) as:

$$\begin{aligned} \log X_{ij} = & \beta_0 + \beta_1 \log Y_i + \beta_2 \log Y_j + \beta_3 \log distw_{ij} + \beta_4 contig + \\ & \beta_5 comlang\_off + \beta_6 colony + \beta_7 comcol + \beta_8 smctry + u_{ij} \end{aligned} \quad (3)$$

However, the intuitive model does not include the impact of trade costs of the origin with other countries rather than the destination or trade costs of the destination with other countries rather than the origin leading to the omitted variable bias (Shepherd, 2012). In order to deal with this issue, Anderson and Van Wincoop (2003) introduced the theoretical model based on the demand function as below:

$$\log X_{ij} = \log Y_i + \log E_j - \beta_3 \log Y + (1 - \sigma)[\log D_{ij} - \log \Pi_i - \log P_j] + u_{ij} \quad (4)$$

where  $E$  is the total expenditure of country  $j$  (assumed to be equal as GDP),  $Y$  is the world GDP,  $\sigma$  is the elasticity of substitution,  $\Pi_i$  is the outward multilateral resistance of the origin and  $P_j$  is the inward multilateral resistance of the destination. The two multilateral resistance terms capture the impact of trade cost to and from other countries on the origin and the destination. By grouping the terms of origin and destination, the model can be rewritten as:

$$\log X_{ij} = \beta_0 + \beta_1 F_i + \beta_2 F_j - \beta_3 \log Y + (1 - \sigma) \log D_{ij} + u_{ij} \quad (5)$$

where  $F_i$  is the exporter fixed effect which captures both GDP and multilateral resistance of the origin,  $F_j$  is the importer fixed effect of both expenditure and multilateral resistance of the destination and the regression constant equals to the world GDP which is the same for all exporters and importers. In this study,  $D_{ij}$  will include the terms specified earlier.

As in many other studies and the gravity model literature, there are a few more things to take in account for the econometric model in this study. The first issue is the zero trade values which became missing values when transformed to logarithms. Particularly in Myanmar case, there are zero trade values with the U.S. during the sanction period which is the subset of the observations mainly focused but omitted in regression analysis. This issue

was handled by  $\log(x+1)$  transformation which turns zero trade values into 1 and logarithmic transformation as 0 with a small tradeoff of bias. The second issue is that the export values are  $X_{ijt}$ , not  $X_{ij}$ , and the need to capture the time variant heterogeneity. In this study, the issue is dealt with the inclusion of year fixed effects in estimation. Since the error terms of the gravity model are heteroskedastic, robust standard errors must also be applied to fix the violation of homoscedasticity in OLS (Shepherd, 2012). Finally, another option used in estimation is clustering the data into bilateral distances. In gravity equation, errors are normally correlated with country pairs and therefore, clustering the distance which is unique identifier for country pairs will eliminate the problem of understated errors (Shepherd, 2012).

#### **D. Results and Analysis**

In table (1), the regression results of the gravity model applied for the impact of U.S. sanction on Myanmar's Export to all other trading partners are reported using the first dataset. It includes bilateral export volumes of Myanmar to 147 trading partners over 19 years which counted for 2753 observations; there were no observations in early years for newly established nations. All estimations in this case use the intuitive model from equation (3) while column (1) – (4) compared the estimation results using ordinary least squares regressions and column (5) – (8) applies panel data methods to check the robustness. The second columns of each method, column (2), (4), (6) and (8), show the estimated coefficients in which year fixed effects are included to control for the variations in outcome over time that is not attributed by the explanatory variables. As described earlier, the main variables of interest are *sanc* and the interaction term, *sancxnonus*. The partial effect to be reported, the impact of sanctions on the export volume to non-US countries while other variables are held fixed, can be captured from the coefficients of those variables of interest. In particular, the impact of sanction can be calculated as  $[(e^\beta - 1) * 100\%]$  in which  $\beta$  is the sum of the coefficients of *sanc* and *sancxnonus*, since the equation is in the form of log-level.

Table (1) – The Gravity Model Analysis for the Impact of Sanction on Myanmar's Export with All Trading Partners

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	OLS	OLS	Country Pair FE	Country Pair FE	Panel RE	Panel RE	Panel FE	Panel FE
lnexpgdp	-0.853*** (0.115)	-0.560*** (0.154)	-0.765*** (0.212)	-0.311 (0.271)	-0.834*** (0.126)	-0.511** (0.160)	-0.765*** (0.207)	-0.311 (0.264)
lnimpgdp	1.183*** (0.101)	1.180*** (0.101)	0.989** (0.341)	0.751* (0.368)	1.137*** (0.113)	1.087*** (0.114)	0.989** (0.332)	0.751* (0.358)
lndistw	-1.725*** (0.361)	-1.726*** (0.363)	-5.482*** (0.697)	-5.882*** (0.745)	-1.744*** (0.362)	-1.767*** (0.366)	0 (.)	0 (.)
contig	0.161 (1.685)	0.161 (1.693)	-3.271*** (0.455)	-3.385*** (0.477)	0.179 (1.733)	0.189 (1.793)	0 (.)	0 (.)
colony	3.146** (0.503)	3.156*** (0.505)	6.212** (2.083)	7.650*** (2.246)	3.336*** (0.543)	3.530*** (0.542)	0 (.)	0 (.)
comcol	0.315 (0.423)	0.311 (0.424)	-0.199 (0.158)	-0.0965 (0.170)	0.253 (0.435)	0.184 (0.432)	0 (.)	0 (.)
smctry	2.465* (1.183)	2.471* (1.188)	1.600*** (0.169)	1.807*** (0.190)	2.564* (1.240)	2.667* (1.277)	0 (.)	0 (.)
sanc	-8.448*** (0.0941)	-8.963*** (0.156)	-8.455*** (0.102)	-9.101*** (0.180)	-8.448*** (0.0951)	-8.995*** (0.153)	-8.455*** (0.0989)	-9.101*** (0.175)
nonus	-1.157 (0.690)	-1.172 (0.693)	-6.176* (3.010)	-8.242* (3.253)	-1.446* (0.737)	-1.745* (0.741)	0 (.)	0 (.)
sancxnonus	8.991*** (0.141)	8.992*** (0.141)	9.049*** (0.141)	9.115*** (0.153)	9.007*** (0.134)	9.020*** (0.137)	9.049*** (0.137)	9.115*** (0.149)
Constant	11.38* (4.501)	4.314 (5.190)	50.92*** (12.98)	50.96*** (13.53)	12.52** (4.353)	6.345 (5.186)	-2.315 (4.709)	-7.512 (5.100)
Time fixed effects	-	Yes	-	Yes	-	Yes	-	Yes
Country-pair fixed effects	-	-	Yes	Yes	-	-	-	-
Observations	2753	2753	2753	2753	2753	2753	2753	2753
R <sup>2</sup>	0.526	0.537	0.781	0.793			0.075	0.123

Standard errors in parentheses; \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

The R<sup>2</sup> values in Column (1) and (2) shows that the intuitive model explains more than 50% of variations in the outcome variable as a good start. The signs of significant gravity terms including the logarithm of importer GDP and distance, colonial relationship and

being the same country before appears normal except the logarithm of exporter GDP term; it shows the larger the growth of Myanmar's GDP, the smaller the growth of export which goes against the theory of gravity. Without the year fixed effects, it is reported that Myanmar's export to non-US countries is increased by 72% during the sanction period and with the year fixed effects, the increase is 3%. These estimations are highly significant since the robust standard errors are very small and p-values are less than 0.001.

In column (3) and (4),  $R^2$  values show the improvement in explaining the variations of outcome variable to 78% and 79% when country pair fixed effects are also controlled. In Column (3), The signs of the significant gravity terms are almost the same as column (1) and (2) having the same problem with exporter GDP except the additional problem with the contiguity variable in which the coefficient is negative; it means there was less export to countries sharing the common border than the rest of the world. But the exporter GDP term becomes insignificant in column (4) when both country pairs and year fixed effects are controlled. For the impact of sanction, column (3) estimates for 81% increase during the sanction period and column (4) estimates for 1.4% increase again with very small robust standard errors and p-values less than 0.001.

Column (5) – (8) applies the panel data methods to check the robustness. The panel random effects method reports for 75% increase in export during the sanction period and 2.5% increase when year fixed effects are also included. The panel fixed effects method in column (7) and (8) omits the time invariant gravity terms and reports for exactly the same effects as column (3) and (4).

In short, all estimation methods report for the increase of Myanmar's export to non-US countries during the sanction period which is very much in line with the prima facie case but the degree of increase estimated depends on additional controls applied to the model. When the U.S. imposed sanctions toward Myanmar, the instrumental goal of economic

pressure can be identified as impairing the economy in such way as a decline of export volumes attributed by zero export to the U.S. Furthermore, considering the international cooperation to the U.S. by imposing a degree of restraints on Myanmar as a part of the policy goal of the sanction, the export to non-US countries can be expected to decline as well. From the results of table (1), it clearly shows that the decline of Myanmar’s export to non-US countries during the sanction period was not the case.

Table (2) reports the regression results of the gravity model applied for the impact of U.S. sanction on Myanmar’s Export in comparison with neighboring countries – Thailand, Cambodia, Vietnam, Bangladesh and Malaysia – using the second panel dataset. Since the bilateral export volumes of 6 countries to their top 20 trade partners over 19 years are included, this dataset consists of 2280 observations.

Table (2) – The Gravity Model Analysis for the Impact of Sanction on Myanmar's Export in comparison with Neighboring Countries (1995-2013)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	OLS	OLS	Country FE	Country FE	Panel RE	Panel RE	Panel FE	Panel FE
Ln(GDP <sub>i</sub> )	1.279*** (0.0713)	1.309*** (0.0888)			1.029*** (0.136)	1.108*** (0.136)	0.552 (0.350)	0.0886 (0.610)
Ln(GDP <sub>j</sub> )	0.590*** (0.136)	0.614*** (0.145)			0.672*** (0.106)	0.669*** (0.126)	1.205*** (0.327)	0.787** (0.263)
Ln(distw)	-0.913*** (0.224)	-0.931*** (0.228)	-0.600 (0.457)	-0.600 (0.459)	-1.019*** (0.211)	-1.005*** (0.215)	0 (.)	0 (.)
contig	0.459 (0.324)	0.452 (0.328)	0.745* (0.319)	0.745* (0.321)	0.403 (0.347)	0.414 (0.334)	0 (.)	0 (.)
comlang_off	1.094*** (0.247)	1.036*** (0.264)	0.226 (0.287)	0.226 (0.288)	1.369*** (0.251)	1.258*** (0.260)	0 (.)	0 (.)
colony	0.697*** (0.177)	0.693*** (0.179)	0.407 (0.405)	0.407 (0.407)	0.579* (0.227)	0.605** (0.196)	0 (.)	0 (.)
comcol	0.355 (0.357)	0.383 (0.363)	0.153 (0.305)	0.153 (0.306)	0.365 (0.361)	0.388 (0.359)	0 (.)	0 (.)
smctry	-0.655 (0.638)	-0.618 (0.662)	0.477 (0.495)	0.477 (0.497)	-0.934 (0.633)	-0.839 (0.645)	0 (.)	0 (.)

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sanc	-12.04*** (0.340)	-12.12*** (0.366)	-10.06*** (0.372)	-11.27*** (0.392)	-10.19*** (0.109)	-10.43*** (0.108)	-9.644*** (0.193)	-9.859*** (0.225)
nonus	-1.564*** (0.433)	-1.512** (0.453)	-2.552*** (0.562)	-2.552*** (0.564)	-1.305* (0.508)	-1.304* (0.523)	0 (.)	0 (.)
sancxnonus	11.28*** (0.430)	11.27*** (0.437)	11.25*** (0.394)	11.25*** (0.395)	9.969*** (0.269)	9.956*** (0.270)	9.656*** (0.304)	9.734*** (0.294)
Constant	0.183 (1.814)	-1.035 (1.977)	19.87*** (4.358)	18.30*** (4.359)	2.371 (2.178)	0.740 (2.346)	-9.244*** (1.453)	0.108 (5.565)
Time fixed effects	-	Yes	-	Yes	-	Yes	-	Yes
Exporter fixed effects	-	-	Yes	Yes	-	-	-	-
Importer fixed effects	-	-	Yes	Yes	-	-	-	-
Observations	2280	2280	2280	2280	2280	2280	2280	2280
R <sup>2</sup>	0.626	0.643	0.648	0.728			0.305	0.348

Standard errors in parentheses; \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

Column (1) and (2) shows the coefficients of the intuitive model from equation (3) using the ordinary least squares regressions. The R<sup>2</sup> values of these column shows that the regressions can explain more than 60% of variations in the export volume. The significant estimations of the regular gravity terms show the correct signs as expected i.e., positive signs for logarithm of GDP terms, common language and colonial relationship and negative sign for logarithm of distance. When the year fixed effects are not included, it indicates that Myanmar's export to non-US countries is 53% less than neighboring countries during the sanction period while the larger effect of 57% is observed with the year fixed effects.

Column (3) and (4) shows the coefficients according to the theoretical model of Anderson and Van Wincoop (2003) from equation (5) which includes the country fixed effects for exporters and importers excluding the GDP terms. The R<sup>2</sup> values for these columns are also quite high, 65% and 73% respectively explains the variations in the outcome. According to the country fixed effects estimations, Myanmar's export to non-US countries is estimated as 229% more than neighboring countries during the sanction period

when year fixed effects are not included. With the year fixed effects, Myanmar's Export to non-US countries during the sanction period is estimated as 2% less than neighboring countries. The results of this model is quite different from intuitive model showing very little effect of sanction or even positive effect is captured as two-fold increase.

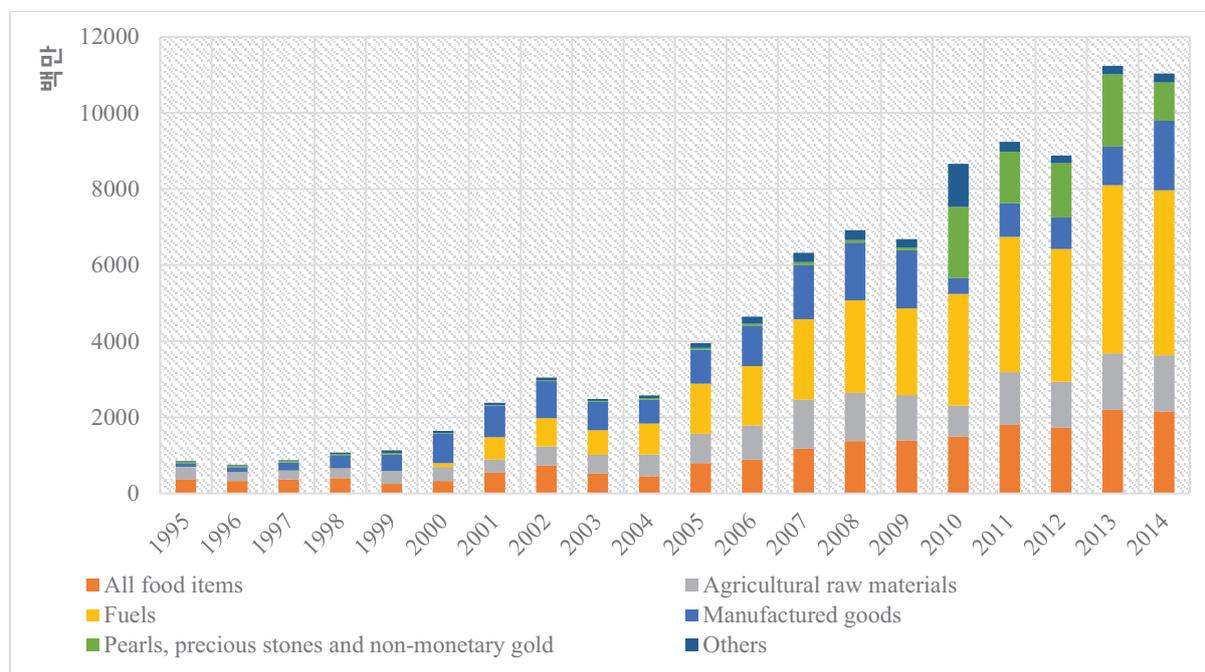
Column (5) – (8) shows the coefficients from panel data estimation methods using random effects and fixed effects to check the robustness. The impact of sanction on Myanmar's export to non-US countries is estimated as -20% without year fixed effects and -38% with year fixed effects using panel data random effects method. The results of the panel data fixed effects method, again, shows that all other time invariant gravity terms except GDPs are omitted and estimated impacts are 1% increase without year dummies and 12% decrease with year dummies.

Therefore, when the year fixed effects are applied, apart from the theoretical model, which shows very little negative impact, other estimation methods agree that Myanmar's export to non-US countries was less than the regional trend attributed by the rapid growth of Thailand, Malaysia and Vietnam during the sanction period. As in the *prima facie* case, considering Cambodia and Bangladesh also for slower growth rate of export, there may be some other factors apart from sanction to be imputed for the slower growth of Myanmar or the more rapid growth of mentioned countries which cannot be explained by the scope of this study.

### **E. Myanmar's Export Structure**

As the first attempt to explain the impact of U.S. sanctions through the trend of export volumes discredited the economic facet of the case, this study conducts a deeper look into the export structure and trading partners as a second attempt to further understand the economic impact of U.S. sanctions.

Figure (3) – Export Structure by Product Groups (1995-2014)



Source: UNCTAD, UNCTADstat (2016). Retrieved from <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>

Figure (3) shows the export structure of Myanmar during 1995-2014 by product groups such as all food items, agricultural raw materials, ores and metals, fuels, manufactured goods and others. It shows that the fuels export started to grow in 2001 and since then it has been the major driver for the growth in total export volume. In 2001, the volume of fuels export was only 582 million which increased more than seven-fold over a decade resulting 4336 million in 2014. This is due to the commercialization of natural gas started in 2001 (Fujita, Mieno, & Okamoto, 2009). For manufactured goods, the big time seems to be during 2007-2009 with the volume around 1500 million and later increase again in 2014 for 1826 million. Moreover, pearls, precious stones and non-monetary gold came to the stage since 2010 for 1871 million, sustained at a level of more than 1 billion in 2011 and 2012, and rose again to 1907 million in 2013.

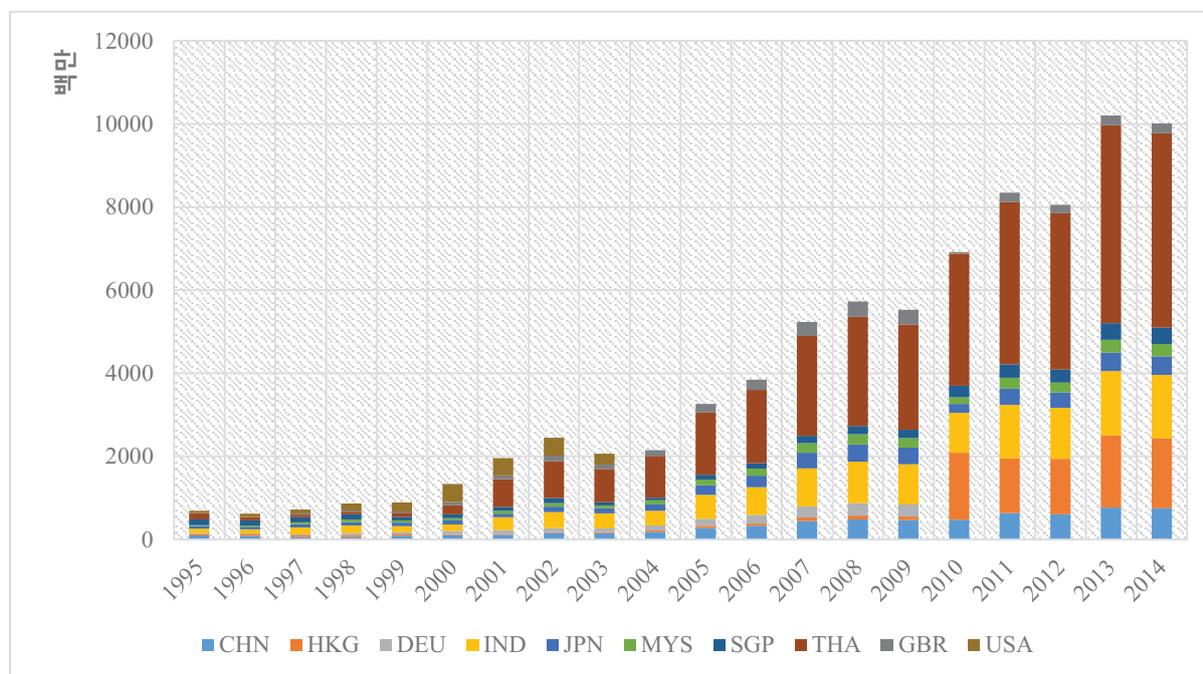
Table (3) – Export Structure by Product Groups (1995-2014) Percentages

Year	All food items	Agricultural raw materials	Fuels	Manufactured goods	Pearls, precious stones and non-monetary gold	Others
1995	42%	39%	0%	12%	5%	2%
1996	43%	31%	0%	17%	6%	2%
1997	43%	26%	0%	24%	4%	2%
1998	37%	25%	0%	31%	4%	3%
1999	23%	30%	0%	37%	4%	6%
2000	20%	22%	6%	47%	1%	4%
2001	23%	15%	24%	35%	1%	2%
2002	24%	16%	25%	32%	1%	2%
2003	21%	19%	26%	30%	1%	2%
2004	18%	22%	32%	25%	2%	3%
2005	20%	19%	33%	23%	1%	3%
2006	19%	19%	34%	23%	1%	4%
2007	19%	20%	33%	23%	1%	4%
2008	20%	18%	35%	22%	1%	4%
2009	21%	18%	34%	23%	1%	3%
2010	17%	9%	34%	5%	22%	13%
2011	19%	15%	38%	10%	15%	3%
2012	20%	14%	39%	9%	16%	2%
2013	20%	13%	39%	9%	17%	2%
2014	20%	13%	39%	17%	9%	2%

However, the changes in the composition of export structure around the sanction period shows three important trends according to table (3). The first trend is the decline of food items and agricultural raw materials and the rise of manufactured goods in late 1990s. The second trend is the decline of manufactured goods and the rise of fuels in early 2000s. And the third trend is the increased composition of pearls, precious stones and non-monetary gold during 2010 to 2013. This shows that Myanmar was starting to be industrialized in late 1990s with manufacturing before the sanctions and became dependent on natural resources since the commercialization of natural gas began in 2001 and the enactment of Burmese Freedom and Democracy Act of 2003. Moreover, it is observed that the export of gemstones rises from nowhere two years after the Tom Lantos Block Burmese JADE (Junta's Anti-

Democratic Efforts) Act 2008 which focuses on any jadeite, rubies or any articles of jewelry containing them mined or extracted from Myanmar.

Figure (4) – Export Structure by Top 10 Trading Partners (1995-2014)



Source: UNCTAD, UNCTADstat (2016). Retrieved from <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>

Table (4) – Export Structure by Top 10 Trading Partners (1995-2014) Percentages

Year	CHN	HKG	DEU	IND	JPN	MYS	SGP	THA	GBR	USA
1995	11%	5%	2%	12%	7%	3%	16%	17%	1%	7%
1996	11%	5%	2%	14%	8%	3%	16%	10%	2%	9%
1997	6%	4%	3%	19%	9%	5%	15%	7%	3%	11%
1998	6%	4%	5%	16%	8%	5%	11%	6%	3%	16%
1999	8%	3%	5%	13%	8%	4%	8%	9%	3%	19%
2000	6%	2%	4%	9%	6%	4%	6%	13%	5%	26%
2001	5%	1%	4%	13%	4%	3%	4%	28%	4%	17%
2002	5%	1%	3%	13%	4%	3%	4%	29%	4%	14%
2003	6%	1%	4%	14%	5%	3%	3%	32%	4%	11%
2004	7%	1%	4%	14%	6%	4%	2%	39%	5%	0%
2005	7%	1%	4%	15%	6%	4%	3%	38%	5%	0%
2006	7%	1%	4%	14%	6%	4%	3%	38%	5%	0%
2007	7%	1%	4%	14%	6%	4%	3%	38%	5%	0%
2008	7%	1%	4%	14%	6%	4%	3%	38%	5%	0%
2009	7%	1%	4%	14%	6%	4%	3%	38%	5%	0%
2010	5%	19%	0%	11%	2%	2%	3%	37%	0%	0%
2011	7%	14%	0%	14%	4%	3%	4%	42%	2%	0%

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2012	7%	15%	0%	14%	4%	3%	4%	42%	2%	0%
2013	7%	15%	0%	14%	4%	3%	4%	42%	2%	0%
2014	7%	15%	0%	14%	4%	3%	4%	42%	2%	0%

Figure (4) and Table (4) describes the export structure of Myanmar to its top 10 trading partners during 1995-2014. It shows three important trends around the U.S. sanction period and parallel with changes in the product composition described above. The first trend is that the U.S. became the top trading partner in 1999 with 216 million which accounted for 19% and doubled in the next year to 423 million and 26% share. Even though the level was sustained over 400 million till 2002, the share declined to 14% in 2002. This trend was in line with the rise of manufactured goods in late 1990s and the fall in early 2000s. Here comes the second trend where Thailand became the top trading partner since 2001 with the volume of 665 million and the share of 28% which grew to 4675 million in 2014 with the peak share of 42% since 2011. This trend was again in line with the rise of fuels in early 2000s. These two trends shows that the beginning of industrialization with manufactured goods during the period of the U.S. being the top trade partner was overwhelmed by the rise of fuels during the period when Thailand became top trade partner; again, as a result of the enactment of Burmese Freedom and Democracy Act of 2003 and the commercialization of natural gas began in 2001. The third trend is the rise of export to Hong Kong as a part of China which together became the second largest trading partner with more than 20% share of total export since 2010. The total export volume to China and Hong Kong amounted for 2088 million and later rose to 2502 million in 2013. This trend is in line with the rise of gemstones since 2010, two years after Tom Lantos Block Burmese JADE Act 2008.

The answer from the second attempt to evaluate the economic impact of U.S. sanctions toward Myanmar is that the nation became more dependent on natural resources such as natural gas and gemstones in which the growth of total export during the sanction period is heavily relied on Thailand and China as main trading partners.

## **VII. The Political Economy of U.S. Sanction and Regime Change**

After the analysis of direct economic impact of U.S. sanctions on Myanmar's export structure, it is required for further attempts to explain why the nation went for the regime change and democratization. In this regard, a comprehensive political timeline was constructed as the third attempt to describe the response pattern of the military regime to U.S. sanctions in light of the major historical events from 1988 to 2008. The time period for this analysis is trimmed for the starting point of sanctions till the sanction peak of U.S. before the policy shift in 2009. The general pattern of United States and Myanmar relations throughout the history had a declining trend since the end of World War II but imposition of sanctions began only after the uprising in 1988 for the reason of violation in human rights and civil liberties of oppositions and the people (Martin, 2012). In September 2009, the U.S. Secretary of State, Hillary Clinton said, "the path we have taken in imposing sanctions hasn't influenced the Burmese junta," and the U.S. would go for both engagement and continued sanctions (Kessler, 2009). Therefore, it is assumed that patterns of the U.S. policy and the response of the military regime between this period will reflect the political impact of U.S. sanctions toward Myanmar.

Table (5) – Timeline of U.S. Sanctions and the Responses of Military Regime

Historical Event	U.S. Policy Actions	Military Regime's Response
<b>1988</b> Biggest Pro-democracy uprising 8888	<b>August 1988</b> Senate passed S.Res. 464 <sup>1</sup> - Calls for a return to democracy	<b>August 1988</b> Military crackdown to the uprising
	<b>September 1988</b> House of Representatives passed H.Res. 529 <sup>2</sup> - to refrain from using force against peaceful protesters - to restore democracy - to establish of a transitional body	<b>September 1988</b> SLORC formed  Suspended 1974 constitution
	Regan Administration suspended assistance on rural development, antinarcotics and military training*	SLORC Announcement 1/88 <sup>3</sup> - to restore law, order, peace and tranquility; - to provide security and to facilitate transport and communications; - for this organization to do the utmost to ease the people's food, clothing, and shelter needs, and to render as much help as possible to the cooperatives and the private concerns; - to stage democratic multiparty general elections after fulfilling all the above-stated responsibilities.
	<b>April 1989</b> Presidential Proclamation 5955 <sup>4</sup> - Amended GSP and suspended preferential treatment	<b>July 1989</b> Aung San Suu Kyi put under house arrest and senior NLD officials detained for antagonistic remarks and call for sanctions by Aung San Suu Kyi
<b>May 1990</b> NLD Won 82% of seats in General Elections for Pyithu Hluttaw	<b>February 1990</b> Bush Administration designated as a drug-producing and/or drug-trafficking country under the Foreign Assistance Act of 1961*	<b>July 1990</b> SLORC Announcement 1/90 <sup>5</sup> - SLORC maintains martial law and legislative, executive and judicial power - Elected body to draft a new constitution
NLD demanded immediate transfer of power	<b>August 1990</b> Burmese sanction language in the Customs and Trade Act of 1990 granted presidential authority to impose sanctions appropriate under the Narcotics Control Trade Act of 1986 <sup>6</sup>	
	<b>August 1991</b> Did not renew bilateral textile agreement*	

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<b>May 1992</b>	National Convention Convening Committee was formed	
<b>July 1992</b>	National Convention delegates were listed	
<b>October 1992</b>	SLORC order 13/92 <sup>7</sup>	
	Six objectives of National Convention	
	- Non-disintegration of the Union;	
	- Non-disintegration of national unity;	
	- Perpetuation of national sovereignty;	
	- Promotion of a genuine multiparty democracy;	
	- Promotion of the universal principles of justice, liberty and equality; and,	
	- Participation by the Defense Services in a national political leadership role in the future state.	
<b>1993</b>	USDA formed	
	Activists and politicians detained for criticizing	
<b>1994</b>		
	Main chapters of the constitution were drafted including sections for one third reservation of military seats in parliament and presidency that requires continuous residency for 20 years and not having a spouse or children with other country's citizenship	
<b>1995</b>		
	Aung San Suu Kyi was released from house arrest with restrictions on movement and political activities	
<b>July 1995</b>	The Free Burma Act 1995 was introduced (S.1092) <sup>8</sup>	
	- To withdraw the designation of beneficiary developing country	
	- To discontinue special duty rate status and most-favored-nation treatment status	
	Conditions	
	- unconditionally released all political prisoners, including Aung San Suu Kyi	
	- implemented the results of the 1990 elections, including the transfer of power to civilian authority and the protection of basic human rights	
	NLD delegates were expelled from National Convention due to requests for review of working procedures and boycotting	
<b>November 1995</b>		

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	- implemented an effective counternarcotics effort	
<b>1996</b>	<b>October 1996</b> Presidential Proclamation 6925 <sup>9</sup>  - Visa suspension to those who obstructs democratic transition	
EU adopted Common Position to impose sanctions		
<b>1997</b>	<b>May 1997</b> E.O. 13047 <sup>10</sup>  - Prohibition of new investments	<b>November 1997</b> SLORC renamed as SPDC and reshuffled major positions
Myanmar became a member of ASEAN		
EU withdrew GSP privileges	<b>September 1997</b> Section 570 of the Omnibus Consolidated Appropriations Act, 1997 (P.L. 104-208) <sup>11</sup>  - Cessation of all non-humanitarian assistance, visa ban of government officials and conditional sanctions	
	<b>October 2000</b> H.R. 5603 <sup>12</sup> and S. 3246 <sup>13</sup> introduced  - Import ban for all textile and apparel products	<b>September 2000</b> Aung San Suu Kyi put under house arrest again
	<b>May, June 2001</b> H.R. 2211 <sup>14</sup> and S. 926 <sup>15</sup> introduced  - Complete import ban	<b>2001</b> Aung San Suu Kyi and SPDC leadership held secret meetings facilitated by UN special envoy
		<b>May 2002</b> Aung San Suu Kyi and political prisoners released
<b>May 2003</b> Militia attack to Aung San Suu Kyi's motorcade at Depayin	<b>July 2003</b> Burmese Freedom and Democracy Act of 2003 (P.L. 108-61) <sup>16</sup>  - Complete import ban - Asset freeze of SPDC and supporters - vote against loan from IFIs - expansion of visa ban  Conditions  - releasing all political prisoners; - allowing freedom of speech and the press; - allowing freedom of association; - permitting the peaceful exercise of religion; - bringing to a conclusion an agreement between the SPDC and the democratic forces led by the NLD and	<b>May 2003</b> Aung San Suu Kyi put under house arrest again  <b>August 2003</b> Announced "Road Map to Democracy" <sup>18</sup>  - Reconvening of the National Convention that had been adjourned since 1996; - After the successful holding of the National Convention, implement step-by-step the process necessary for the emergence of a genuine and disciplined democratic system;  - Drafting of a new constitution in accordance with basic principles and detailed basic principles laid down by the

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	<p>Burma's ethnic nationalities on the transfer of power to a civilian government accountable to the Burmese people through democratic elections under the rule of law</p> <p>E.O. 13310 by Bush Administration<sup>17</sup> blocks all property and interests in property of the persons listed prohibits the exportation or reexportation of financial services</p>	<p>National Convention;          - Adoption of the constitution through national referendum;          - Holding of free and fair elections for Pyithu Hluttaws (legislative bodies) according to the new constitution;          - Convening of Hluttaws attended by Hluttaw members in accordance with the new constitution;          - Building a modern, developed, and democratic nation by the state leaders elected by the Hluttaw; and the government and other central organs formed by the Hluttaw.</p>
<p><b>2004-2006</b> National Convention Reconvened</p>		
<p><b>January 2007</b> The UN Security Council votes on a motion condemning HR abuses in Myanmar as an international threat vetoed by China and Russia<sup>19</sup></p>	<p><b>October 2007</b> E.O. 13448 by Bush Administration<sup>20</sup></p> <p>- expanding the scope of and taking additional steps with respect to E.O. 13047</p>	<p><b>September 2007</b> National Convention concluded with the fundamental principles and detailed basic principles</p> <p>Brutal crackdown of protests</p>
<p><b>September 2007</b> "Saffron Revolution" protests led by monks for commodity prices, release of and dialogue with Aung San Suu Kyi and political prisoners</p> <p><b>November 2007</b> EU extended restrictions</p>		<p><b>December 2007</b> Constitution Drafting initiated</p>
<p><b>December 2007</b> The Special Economic Measures (Burma) Regulations of Canada came into force</p>		
<p><b>April 2008</b> Draft presidential statement of Security Council to end military rule and start democratic transition</p>	<p><b>April 2008</b> E.O. 13464 by Bush Administration<sup>22</sup></p> <p>- expanding the scope of and taking additional steps with respect to E.O. 13047</p>	<p><b>January 2008</b> Meetings of Aung San Suu Kyi and Liaison Minister of SPCD began</p>

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declined by China and Russia<sup>21</sup>

### July 2008

Tom Lantos Block Burmese JADE (Junta's Anti-Democratic Efforts) Act 2008 (P.L. 110-286)<sup>23</sup>

- Sanctions on certain categories of persons described in the Act Amended the BFDA
- importation ban to prohibit the importation of any jadeite, rubies or any articles of jewelry containing them mined or extracted from Myanmar

### February 2008

Constitution drafting finalized

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### **A. Analysis of U.S. Policy Actions and Reactions of the Military Regime**

Table (3) describes the detailed timeline of the historical events in Myanmar, the U.S. policy actions and the military regime's responses during 1988-2008. The main theme of this analysis is to understand the relationship between the intensity of the U.S. policy and the extent of timely responses of the military regime to evaluate the level of political impact of sanctions. The facts and data are centered around the military regime, Aung San Suu Kyi and NLD Party, the U.S. Administration and the Congress, and other major nations of concern, i.e., supporters of the U.S. and Myanmar. For the convenience of analysis, the sanction episodes should be divided as before 1995, 1995-2003 and after 2003 according to different level of intensities and response patterns.

For the first episode before 1995, the intensity of sanctions was quite low and can be classified as the gradual withdrawal of positive relationship. The underlying intention of this episode can also be analyzed as demonstrative showing disagreement towards coercive crack down of 1988 uprising, negligence of election results and detention of opposition leader. The actions taken by the military regime were rather consolidation of power than responding to the U.S. policy. Therefore, in this episode, both the U.S. and the military regime were "doing their own jobs" with their own interests and the action-reaction pattern is insignificant.

The intensity of sanctions became moderate in the second episode 1995-2003 approaching to the final warnings before extensive sanctions. The U.S. policy actions became more diverse ranging from introduction of extensive sanction laws in the Congress to Administration's action of the next level. The underlying intention seemed to shift from demonstrative one to taking negative reinforcement toward the consolidation of power by military regime and putting pressure to maintain Aung San Suu Kyi on the stage. The reaction of military regime also started become obvious in favor of the U.S. policy in the immediate release of Aung San Suu Kyi after introduction of Free Burma Act 1995. This first

reaction seemed to motivate the U.S. policies as a continuous pressure responded by the restructure of the ruling junta in 1997. The final warnings came as the introduction of import ban in the Congress after the second detention of Aung San Suu Kyi which was responded again by the release. This episode provides evidence, to an extent, of mild action-reaction pattern which can be inferred as military regime's interest to normalize the relationship with the U.S.

The final episode before the peak in 2008 shows the exponential increase to high intensity which changed the game. After the third detention of Aung San Suu Kyi in 2003, the U.S. Congress passed the Burmese Freedom and Democracy Act of 2003 followed by the Executive Order as the comprehensive strike of political and economic statecraft. The response of the military regime was also historical as it was the foundational move to the new chapter of regime change toward all reforms. The regime announced the "Road Map to Disciplined Democracy" in the next month to reconvene National Convention, draft the constitution, hold the national referendum for the constitution and hold elections. This action-reaction pattern decorated the highest political impact in the whole series of sanctions providing the significant evidence. However, the peak of all episodes was the Tom Lantos Block Burmese JADE (Junta's Anti-Democratic Efforts) Act 2008 which boosted the strength of sanction in the name of brutal crackdown of "Saffron Revolution" protests in 2007. There was no further immediate action observed since the draft constitution was finalized and the national referendum had approved the constitution before passing the Act. The rest of the story followed the roadmap as described earlier.

From this analysis, it can be summarized that the military regime's responses to the U.S. policy actions manifested the high degree of political impact of sanctions. However, the obvious deviations from the policy goals are also observed as glitches in the process such as the release of Aung San Suu Kyi only after the election, maintaining military power in the

constitution, the former generals reclaimed the victory in the election as USDP and problematic sections in the constitution even though the military regime went for the democratic reforms. These factors could lead to the delays in materializing the shift of the U.S. policy toward Myanmar in which the waiver process initiated only after the victories of Aung San Suu Kyi and NLD Party in 2012 by-election. Another possible factor for military regime's reactions for normalization with the U.S. could be its perception on Beijing's influence which grew enormously over Myanmar due to the absence of the relationship with the U.S.; this study cannot explain as it is out of the scope.

### **B. Analytical Framework for Costs of Defiance and Compliance**

In their great study of "Economic Sanctions Reconsidered," Hufbauer et al. utilized the rich history of 20<sup>th</sup> century sanction regimes counted for 174 cases, including U.S. Sanctions toward Myanmar, to examine the enabling situations of delivering results and making contributions toward foreign policy goals. In this study, findings from the study of Hufbauer et al. on Myanmar case will be reviewed and revised as a fourth attempt to understand the political economy of U.S. sanctions toward Myanmar using the same analytical framework.

The analytical framework was based on four broad factors – actors, time, tools and standard (Hufbauer, Schott, Elliott, & Oegg, 2007). Actors are roughly sender and target mainly at the unit level of nation states which can be enlisted more details based on the case of sanction, if it is unilateral or multilateral. Unilateral sanctions can be called as single-sender case while multilateral sanctions include leading sender and supporters; it can also be systemic action in which international institutions such as United Nations involve. Moreover, sanctions can also have positive externalities such as deterrence to the bystanders from committing the similar behavior or advocacy to the domestic audience. In such cases, stakeholders of externalities can also be considered as actors.

The time of analysis for sanctions also matters setting the starting point when it is officially announced in terms of law enactment or issuance of presidential orders and the ending point when the results are secured as they are aimed for. It seems that Hufbauer et al. attempted to crop out the prelude and postlude of sanctions to filter the final foreign policy goal from evolving intentions in revision, i.e., the real process and result of each case from later deviations and the chain of results.

In terms of “tools”, they differentiated between trade and financial sanctions. Trade sanctions involve export and import restriction which have not only direct impact of reduction in trade volume with the sender but also indirect effects such as lower prices for embargoed export products domestically or to other countries and higher prices for substitute imports from other countries. Financial sanctions involve unit level measures such as freezing assets of target nation state in the control of the sender and restricting the flow of international loan and aid to the target. There are also individual level measures such as freezing individual properties in hand of the sender, restricting sender’s domestic firms from doing business with those black-listed individuals or visa bans to them. When considering the tools, Hufbauer et al. clearly differentiate and exclude the positive economic incentives – such as aids, credits and preferential trade – which are, in many cases, closely tied with economic sanctions as a carrot-and-stick approach.

For the factor of “standard”, implications of sanctions are measured in terms of direct results or the extent of contribution toward foreign policy goals. The main idea is to increase the cost of defiance and to decrease the cost of compliance. In order to increase the cost of defiance, the sender can seek out for international cooperation to form multilateral sanctions for more intensive economic pressure or endorsement by legitimate international institutions for more powerful political foundation. Even though it is not compulsory, accompaniment of military action may enhance the achievement of the foreign policy goal of sanctions as well

as stimulation of domestic political dissatisfaction of target’s citizens may bring about the regime change efficiently. This strategy is aimed at cornering the regime of the target to alter strategic decisions in favor of sender’s interest. For the cost of compliance, it depends largely on how small the actual magnitude of the cost is, what the level of perceived cost is for the target and how the target weighs various cost items. In order to achieve conformance, it is important to create the impression that the cost of compliance is quite low.

However, there are also other factors that can interfere the intended standard by decreasing cost of defiance as well as that can lead to the leverage of sender toward the target. As mentioned before, “black knights” can support the target to offset the negative impacts of sanctions by the sender. Domestic support to the target regime for the sake of nationalism and the evasion capability of target to trade sanctions also matter by reducing the cost of defiance. The sender may also enjoy the leverage toward the success of sanctions due to the prior volume of trade and finance flow and comparative size of economy over the target. Finally, what also determines the standard of sanctions is the intensity of sender’s interest if the sender actually would like to see the compliance or impose just for “do[ing]-something.”

Drawing insights from the factors – actors, time, tools and standard, Hufbauer et al. came up with the variables that determine the cost of defiance and the cost of compliance which was applied to Myanmar case as described in column (1) of table (4). Column (2) shows the findings of this study based on the updated situation till present situation.

Table (6) – Political Economy Assessment of U.S. Sanctions toward Myanmar

	(1) HSEO Summary till 2006*	(2) Revised Analysis till present situation
Overall Assessment		
Policy result, scaled from 1 (failed) to 4 (success)	2	4
Sanctions contribution, scaled from 1 (negative) to 4 (significant)	2	3

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Success score (policy result times sanctions contribution) scaled from 1 (outright failure) to 16 (significant result)	4	12
<hr/>		
Political and Economic Variables		
<hr/>		
Companion policies: J (covert), Q (quasi-military), R (regular military)	–	–
International cooperation with sender, scaled from 1 (none) to 4 (significant)	2	3
International assistance to target: A (if present)	–	A
Cooperating international organizations	–	–
Sanction period (years)	18+	20+
Economic health and political stability of target, scaled from 1 (distressed) to 3 (strong)	2	2
Pre-sanction relations between sender and target, scaled from 1 (antagonistic) to 3 (cordial)	2	2
Regime type of target, scaled from 1 (authoritarian) to 3 (democratic)	1	1
Type of sanction: X (export), I (import), F (financial)	F, M	F, M
Cost to sender, scaled from 1 (net gain) to 4 (major loss)	2	2

\*Source: Hufbauer, Schott, Elliott, & Oegg. (2007). *Economic Sanctions Reconsidered: Case Histories and Data* [CD-ROM]. Washington, DC: Peterson Institute for International Economics.

As shown in table (6), the major revisions required for the case analysis of Hufbauer et. al. is the overall assessment indices and the assessment on international cooperation to sender and international assistance to target. In the case of European Union, even though it adopted a Common Position to impose sanctions in 1996 for travel ban, arms embargo and cessation of aid, the extended restrictive measures to the trade of timber and minerals began

only in 2007 (Giumelli & Ivan, 2013). Similarly, the Special Economic Measures (Burma) Regulations of Canada also came into force in December, 2007 which includes arms embargo, asset freeze and technical assistance prohibition (Global Affairs Canada, 2015). Given the imposition of these sanctions beyond the period of study of Hufbauer et. al., it can be considered that the cooperation of EU and Canada in the sanctions toward Myanmar is underrated as minor cooperation. Since the extensive nature of these sanctions can be considered as meaningful restraints, the international cooperation should be rated for 3 points as the modest cooperation.

Moreover, in the case analysis of Hufbauer et. al., international assistance to target was marked as absent. But just after the timeframe of the analysis, in January 2007, China and Russian Federation voted against UN Security Council Draft Resolution on Myanmar with their vetoes as described in the timeline analysis. Moreover, even though Japan announced some temporary suspensions, they have been the major provider of official development assistance over two decades. Considering these factors, the international assistance to Myanmar can be evaluated as present rather than absent.

Finally, Hufbauer et. al. assessed the policy result as “unclear but possibly positive outcome” rating 2 points and sanctions contribution as “little or no contribution” rating 2 points. It was true by the end of 2006 but the later reform processes developed till current situation will disagree this assessment. As described earlier, the nation has already taken the path of regime change and democratization including the transfer of office after the landslide victory of NLD party. Recently, the U.S. has also lifted all sanctions declaring the end of the national emergency. In this regard, the policy result can be rated as successful for 4 points. Similarly, in light of the political timeline of action-reaction analysis by the military regime described in earlier section and rapprochement efforts of President Thein Sein’s Administration, it should be considered as contributed substantially rating 3 points. This will

give the success score of 12 points out of 16 as a multiplication of the two elements. In short, the U.S. sanctions toward Myanmar can be analyzed as a highly successful case according to the analytical framework of Hufbauer et. al. in which different political economy factors proved the significant impact of U.S. sanction toward Myanmar.

### **VIII. Conclusion**

Different studies on sanctions reported different levels of success through different forms of analysis on the impact. In this study, the unique pattern of sanctions from the case of U.S. sanctions toward Myanmar is captured through a comprehensive analysis from different facets. As from the first attempt, it is found that the main hypothesis of U.S. sanctions being ineffective in impairing Myanmar's export cannot be rejected due to significant results of increased export to non-US countries during the sanction period despite the zero export to the U.S. according to the gravity model analysis. However, the growth rate of Myanmar's export can be concluded as a slower rate when it is compared with the neighboring countries especially when newly industrializing countries such as Thailand and Malaysia are included in the analysis. The second attempt of analysis on the export structure proved that Myanmar become more dependent on natural resource exports especially natural gas and gemstones mainly to Thailand and China. These two attempts, together, explain that the U.S. sanctions failed to impair Myanmar's export in economic perspective due to the trade diversion to new major partners and diversification for new export drivers.

The third attempt showed that the military regime's response to the U.S. policy goals highly obvious politically despite the growth of export. The achievement of modest policy goals during the second episode of sanctions such as the release of Aung San Suu Kyi after the introductions without enactment of sanction laws as a warning showed the military regime's interest to normalize the relation with Washington. The announcement and execution of the "roadmap to disciplined democracy" after the two sanction laws in the third

episode of sanctions proved that U.S. policy goals for regime change and democratization achieved successfully from the political perspective. This theory was further strengthened by reviewing and revising the political economy assessment, as a fourth attempt, through the analytical framework of Hufbauer et. al.

This study addresses the impact of U.S. sanctions toward Myanmar as a comprehensive analysis from different perspectives. However, as no studies are free from limitations, there are several gaps of research still need to improve in further studies. The first issue is the explanation of the economic impact only through export pattern and structure. To capture the more comprehensive picture of economic impact, further research should address the changes in other important economic indicators such as foreign direct investment and official development assistance. The second issue is the need for further inquiry on the interest of military regime behind the tendency to normalize the relation with Washington and the regime change itself which may lead to extensive research in the international relations perspective such as Beijing factor and other regional factors or interesting domestic political history analysis on the civil-military relations of Myanmar.

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