Après la Dette, le Déluge?
How a Generous Debt Deal in Paris Could Add to an Aid Flood in Myanmar

David Roodman

Abstract

Economic and political reforms in Myanmar have led democratic powers to reengage with the nation in the last year. In January, Japan, Norway, and other Western creditors agreed to cut the debt owed them by Myanmar by about 70 percent in economic terms, while the World Bank and Asian Development Bank refinanced Myanmar's arrears to those lenders. Myanmar's great need and promising reforms might seem to have warranted such substantial forgiveness. But going by most relevant standards, the debt relief was overly quick and large. The regime that contracted the debts may have been "odious" but the current regime is too continuous with the old one to legitimate a refutation of past contracts on the odious debt doctrine. Former political prisoner and Nobel Peace Prize laureate Aung San Suu Kyi has called for suspension, but not elimination, of foreign economic sanctions on her country, in order to maintain pressure for reform. The analogous step for debt would have been to refinance more than cancel, pending further reforms. And by the metrics of established systems for debt relief for poor countries, Myanmar's external debt stress is too modest to justify such substantial forgiveness. Finally, the practical consequence of greater debt relief is more headroom for new lending. Because money is power, infusions of foreign loans have political consequences. Since Myanmar's reform process is promising, incomplete, and delicate, foreign lenders will be wise to move gingerly in disturbing it.

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On January 28, 2013, eleven industrial nations announced a plan to cancel $6 billion in debt owed them by the Republic of the Union of Myanmar. One of the largest sovereign debt deals in recent years, the accord rewarded the erstwhile outcast nation for remarkable political reforms.[1] The obvious symbol of those reforms: in the space of 18 months, Nobel laureate Aung San Suu Kyi went from house arrest to membership in the lower house of the legislature. But the debt deal was more than a reward for reform. It also signified the eagerness of foreign powers to reengage with a nation that is rich in resources and strategically wedged between India and China.

Two days after the deal became public, a separate, more disturbing stream of headlines emerged from Southeast Asia. Lab tests confirmed that Myanmar police had the previous November sprayed white phosphorus on monks and villagers protesting a copper mine expansion that will displace a dozen villages. That expansion is a joint venture of companies owned by the Myanmar military and the Chinese government.[2] White phosphorous is not listed in the Chemicals Weapons Convention. But it is a chemical. And it is a weapon. And it can and did cause severe burns for people exposed. The news was an uncomfortable reminder that the same military that shot and killed thousands of democracy demonstrators in 1988 still holds power.

The generous forgiveness of debt and aggressive suppression of protest dovetail to force some familiar questions in diplomacy. When is it best to engage with a government that is imperfect, as all are? When will engagement support domestic forces for positive change and when will it bolster reactionaries? If there is to be engagement, how much reform should be demanded in exchange for a plum such as debt relief? Too little, and leverage will be wasted. Too much, and opportunities for fruitful engagement will be missed.

This paper argues that debt relief for Myanmar was warranted, but that the extent of the relief granted—about 70% in "net present value" terms—was probably not optimal for Myanmar's development or for the international sovereign debt management system. A more moderate deal would have given the international community more room to modulate further relief in response to continuing improvements in governance and human rights. Going on publicly available information, it would have cohered more with the IMF's analysis of the amount of debt relief Myanmar needed in order to minimize the risk of debt unsustainability. As a result, a more moderate package would have reinforced rather than

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[1] Deals for Iraq in 2004, Nigeria in 2005, and the Democratic Republic of Congo in 2010 were larger in nominal terms. See Paris Club, j.mp/VVIFsY, j.mp/VVIDl5, j.mp/VVIyOl.

[2] Thomas Fuller, "Violent Raid Breaks up Myanmar Mine Protest," *New York Times*, November 29, 2012; idem, "Myanmar Police Used Phosphorus on Protesters, Lawyers Say," *New York Times*, January 30, 2013.

[3] Human Rights Watch, "Burma: New Doubts About Pace of Reforms," May 18, 2013, j.mp/11366lY.

[4] Organisation for Economic Co-operation and Devleopment (OECD), Query Wizard for International

subtly undermining the rules-based approach to debt relief that has been built up over the last 20 years.

The practical consequence of a larger deal has been to create more headroom for new loans. Thus what may matter more than the precise level of debt reduction is how, and how quickly, foreign governments use the resulting headroom. Since money is power, aid has political consequences. Foreign governments will need to be mindful of the risks of injecting large amounts of new aid into a promising but delicate, incomplete, and reversible process of political reform.

This paper reviews the build-up of Myanmar's debt, estimates the country's pre- and post-deal external indebtedness based on fragmentary public data, assesses the Paris Club deal through several distinct analytical frames, synthesizes, and concludes.

History

Burma's founding-father figure is Bogyoke Aung San. As a student in the 1930s, when Burma was part of the British Raj, Aung San became an activist for independence. His views eventually forced him into exile in Japan, a country that proved a welcoming host. Days after the bombing of Pearl Harbor, Japan helped Aung San found the Burma Independence Army, in Bangkok. Once Japan took Burma from the British, it installed Aung San as war minister. But after the Allies gained the upper hand, the British disarmed Aung San's army. Still, the military institution that Aung San founded survives to this day, as does its friendship with Japan.

In January 1948, Burma won independence from Britain. Like India, which became independent five months before, Burma inherited the trappings of democracy. Unlike in India, the political system did not hold. In fact, just before independence, in July 1947, Aung San was assassinated; his surviving family members included a two-year-old daughter, Aung San Suu Kyi. After independence, the government struggled with factionalism, violent ethnic divisions, and a Communist insurgency. In 1962, General Ne Win staged a coup, bringing stability. The military has essentially run the nation since.

Some of the tensions that destabilized the country in the 1950s persist today. Minorities do not trust the ethnic majority government and some fight violently for independence. The American group Human Rights Watch recently cited the government for persecution of minorities such as the Muslim Rohingya.[3] These conflicts create uncertainty about how far Myanmar's political reforms will go. Will the military be willing to relinquish its hold on the government amid low-grade civil wars?

[3] Human Rights Watch, "Burma: New Doubts About Pace of Reforms," May 18, 2013, j.mp/11366lY.

Myanmar's debt troubles began in 1988. In that year popular discontent even within the ethnic majority boiled into widespread pro-democracy protests akin to the ones that would soon erupt in Tiananmen Square. The military put down the uprising by slaying thousands. General Saw Maung then took power and formed the State Law and Order Restoration Council (SLORC). The SLORC imposed martial law and renamed the country "Myanmar" in English. (In the eyes of many, the illegitimacy of the former move tars the latter, which is why the US and UK governments still call the nation "Burma." But now, as the government has gained international legitimacy, the case has strengthened for accepting its chosen English name, so I will favor "Myanmar" hereafter.) In 1990, competitive elections rendered an overwhelming verdict in favor of the National League for Democracy, led by Aung San Suu Kyi. Evidently shocked by the result, the SLORC put Suu Kyi under house arrest and retained power by force.

These events triggered the break with the West. Foreign aid (Overseas Development Assistance, ODA) to the country fell from $333 million in 1988 to $90 million in 1989.[4] The US government severed most links to the country and used its heft at the World Bank and Asian Development Bank (ADB) to assure that they did the same. In subtle contrast, Myanmar's dominant donor, Japan, cut aid without completely disengaging. Japanese ODA fell from $260 million per year into $71 million.[5]

The deterioration in international relations after 1988 also manifest in the World Bank data on lending to Myanmar, albeit with a lag probably caused by staggered disbursal of loans committed before the upheaval. (See Figure 1.) Relative to ODA, these lending figures exclude grants but include non-concessional loans, which by definition bear interest rates too high to qualify as ODA.) Loan disbursements by the World Bank and others averaged $700 million per year during 1978–87 (in dollars of 2005), then fell below $100 million after 1990. The World Bank, Asian Development Bank, and government of Japan had been the major lenders. In the late 1990s, commercial lending spiked briefly in the data, probably relating to natural gas field development. In 1998, after a decade of staying current, Myanmar returned the disfavor of the creditors by defaulting on the development banks and Japan (World Bank 1999, p. 328; ADB 1999, p. 197). The very low amounts of recorded disbursement after 2000—less than $10 million per year—reflect some combination of slowed lending and unavailability of data to the World Bank—either way a sign of Myanmar's isolation.

[4] Organisation for Economic Co-operation and Devleopment (OECD), Query Wizard for International Development Statistics, viewed January 2, 2013, j.mp/VvgOLf.

[5] Ibid., j.mp/VvhuQG.

Figure 2 shows how the flow of new credits translated into the evolution of the total external debt stock. As in many developing countries, Myanmar's external debt stock rose dramatically between 1970 and 1990. After the cessation of lending around 1990, its debt stabilizes in the World Bank data, most of the remaining variation explicable by exchange rate movements that altered the dollar value of yen loans.

However, the country's reengagement with the IMF and entry into negotiations at the Paris Club spurred officials at both institutions to review Myanmar's external debts—and discover billions of dollars missing from the World Bank database. While that database puts Myanmar's end-2010 exposure at $7.836 billion ($7.061 billion in, in 2005 dollars), the IMF's end-2012 estimate is $15.345 billion (IMF 2013a, p. 13). Conversations with officials suggest that the newly discovered debt was of two main kinds: that owed to creditors, above all China, who do not belong to the informal Paris Club of lending governments; and interest and penalties on arrears to Paris Club members, which, one can imagine, Myanmar officials made little effort to track since their build-up involved no receipt of money.

According to the latest IMF figures, 71% of Myanmar's debt stock was in arrears at the end of 2012. (See Table 1.) This statistic includes overdue interest as well as all outstanding principle on loans that are in default, as distinct from just the principal overdue for repayment.

Especially because the IMF has not publicly released its end-2012 debt sustainability analysis, the composition and size of these debts in net present value (NPV) terms are hard to gauge. (NPV counts low-interest loans less.) The public IMF document that is the source for Table 1 (IMF 2013a) states that Myanmar's non–Paris Club debt was $3.16 billion and its Paris Club arrears were $10.05 billion. No information is available on the breakdown between principal overdue, unpaid principal not yet due on defaulted loans, interest on principal overdue, penalties on overdues, etc. The $4.327 billion discrepancy between the World Bank arrears figure ($5.67 billion at end-2010) and the IMF's ($10.05 billion at end-2012) is most easily explained by a failure of the World Bank database to capture the compounding interest and fees on overdues. This suggests that at least $4.327 billion out of the $10.415 billion in end-2012 Paris Club debt list in Table 1 was caused not by disbursement of funds to Myanmar but by lack of repayment. And probably most of the $4.327 billion was accumulating interest at non-concessional rates since Paris Club member typically treat arrears on concessional debt as non-concessional.

Myanmar's arrears built up gradually over 15 years. The sudden desire in 2012 to resolve them owed to Myanmar's political reforms and to the rivalries between China, Japan, and the United States. The arrears notably hindered the multilateral lenders, for the World Bank and ADB cannot make new loans to nations in default on old ones to them. Some bilateral lenders must operate under the same constraint. But in contrast to, say, the Japanese government, which moved swiftly to promise major loan forgiveness (see below) the multilaterals' operating norms all prohibit quick, unilateral debt cancellation or forgiveness of arrears.

While Myanmar and its creditors clearly needed to agree on the handling of existing arrears and stop the build-up of more, it was less obvious that debt reduction, as distinct from refinancing, was needed. Going by IMF metrics, as will be discussed below, Myanmar appears to have had only a borderline case of debt distress—far milder, for instance, than Liberia when it emerged from isolation and sought rapprochement with creditors. And Myanmar's ability to service foreign debt will probably increase substantially. Sustained spells of rapid growth are the historical norm in the region. As public investment increases and the private sector gains more freedom, low-hanging economic fruit will be picked. The IMF predicts economic growth of 6–7% per year and export growth of 12% per year in the medium term, thanks in substantial part to the country's natural gas potential (IMF 2013a, p. 22). Proven gas reserves were 200 billion cubic feet at the end of 2010 (BP 2012, p. 20), and exploration will probably add to that number.

In the event, the country won not just refinancing but substantial debt relief from the democratic powers.

Figure 1. Disbursements of foreign loans to Myanmar, 1970–2010

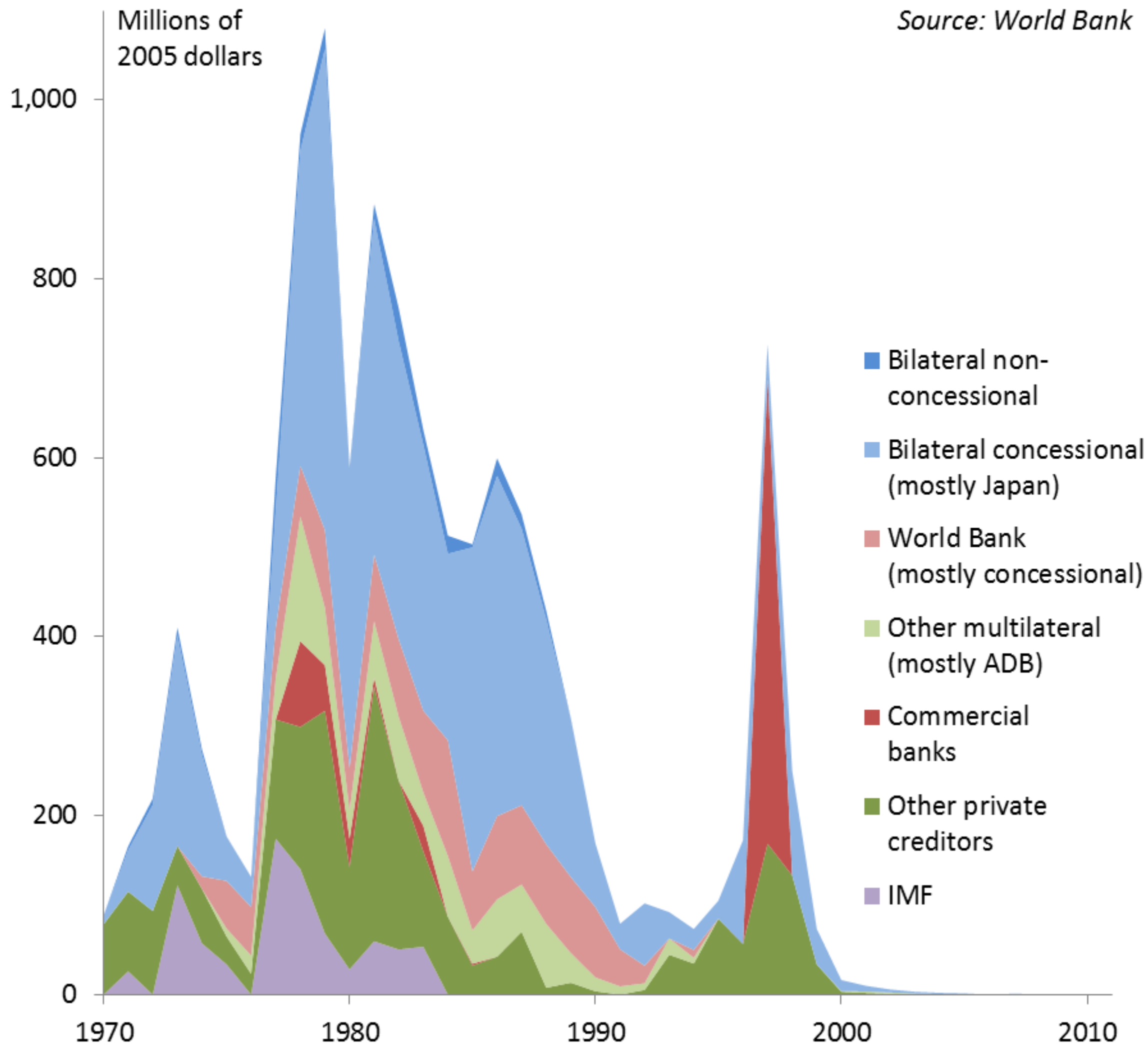


Figure 2. Foreign debt stock of Myanmar, 1970–2010

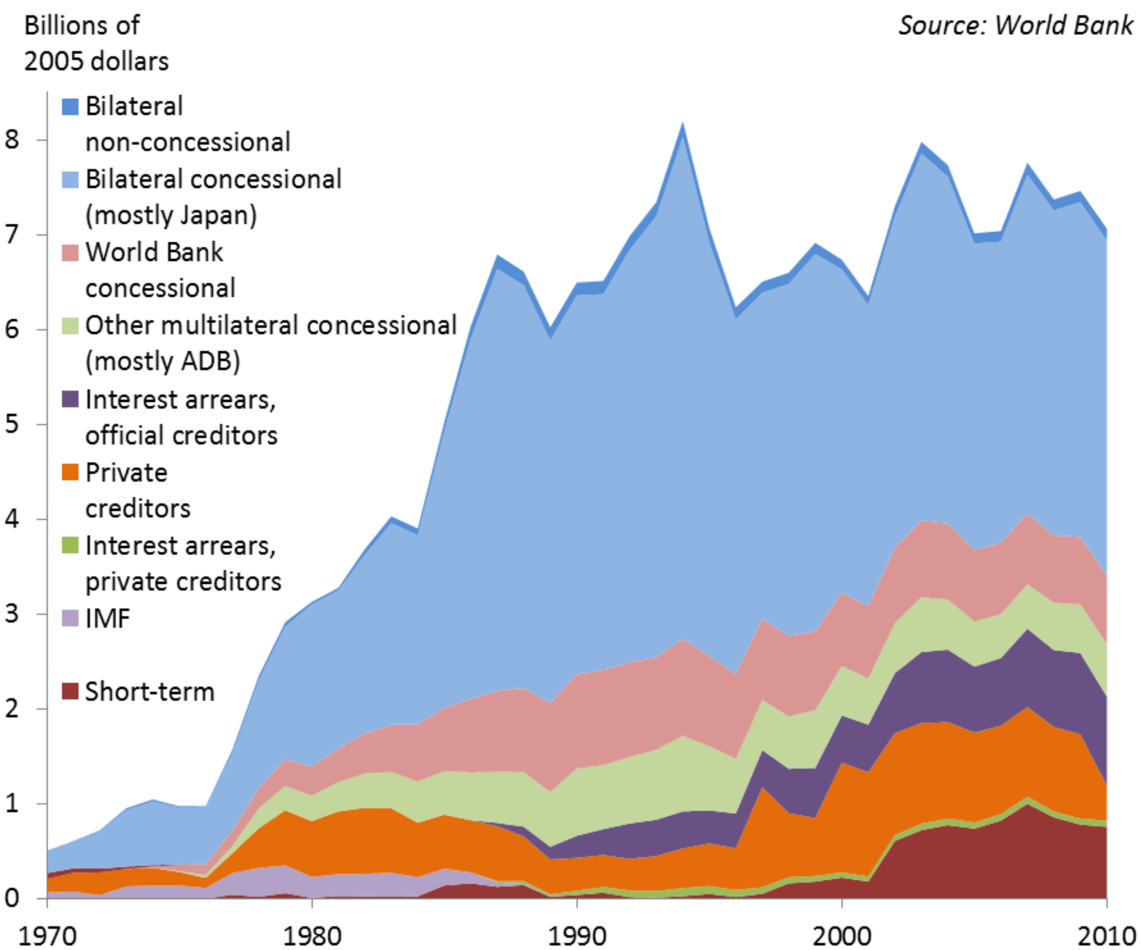


Table 1. Myanmar external debt stock, nominal terms, end-2012 (million $)

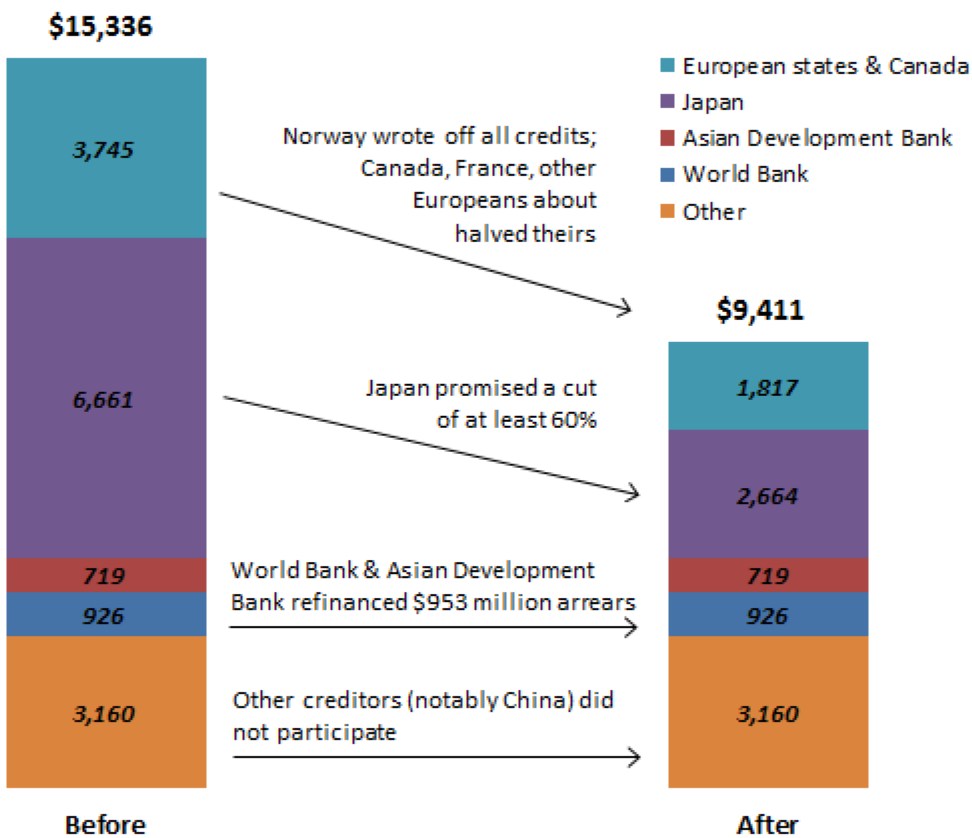
	Arrears	Other	Total
Total	**11,004**	**4,341**	**15,345**
Multilateral creditors	953	717	1,670
World Bank	436	490	926
Asian Development Bank	517	202	719
OPEC	0	25	25
Bilateral	10,051	3,524	13,575
Paris Club	10,051	364	10,415
Japan	6,581	79	6,661
Other	3,470	285	3,754
Non-Paris Club	0	3,160	3,160
Commercial	0	100	100

Source: IMF (2013a), p. 13.

The deal

The debt reduction and refinancing arrangements announced in January 2013 involved six main parties or groups of parties: the IMF; Japan; Norway; Canada and European Union creditors; and the Asian Development Bank and World Bank. Each took distinct steps, or pledged to do so under certain conditions (see Figure 3). Outside the deal were the United States; and China, OPEC, and other non–Paris Club creditors.

Figure 3. The Myanmar Paris Club debt deal, January 2013 (million $, nominal)



Note: An estimated $25 million owed to OPEC and $100 million owed to commercial creditors are not shown. All figures are in nominal, not present value, terms.

The IMF

The IMF's role was distinctive in that the institution was not a creditor and did not become one as a result of the deal. Since Japan and the United States wield far more influence over the IMF than Myanmar does, it would be a stretch to call the IMF a neutral interlocutor. Still, it was an important intermediary. Perhaps because Myanmar was not in default with the IMF, the institution, unlike the World Bank, was able to work with Myanmar officials to gather data on the country's debts. As the repository of technical expertise on the indebtedness of poor countries under the Heavily Indebted Poor Countries Initiative, the

IMF was also equipped to advise the creditors on the sustainability of the debts and the impacts of any debt relief. And it served its traditional function of designing programs of macroeconomic policy reform.

With the apparent exception of the Japan, all of the Paris Club creditors conditioned their debt cancellation on Myanmar adhering to an IMF Staff-Monitored Program (SMP) of reform during 2013. The SMP instrument is a recent and welcome IMF innovation, through which a country can commit to a reform program without also borrowing from the institution. Myanmar's SMP calls for five concrete steps:

- eliminate exchange restrictions on payments and transfers for invisibles (by March 2013);
- announce a plan for phasing out Foreign Exchange Certificates (by March);
- remove restrictions that prevent private banks from conducting foreign exchange operations at par with state banks (by March);
- prepare regulations to introduce treasury securities auctions (by September);
- establish an operational large taxpayer unit (by September) (IMF 2013a, p. 32).

These steps are no doubt intelligently chosen, essential to bootstrapping Myanmar's private sector and strengthening its public sector. But it is hard to argue that they are by themselves worth the $6 billion in debt relief conditioned on them. Clearly creditors had additional reasons for wiping away so much debt.

Japan

As noted, Japan never completely disengaged from Myanmar. It appears that the logic of Japanese foreign policy has always favored normal relations with Myanmar, out of some combination of historical linkages, commercial interests, and a cultural preference for engagement over ostracism. Only the West's determination to isolate Myanmar dragged Japan away. Back in 2002, the Myanmar government had released Suu Kyi from house arrest and began national reconciliation talks. Japan promptly offered reconciliation too: it would proactively forgive interest and principal payments due after April 2003. But the talks with Suu Kyi broke down. The government ended the false dawn by putting Suu Kyi back under house arrest in 2003.

In April 2012, the Myanmar's National League for Democracy made electoral gains—and this time Suu Kyi was not re-arrested, but admitted to the parliament. As soon as this political turning point was reached, Japan announced a comprehensive framework for resuming development cooperation with Myanmar. It would:

1. Renew the December 2002 offer: forgive 127.4 billion yen ($1.37 billion) in interest and principal that had been due after April 2003.

2. Refinance 198.9 billion yen in arrears accumulated before March 2003 (159.8 billion in principal arrears, 39.1 billion in interest arrears, worth $2.13 billion in total). The refinancing terms would turn out to be: 40-year repayment including 10-year grace, with interest of 0.01% per annum.
3. Cancel 76.1 billion yen ($1.89 billion) in charges for overdues, conditional on continuing political reforms for one year. (Japan MOFA 2012a; Embassy of Japan 2013)

These steps would cancel 55% of the 363.3 billion yen ($3.9 billion) in overdues and penalties while refinancing the remainder on such concessional terms as to cut their net present value by up to 60%.[6] Left out of these proposals were credits not in default (just $79 million; IMF 2013a, p. 13); and principal not yet due on loans that were in themselves in arrears (about $2.6 billion).[7] As a rough estimate, if the latter amount had an NPV half of face value, and if the overdues and charges had an NPV equal to face value, then Japan was offering to cut the NPV of its Myanmar debt by 61%.[8]

In addition, in April 2012, Japan and Myanmar inked an agreement to cooperate in developing the port of Thilawa near Yangon (also known as Rangoon; JMOFA 2012b). Most likely the official Japan Bank for International Cooperation will lend money to Myanmar to employ Japanese companies in the development.

In getting out in front of the rest of the Paris Club, Japan strained one of the Club's "five key principles": solidarity.[9] The Paris Club came into existence to limit the losses to its members, thus to taxpayers, on foreign loans (Callaghy 2010, p. 163). To maximize members' negotiating power, the Club unites them behind a common front while engaging debtors one by one. Despite the mission to limit losses, Club members can cancel most or all of the debt at stake in a negotiation if it fits their development and foreign policies, as they did with Guinea and Côte d'Ivoire in 2012. After all, while the Paris Club may have one constitutional purpose, its members pursue many objectives. But in the Paris Club philosophy, if members are to move ahead of the pack, they should do so consultatively. The more the members coordinate, the more they increase their bargaining power long-term. The Paris Club principles have no legal weight, but the repeated-game nature of the negotiations encourages compliance.

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[6] Under a benchmark discount rate of 4% (IMF 2010b, p. 8, note 14), the new terms result in a net present value equal to 41% of face value. How much this *reduces* the NPV depends on the pre-refinancing terms, which I do not know.

[7] $2.6 billion is the gap between the sums mentioned here and the IMF's estimate of total end-2012 arrears of 6.581 billion.

[8] $(55\% + (100\% - 41\%) \times 45\%) \times \$3.9/(\$3.9 + 50\% \times \$2.6) = 61\%$.

[9] Paris Club, "The five key principles," j.mp/12X9csh.

Japan's eagerness to cancel might seem to offer a *benefit* to the rest of the Paris Club since by lowering its demands on Myanmar's fisc Japan will position Myanmar to better service other loans. But if Myanmar and Japan did a deal outside of Paris, Myanmar might not even have bothered to clear its arrears with the other creditors, all of which are less important to it than Japan. Their arrears might have languished, ballooning on paper even as prospects for repayment dwindled. Under their own rules, the aid agencies and development banks might have been unable to grant or lend anew. So to the extent that Paris Club members operated on the logic of solidarity, they wanted Japan to use its superior leverage with Myanmar to assure that *all* creditors, most importantly multilaterals, would achieve resolution.

In the end, Japan stuck to the terms of its offer while maintaining a modicum of coordination with the Paris Club. In official statements, it emphasized the centrality of the Paris Club (Japan MOFA 2012a). And it held off on refinancing arrears (item 2 above) until the Paris Club accord was struck (Embassy of Japan 2013)—but not a day longer.

Norway

Norway entered the Myanmar debt negotiations with a historical commitment to erasing all its debts from the poorest nations. In the early 1980s, after the global debt crisis broke, Norway cancelled its outstanding ODA loans (Norway MOFA 2004, p. 5). The remaining developing-country credits on its books traced to a government program begun in 1976 to rescue the country's shipbuilding industry, which was then 45% idle. Under the Ship Export Program, the government's Guarantee Institute for Export Credits (GIEK) cosigned loans to 21 developing countries to buy $600 million worth of ships. After the global economic slowdown in the 1980s and the rise in interest rates—rates on the ship loans reached 12–13% per annum—many countries defaulted. Meanwhile, global ship prices fell, making the sold boats insufficient as security. As guarantor, GIEK took responsibility for servicing the loans and assumed the right to pursue the original borrowers for compensation (Abildsnes 2007). One of those borrowers was Myanmar, which bought 156 vessels (Norway MOFA 2013).

A 1988–89 review by the government of Grö Harlem Brundtland criticized the program for inadequate analysis of whether the borrowers needed the boats and whether they could afford the loans. Norwegian jobs and profits were the priority, not the interests of the citizens of borrowing countries. The review concluded that such a campaign should not repeated (Norway MOFA 2006). Later, Minister of International Development Hilde Johnson was blunter: "I have myself called this campaign a disgrace. I stand by what I said." (Norway MOFA 2004).

As the international Jubilee 2000 debt relief campaign gathered strength in the UK and beyond, Johnson's ministry in 1998 released an aggressive debt relief plan. Among other things, she committed Norway to:

- considering 100% cancellation of ship loans for countries that had completed the HIPC multilateral debt relief program (see below);
- doing the same for post-conflict countries that were expected to become eligible for HIPC and had received stock reductions for bilateral debt under what were then the Paris Club's most generous terms, Naples terms (Norway MOFA 2004, p. 39).

This formulation respected the Paris Club's solidarity principle. It also restricted the treatment to countries indebted enough to earn multilateral as well as bilateral debt relief, under HIPC.

In the 2000's Norwegian NGOs argued that all the ship loans were illegitimate and campaigned effectively for the government to expanding the cancellation to other debtors. The expansions covered countries such as Egypt and Peru that were not poor and indebted enough to qualify for HIPC. And it included countries too estranged from the international system to participate in HIPC, notably Sudan and Myanmar. In 2007, the Foreign Affairs Committee of the Parliament "urge[d] the Government to cancel Myanmar (Burma) and Sudan's debt to Norway due to the Ship Export Campaign, when these countries establish internationally recognised Governments, and that this cancellation take place regardless of what is done through multilateral debt operations" (translated in Abildsnes 2007). These precedents made it likely that in the Myanmar debt negotiations, Norway would cancel completely.

Indeed, Norway was the only Paris creditor to cancel all of its Burmese debt, which was by the end of 2012 worth NOK 3.2 billion ($580 million).[10] This cancellation, which would be Norway's largest-ever for a developing country, is conditional on parliamentary approval as well as Myanmar's adherence to the IMF-designed SMP. Neither is in much doubt.

Canada and the European Union members

Myanmar's remaining Paris Club creditors were Austria, Canada, Denmark, Finland, France, Germany, Italy, the Netherlands, and the United Kingdom. These nine behaved as creditors do in a classic Paris Club deal, agreeing to and then following a common formula. That formula was essentially London Terms, a Paris Club package named for the location of the 1991 G-7 summit. London Terms halve non-ODA debt—loans given for non-aid purposes, or at interest rates too high to count as aid—and reschedule ODA debt.[11] As noted, probably almost all of Myanmar's non-ODA debt was arrears, and most Paris Club creditors indeed agreed halve arrears as the SMP targets are met. The remainder of the debt will be

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[10] Michael Sandelson, "Norway Strikes Myanmar Debt," *The Foreigner* (Norway), January 29, 2013.

[11] See Paris Club, "London Terms," j.mp/WFZtEO.

rescheduled for payment over 15 years, including a seven-year grace period (Paris Club 2013).[12]

These terms, along with Norway's complete forgiveness, should reduce Myanmar's Paris Club debt by 60% in net present value terms (Paris Club 2013). Factoring in Japan's commitments, which also exceed London Terms, may bring the Paris Club reduction as high as 70%.

The World Bank and Asian Development Bank

Debt relief is a historically heretical notion for the World Bank and ADB. Somewhat paradoxically, being multilateral institutions makes them rule-bound, yet protective of their autonomy—and both traits cause them to resist forgiving debt. Because the World Bank president reports to many masters, his institution cannot be as agile as, for instance, the government of Norway in offering to book losses on old loans. Meanwhile, any depletion of capital would conceivably threaten its credit rating, as well as increase the Bank's financial dependence on member states, including the American government and its skeptical Congress. Thus for reasons of joint governance and independence, core characteristics of a multilateral institution, the World Bank and ADB resist writing off debts. In fact, their rules barred them from conducting financial business with Myanmar because it was in arrears to them. The prohibition extended to refinancing arrears since that too would involve the disbursement of new loans.

Nevertheless, the World Bank has several times over the last decade circumvented the prohibition on lending to defaulters—in spirit if not in letter. (See Table 2.) Bridge loans have been the main mechanism. A third party lends the defaulter a sum. The defaulter uses the sum to come current on its World Bank loans. Free to do business with the rehabilitated debtor, the Bank makes a new loan to at least as large to the debtor. The debtor uses the proceeds to repay the third party's bridge loan. The transactions can take days or minutes. Technically, the Bank never lends to a delinquent. In practice, it refinances defaulted debts.

This rule-skirting seems appropriately pragmatic: default and rehabilitation should be normal experiences for any long-lived lender. The tension inherent in violating the Bank's rules surfaces only in the official language documenting the transactions. Because IDA and the IBRD, the Bank's concessional and non-concessional lending programs, perforce lack windows for the purpose of refinancing old loans, the refinancing credits are placed under other headings. Thus, according to financial statements of June 30, 2003, IDA disbursed a "development credit [to the Democratic Republic of Congo] in support of an economic and

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[12] More precisely, the representatives at the negotiations agreed to recommend these terms to their respective governments.

poverty reduction program, [which] was used to repay the bridge financing" (World Bank 2003, p. 113). That is rather as if the Bank made a car loan to the DRC so it could buy a house. But if a bit of muddled language is the price of pragmatism, it is worth paying.

The ADB had maintained its arrears-refinancing virginity until 2013, probably because of the economic success of its region. Taliban Afghanistan defaulted on a modest $27.7 million in ADB credits, but an avalanche of donor grants in 2002 erased that blot from its balance sheet without refinancing (ADB 2002, p. 56; IMF 2003). As the need to reengage with Myanmar came into focus, the ADB's first refinancing came to seem inevitable (Roodman 2012).

The inevitable arrived at the end of January 2013. To clear the table for the Paris deal, the World Bank lent Myanmar $440 million and the ADB lent $512 million (World Bank 2013; ADB 2013). The total, $952 million, almost exactly matched the country's end-2012 arrears to the institutions, as seen in Table 1. Japan made the bridge loan.

Table 2. World Bank arrears-clearance transactions since 2000

Country	Date	Agency	Amount ($ million)	Means
Serbia & Montenegro, Bosnia & Herzegovina, on behalf of former Yugloslavia	6/30/2002	IBRD	1,745	"New loans extended by IBRD."
Cote d'Ivoire	6/30/2002	IBRD, IDA	5	"Bridge financing provided by an international financial institution."
Rep. of Congo	6/30/2002	IBRD, IDA	34	"Bridge financing provided by an international financial institution."
Dem. Rep. of Congo	7/3/2002	IBRD, IDA	338	"Bridge financing provided by an international financial institution."
Liberia	12/5/2007	IBRD, IDA	451	"Bridge financing provided by member countries."
Cote d'Ivoire	4/2/2008	IBRD, IDA	470	"Bridge financing provided by member countries."
Togo	5/31/2008	IDA	110	"Bridge financing provided by a member country."

Source: World Bank annual report financial statements, various years.

The United States

Myanmar owed no money to the United States. But the United States joined the drama behind the scenes. The U.S. Treasury is the government's lead agency on debt matters. Aside from the broad desire to re-knit Myanmar's relations with the West, the Treasury saw two interests at stake. First, it wanted to preserve the status of the development banks as preferred creditors—as the lenders that should always be first in line for debt service when a sovereign borrowers runs into a fiscal or balance of payments crisis. Preferred-creditor status burnishes the development banks' sterling credit ratings, which lowers their borrowing costs and preserves their (relative) autonomy. In connection with Myanmar, the main threat to that principle was a bilateral Japan-Myanmar agreement. If the two had struck a deal that committed Myanmar to immediately begin servicing some fraction of outstanding Japanese loans, no matter how small the fraction, then Japan would have cut in front of the World Bank and Asian Development Bank in the line for repayment. Second, the U.S. sought to protect the Paris Club principle of solidarity, as discussed earlier. (To be fair, Japan's public statements called for coordinating with the Paris Club and the development banks.)

For these reasons, the U.S. needed Japan to delay the deal it had eagerly promised in April 2012 until an accord could be formulated to encompass all creditors, notably the World Bank and ADB. What must have frustrated the Japanese was that the U.S. executive branch was itself hemmed in by legal restrictions that only the Congress could sever. Congress needed to lift the sanction that required the U.S. board members at the development banks to vote against new loans to Myanmar. And new loans, as we saw, were needed to clear arrears. No Paris Club deal could be reached that would preserve the development banks' preferred status until Congress had acted. The whims of that provincial body thus dictated Japanese foreign policy.

A breakthrough came around September 19, 2012, when Aung San Suu Kyi accepted a Congressional Gold Medal. While on Capitol Hill, she asked Members to end the sanction. That very day the House of Representatives passed the requisite bill. The Senate approved it on September 22 and the President signed it into law on October 5 (Martin 2012).

As must so often be the case, allies worked together like poorly fitted gears. With awkward friction, they ground toward the resolution that would become public in January.

China and other non–Paris Club creditors

Myanmar has received loans in recent decades from countries and institutions outside the Paris Club. The IMF estimates that the country owes the OPEC Fund for International Development (OFID) $100 million on aid loans that went for such areas as agriculture, water supply, energy, education, and transportation.[13] Myanmar owes much more to non–Paris Club bilaterals: $3.16 billion. (See Table 1.) China certainly accounts for the lion's share of this sum. Myanmar was in some respects a classic Chinese aid recipient: in the neighborhood, resource-rich, and compatibly authoritarian. China's credits to Myanmar appear to have been typical too: soft loans that from the Western point of view blur the distinctions between aid, investment, and export finance.

[13] OFID, "Myanmar (Burma)," www.ofid.org/COUNTRIES/Asia/Myanmar.aspx.

Historically, China has favored loans over grants in its foreign economic engagement. One apparent attraction of loans is that they preserve an option: the possibility of cancelling the loans in the future, contingent on the borrower behaving in ways that China perceives to be in its own interest. In a sense, the Paris Club creditors have operated in the same way, leaping to cancel debts after Myanmar reformed. But the same pivot toward democracy that softened the Paris Club creditors' demands for repayment may harden China's. Technically, the fifth Paris Club principle—comparability of treatment—requires Myanmar to obtain equal forgiveness from non–Paris Club creditors.[14] But China probably does not feel much compulsion to coordinate. Post-deal, China will probably hold a much larger share of Myanmar's foreign debt.

Three ways to assess the deal

Against the backdrop of the recent history of development lending and debt relief, the Myanmar of 2012 appeared typical: a poor country in trouble with its creditors. Many such countries have won debt relief in the last 15 years. Between 1988 and 2005, industrial countries construction a rule-based system for reducing the debts of what came to be called Heavily Indebted Poor Countries (HIPCs). By the end of 2012, 35 nations had received debt stock reductions under the program and another, Chad, had earned interim debt service relief (IMF 2013b). In addition, Haiti, Iraq, Liberia, and Nigeria had received debt relief beyond the terms of the established programs. The precedent of Liberia looks most relevant for Myanmar (Radelet 2007). After years of estrangement from the international community, a reformist government came to power, reengaged with donors, and obtained $4.6 billion in relief (IMF 2010a).

How much debt relief was warranted for Myanmar? Three analytical frames can help answer the question. Two tend toward the conclusion that Myanmar did not need or deserve debt relief. One favors relief more modest than was given.

The odious-debt frame

The notion of odious debt is long- but not firmly established in international law. Rather surprisingly given the modern U.S. government's commitment to the sanctity of contracts, the doctrine originated with American efforts to repudiate certain sovereign debts. In 1898, the United States seized the Spanish colony of Cuba—but refused to assume Cuba's debts. The previous government had used the credits to put down an independence movement, even interning suspects in concentration camps. Loans used against the people, the United States asserted, should not be the responsibility of the people. Separately, in the early 1920s, a new government in Costa Rica refuted foreign debts contracted by the just-deposed

[14] Paris Club, op. cit. note 9.

dictator, Federico Tinoco Granados. U.S. Chief Justice and former President William Howard Taft arbitrated the dispute and sided with Costa Rica. He pointed out that the banks knew that Tinoco would squirrel away the money for personal use (Adams 1991, pp. 162–70).

The "odious debt" frame is morally compelling. An abusive government should not be allowed to impose onerous obligations on future citizens. But the black-and-white morality also weakens the odious debt principle as a guide to action. The dividing line between legitimate and illegitimate governance is hard to draw and few cases lie clearly on one side. And even when there is a clear break with the past, the poor cannot eat righteousness. Often, a new government can raise more net funding by servicing rather than repudiating legacy debts. Continued servicing reassures creditors about the government's respect for debt contracts.

It is arguably unjust for new, legitimate governments to be forced into such trade-offs—to please banks by servicing odious debts. In 2010, a CGD working group elaborated an idea put forward by Michael Kremer to thread this needle, so that morality and pragmatism would not conflict (Working Group on the Prevention of Odious Debt, 2010). The approach departs from those century-old precedents in officially determining odiousness *proactively*. For example, major economic powers could have declared the Burmese government to be odious after the coup of 1962. They could have given this declaration teeth by making their courts off limits to legal persons seeking recourse if Burma violated debt or other contracts signed after that date. In 2012, the same powers could then have revoked the declaration to acknowledge Myanmar's reforms. This would have signaled banks that new loans would be easier to enforce than old, possibly delinquent, loans. Drawing this line would have reduced the risk for today's Myanmar that in permanently repudiating the loans of the odious regime, it would lose access to new finance.

Neither the retroactive nor the proactive variant of odiousness applies with much force to the Myanmar of 2013. Major powers did not proactively barricade their courts against claimants on Myanmar. (And if they had, they would probably have done so only after the quashed democracy protests of 1988, by which time nearly all the loans in question were disbursed.) Even the traditional, retroactive notion is hard to apply, because of the continuity between the current regime and that of 1988. There has been no revolution, nor even an alternation of the party in power. The military power structure that kept Suu Kyi in her home for a cumulative 15 years is essentially the one that freed her. The constitution still allows the military to dismiss the civilian government.

But if this provision is excised, and if power alternates to the opposition, the country will break more cleanly from an arguably odious past.

The sanctions frame

Many nations imposed economic sanctions on Myanmar after 1988. The United States enacted five laws between 1990 and 2008 that restricted such ties as trade, visa issuance, and repatriation of Burmese assets in the United States. The provisions of these laws typically gave the executive branch discretion in implementation: sanctions could be lifted if the President certified that standards for human rights and democracy had been met (Martin 2012).

Although Myanmar's debt is not the object of sanctions, the question of how to resolve the arrears in 2012 paralleled that of how best to unwind the sanctions. Lenders had halted loan disbursement. Myanmar had halted loan servicing. Now foreign nations were deciding how swiftly to normalize relations. Thus the discussion on sanctions offers another analytical attack on how creditors, qua creditors, should behave with respect to Myanmar.

Analysis of sanctions options, however, is tough because of our ignorance of likely consequences. Taking a soft line—quickly sweeping away sanctions—might weaken the domestic impetus for further reform. And sanctions can provide impetus, as they may well have in Myanmar. Hufbauer et al. (2007, p. 159) find a degree of success in 25 of 80 cases reviewed. Or a hard line might backfire by failing to reward Myanmar politicians for making tough choices. More elections are coming in Myanmar, so the current government wants to show the fruits of reform.

Aung San Suu Kyi made clear her position. During a 2012 visit with UK Prime Minister David Cameron, she called on foreign nations to suspend rather than terminate current sanctions on her country, so that the sanctions could be quickly reimposed in response to backsliding. Evidently she sees the ability to reinstate sanctions as striking a balance between rewarding the reforms made so far and maintaining pressure for continuance. Suu Kyi is not a disinterested party—she probably wants to maintain pressure on the regime for a process of democratization that could bring her to power—but her voice is uniquely legitimate, precisely because backsliding in the past stuck her in her house for years on end. Given all the uncertainties about consequences, foreign nations can do worse than to take her cues.

What did Suu Kyi's request imply for the debt question? By analogy, to help Myanmar out of default, donors should have refinanced Myanmar's debts much more than reduce them. Like sanctions suspension, a stronger emphasis on refinancing would have regularized relations with Myanmar while preserving more ability, through later debt deals, to further reward reform—reform more substantial than, say, establishing an operational large taxpayer unit (see subsection on IMF above).

That said, while one can in principle draw a sharp line between sanctions removal and sanctions suspension, one cannot do the same between refinancing and reducing debt. Refinancing on generous terms is economically equivalent to substantial forgiveness. As noted above, for example, Japan has refinanced a portion of Myanmar's arrears. They are now due for repayment over 40 years, including a 10-year grace period, and will accrue interest at just 0.01%/year. Using a discount rate of 4%/year, this cuts the NPV of this chunk of debt by 59%.

So the implications of the sanctions frame for Myanmar's debt boil down to this: taking Suu Kyi's plea to heart would have argued for a debt deal that was conservative by historical standards rather than generous. It would have normalized relations—cleared arrears—in order to welcome Myanmar back into the community of nations. And it would have held onto the option of more substantial relief pending deeper democratization.

The HIPC frame

A more practical analytical frame arises from the system that was constructed through G-7 summitry to reduce the debts of the poorest nations (Roodman 2001). G-7 meetings in Toronto (1988), London (1991), and Naples (1994) incrementally increased the offers to poor countries to cancel bilateral debts or reschedule them in ways that reduced their present value. The Paris Club was the primary administrator. The Lyon summit (1996) launched the HIPC initiative, which for the first time countenanced forgiveness by multilaterals, and involved the World Bank and IMF in administration. The Cologne (1999) summit "enhanced" HIPC by lowering the thresholds that determined both eligibility and degree of relief granted. Gleneagles (2005) introduced the Multilateral Debt Relief Initiative to cancel 100% of the debts of the poorest nations to the IMF, World Bank, and African Development Bank (Moss 2006).

As a system for assessing and reducing the debts of poor nations, the HIPC-MDRI combination has flaws—and yet many virtues, which are more relevant for understanding Myanmar's case. On the one hand, it is constructed as a one-off response to external debt troubles and so falls short of the ideal of a permanent Sovereign Debt Restructuring Mechanism (Krueger 2002). On the other hand, the programs set eligibility and amounts of debt to cancel based on relatively transparent and deterministic criteria. These criteria are moreover calibrated to the borrower's rather than the lender's economic situation—based on the goal, for example, of reducing the present value of external debt to 150% of annual export revenue, rather than limiting the lenders' losses by capping reductions at, say, 33% of the stock. The formulas also enshrine the principle of uniformity of treatment: all creditors of a given type are expected to participate proportionally, and all debtors similarly situated should receive similar treatment.

Debt sustainability analyses under HIPC take their bearings from several measures of debt burden: the net present value of the debt stock as a share of GDP or annual exports or government revenue; and debt service paid as a share of exports or revenue. The lack of complete, public information on the present value of Myanmar's end-2012 foreign obligations impedes precise estimation of its readings on these indicators. If, as suggested earlier, most of the additional debt discovered since the last complete set of figures (IMF

2012) is non-concessional arrears, then Myanmar's external debt burden is probably below two indicative thresholds and above one. Specifically, by adjusting upward the ratios the IMF published in May 2012, using partial data in IMF (2013), I estimate the NPV of Myanmar's end-2012 external debt at 24% of GDP, 121% of exports, and 184% of government revenue.[15] The IMF's corresponding "indicative thresholds" are 30%, 100%, and 200%. Bringing Myanmar below the one threshold it exceeded at end-2012, debt/exports, would have required a 100%–100%/121%=17% cut.[16]

Following its standard methodology, the IMF also simulated the evolution of Myanmar's indebtedness ratios under various scenarios. These simulations reinforce the impression that Myanmar is in little debt distress. Since the latest versions of these results are also unavailable, I adapted the ones published in May 2012 by scaling them upward in proportion to my estimates of the IMF's upward revisions of the indebtedness indicators (from 18% to 24% for NPV debt/GDP, 85% to 121 % for debt/exports, and 152% to 184% for debt/government revenue). The rescaled baseline scenarios are depicted in Figure 4. (The plots of debt service/exports and debt service/revenue are rescaled by the corresponding factors for debt/exports and debt/revenue.) It seems that under the IMF's baseline scenario the Myanmar's economic growth quickly outpaces the burden of current debts. The one indicator that starts above its threshold soon falls below.

Now, appropriately, the IMF tests many scenarios. The IMF can and does construct ones much more pessimistic than the baseline. On the other hand, the IMF's "historical scenario," based on past trends in such variables as GDP growth, proves far more optimistic than the baseline shown (IMF 2012).

Recent extraordinary debt cancellations also provide interesting comparisons. (See Table 3.) The Liberia deal took place through the HIPC-MDRI system but offered deeper relief than required under the rules of those programs. Liberia in 2009, like Myanmar now, was extremely poor and was just reengaging with donors. And as the graphs in Table 3 make obvious, Liberia's debt was far higher relative to capacity to repay—to the point of being largely unpayable. At the other extreme, Haiti received debt relief in 2010 despite having debt stress indicators lower than Myanmar's. (It had completed HIPC just half a year before the quake (Roodman 2010).) But that cancellation took place under the extraordinary circumstance of the Port-au-Prince temblor. Neither of these instances makes a strong case by comparison for Myanmar debt relief.

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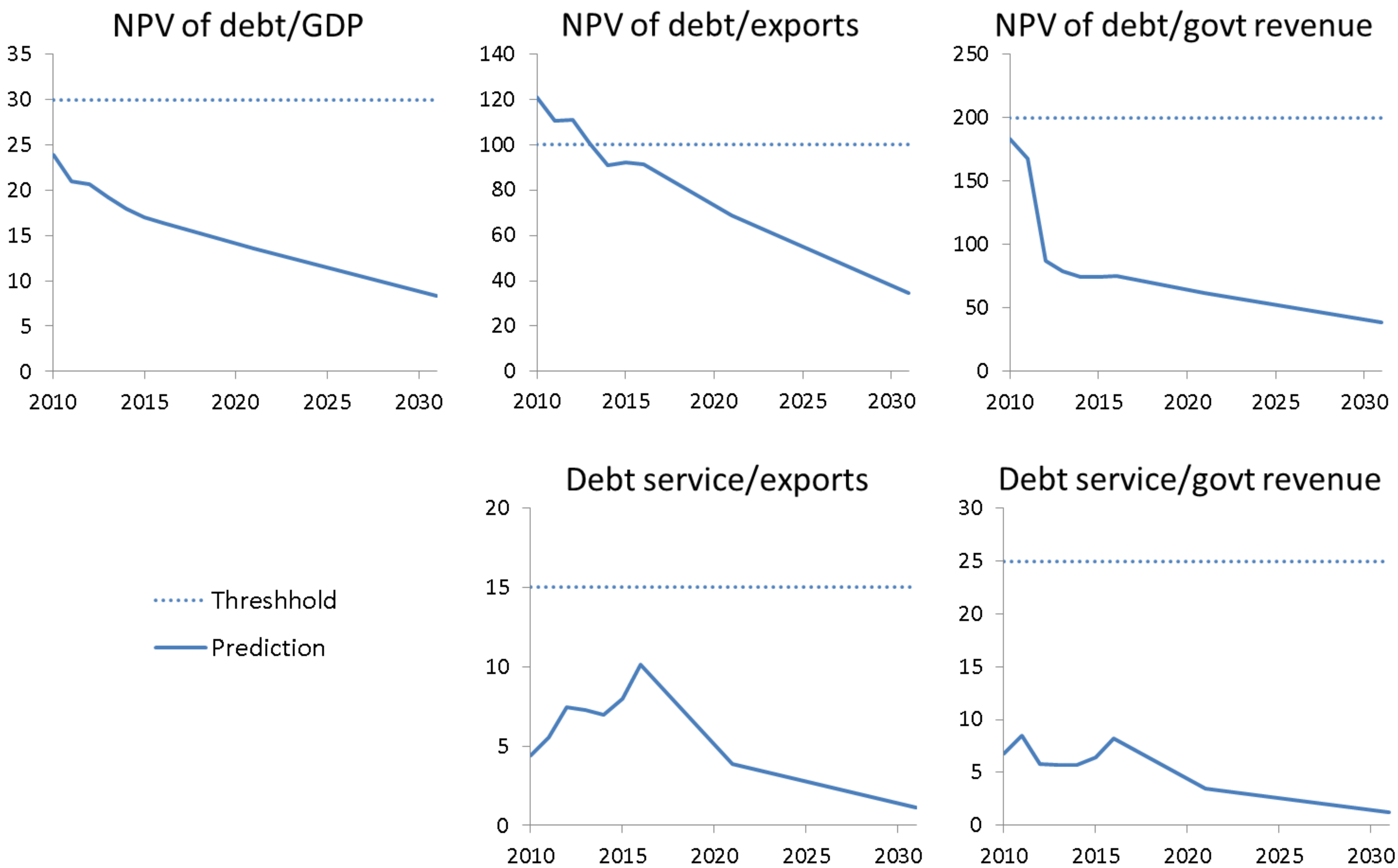
[15] Pre-deal indicators based on *debt service* are less meaningful since Myanmar was not servicing most of the loans before the deal.

[16] Calculations are in the "2012 stock estimates" tab of the spreadsheet that accompanies this paper. These numbers help explain why Myanmar has not been considered for HIPC and MDRI. Bilateral relief will pull its indebtedness well below the eligibility levels. HIPC and MDRI were created to reduce multilateral debts when bilateral debt reduction is insufficient.

Figure 4. External debt indicators under revised baseline scenario (%)



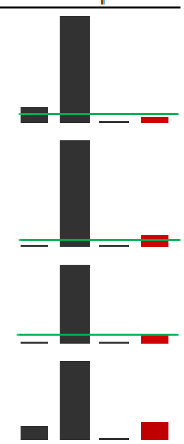
Notes: Scenarios are from IMF (2012) and have been scaled in proportion to author's estimates of the IMF's upward revisions in debt stock figures at end-2012, as reported in IMF (2013a).

The more relevant and compelling comparator is Nigeria in 2004. Like Myanmar, it was a young and fragile democracy with resource riches and an external debt stock inflated by arrears and charges thereon (Moss 2005). Its shift to democracy, though encouraging, was hardly perfect. Olusegun Obasanjo, the former head of the military government, had won the first two elections in the new democratic era, both of which were challenged as unfree and unfair. Meanwhile, Nigeria's debt indicators, shown in Table 3, were broadly comparable with Myanmar's in 2012. In 2005, Nigeria agreed with its creditors to buy back much of its debt at about 34 cents on the dollar, a rate that lines up with the 60–70% reduction Myanmar obtained. The creditors' motives in agreeing to this deal were akin to those they felt in facing Myanmar: a sense that the debt was tinged with odiousness; and a concern for the strategic importance of the country, as Africa's most populous democracy.

In sum, the norms embodied in the many debt reductions for poor countries in the last decade did not imply an urgent need to lower Myanmar's external debt, certainly not by upwards of 70%. On the other hand, it is not unprecedented for a confluence of political reform and geopolitics to elicit such a cut.

Table 3. Debt stress indicators before major debt reductions

Indebtednes indicator	HIPC threshhold for weak-governance countries	Nigeria, 2004	Liberia, 2007	Haiti, 2009	Myanmar, 2012	Graph
Debt/GDP	30%	48%	255%	11%	24%	
Debt/exports	100%	87%	510%	80%	121%	
Debt/revenue	200%	110%	1018%	102%	184%	
Debt/capita	N/A	$156	$552	$75	$180	



Notes: All debt figures in present value terms. In the graphs at right, HIPC thresholds are indicated by green lines and country statistics are graphed in the same order as in the table, with Myanmar last, in red.
Sources: Myanmar figures are estimates based on IMF (2012a, 2013); Liberia figures from IDA and IMF (2008, p. 7); Nigeria figures from IMF (2005, pp. 63, 65); Haiti figures from IMF (2010, pp. 6, 10).

Conclusion

By most benchmarks, the debt relief for Myanmar was overly large. The amount of relief granted appears not to have based on a rigorous analysis of need, at least not one made public. More modest cuts, along with steady economic growth, would have diminished the burden.

Moreover, while the write-offs will be irreversible after 2013, the political reforms that inspired them are fragile. A decade ago, a shift toward democracy fizzled. The country's initial failure with democracy in the 1950s was caused in part by ethnic strife that is now resurfacing. Western human rights groups are gravely about the government's treatment of minorities. Even the Jubilee Debt Campaign criticized the big deal as premature (Jubilee Debt Campaign 2013). For it to question debt relief for a poor country is almost unheard of.

And unlike in Liberia, where Ellen Johnson Sirleaf arrival in the presidency marked a sharp break with the past, Myanmar's Sirleaf remains largely out of power. In an odd reversal, Sirleaf won debt relief and a Nobel Peace Prize *after* taking power, not before.

There is much to celebrate in recent developments in Myanmar: the move toward plural government, the economic reforms, the rapid reengagement with the full global community. The development successes of neighbors such as Thailand, Vietnam, and Bangladesh also give much hope. So perhaps this concern that the debt deal is suboptimal is overwrought. Put otherwise, the search for the perfect deal is an optimization problem in which the surface of possibilities is rather flat and fuzzy. When the terrain is nearly flat, one can be quite far from the peak—yet only a few feet lower than it. And when its contours are uncertain, this compounds the potential for search error.

The main concrete consequence for Myanmar of the large deal is to position Japan and the Western creditors, along with the development banks, to lend more than they otherwise would have. More debt reduction allows more debt creation. The net financial effect is that of a large grant. That can be for the good. But as became clear after the earthquake in Haiti (Ramachandran and Walz 2012), one danger when a poor nation suddenly wins the favor of donors is a rush to the entrances: a proliferation of agencies and projects that overwhelms the administrative capacity of the donors and the recipient and causes, through lack of coordination, great waste. Already, observers worry about the dangers of an aid rush in Myanmar (Rieffel and Fox 2013).

Aid can also affect political economy by handing more money to some actors than others. Myanmar's political state is promising but delicate. Surely outsiders would be prudent to step gingerly, lest they disrupt what is going so well.

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