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NAVIGATING SANCTIONS AND INSTABILITY: THE LIVED EXPERIENCES OF YANGON SMES AFTER THE 2021 MYANMAR COUP

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Abstract

This study examines the impact of post-coup economic sanctions on the daily realities of Small and Medium Enterprises (SMEs) in Yangon, Myanmar, a context characterized by international pressure and domestic political turmoil. Through qualitative interviews with seven Yangon SME owners and experts, the research explores the complex interplay of economic sanctions, government policies, and operational challenges. The study identifies key transactional constraints, including international financial restrictions, inflation, and supply chain disruptions. It finds that sanctions, while intended to pressure the regime, disproportionately impact SMEs and interact with domestic misgovernance, creating a compounding effect. The study examines how government policies, particularly those related to price and currency controls, exacerbate challenges faced by SMEs. Drawing parallels with the Iranian experience, the research underscores the significance of a state's response in mitigating the adverse effects of sanctions. The study proposes targeted financial support for SMEs and programs for displaced workers as crucial measures to foster resilience and prevent further economic decline. Ultimately, this research contributes to understanding the human impact of sanctions in fragile states and informs strategies for more effective and responsible foreign policy.

Keywords: Economic Sanctions, Myanmar, Small and Medium Enterprises, Yangon, Political Economy

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Introduction

Economic sanctions have long been utilized as a foreign policy instrument to pressure targeted regimes by restricting trade, financial flows, and economic relations (Ilieva et al., 2018). In a fragile state like Myanmar, where political instability meets a military-dominated economy, economic sanctions not only impact the targeted regime but also reshape the entire business ecosystem, especially the survival of small and medium-sized enterprises (SMEs). Myanmar has received numerous economic sanctions since the military coup that took place on 1 February 2021. The coup was followed by the detention of country leaders, chief ministers, the executive members of the election-winning party, the National League for Democracy (NLD), and other political activists (Thang, 2022). To restore democracy and stop human rights violations, both individual countries and regional bodies have imposed sanctions. For instance, the United States issued Executive Order (EO) 14014 immediately after the coup, imposing economic restrictions on individuals and entities involved (McMillan et al., 2021). The Treasury Department's Office of Foreign Assets Control (OFAC) blocked the financial assets and restricted commercial relations with Myanmar's military-affiliated businesses (Sidley Austin LLP, 2021). Additionally, the US, UK, and Canada coordinated financial transaction restrictions on the Myanmar Oil and Gas Enterprise (MOGE). This state-owned company generates over US$1 billion annually for the junta (Bauchner, 2023). The EU also imposed asset freezes, investment prohibitions, and import and export bans, targeting the timber and gem industries (Comply Advantage, 2022). Australia restricted financial flows, resource access, and fuel supply chains through entities such as Asia Sun Group and Cargo Link Petroleum Logistics Co., Ltd. (Pye, 2024).

These sanctions were intentionally designed to minimize harm to the general population. However, due to Myanmar's complex economy, which is dominated by military monopolies, sanctions often create spillover effects that extend beyond their intended targets. Since 1962, following the declaration of "The Burmese Way to Socialism," the military and its associates have monopolized Myanmar's economy through the establishment of the Myanmar Economic Holdings Corporation in 1990 and the Myanmar Economic Corporation in 1997, which covers transportation, trade, mining, banking, and consumer goods. These enterprises have dominated national supply chains and financial flows, effectively influencing both military and civilian markets (Min & Kudo, 2014). As a result, sanctions that aim to restrict military revenues also disrupt the broader economic landscape, especially where civilian enterprises are linked to logistics, finance, and supply chains shaped by these conglomerates.

Among the most vulnerable are small and medium-sized enterprises (SMEs), which make up 99.4% of all privately held businesses in Myanmar, contributing 50-95% of employment and 30-53% of GDP (Charltons Myanmar, n.d.). Myanmar's SME sector encompasses a diverse range of industries, from trade to services, offering employment opportunities for a broad spectrum of skilled and unskilled workers. A diverse range of export products, including beans and pulses, wooden items, value-added forest products, marine products such as fish and shrimp, and processed food items, is produced by private SMEs. Additionally, SMEs play a key role in export promotion and import substitution by utilizing Myanmar's natural resources (Lwin et al., 2022). Despite their importance, the performance of SMEs also relies on external factors, with sanctions particularly impacting their limited access to credit, foreign currency, and international trade mechanisms.

Yangon, Myanmar's largest city and commercial capital, plays an important role in this context. The city, with a population of over 4.4 million (as of 2 July 2024), has served as an economic hub since the colonial era (World Population Review, 2024). With triple the size of Mandalay city, it had accelerated economic growth through rapid urbanization, attracting a massive labor force and creating massive job opportunities in the industrial and service sectors. Its strategic position in financial and commercial services, along with its port, makes it the ideal location for export-driven SMEs (Gómez-Ibáñez et al., 2012). According to the Directorate of Industrial Supervision and Inspection (2024), Yangon has the highest number of SMEs (9224) in Myanmar, which significantly contributes to the national economy and employment (Hansen et al., 2019).

Since the coup, the city has lost its characteristic of being a major city and economic hub (Kemp, 2023). However, despite its profound socio-economic challenges, Yangon remains the city with the highest potential for Myanmar's future economic growth. Compared to other economically vibrant cities, such as Mandalay and Monywa, Yangon's economic importance still surpasses theirs. Even Nay Pyi Taw, the administrative capital, lacks the same economic vibrancy and labor force as Yangon. The report also stated that Yangon continues to be a core city with the most significant number of wealthy consumers, thereby remaining the most significant economic contributor to Myanmar (Euromonitor International, 2024).

Given Yangon's role in Myanmar's SME sector and national economy, it is necessary to explore the implications of economic sanctions affecting the functions of SMEs in Yangon City. This research, therefore, aims to (1) examine the potential negative impacts of economic sanctions on the daily operations of Yangon SMEs and (2) propose suggestions for sending entities in the imposition of informed and responsive sanctions to mitigate the unintended consequences. By focusing on Yangon SMEs, this research contributes a critical understanding of how macro-level sanctions interact with micro-level business environments in authoritarian settings.

Literature Review

Economic Sanctions and the SME Sector

Economic sanctions are often employed as a foreign policy tool to pressure states without resorting to military intervention. However, their consequences are far more complex than intended. According to Farzanegan & Hayo (2019), economic sanctions have a profound impact on the growth of a national economy, disrupting trading activities and causing significant damage to a sanctioned country's welfare. Sun et al. (2022) further argue that sanctions can have a significant impact on non-targeted business firms within the same supply chain, with SMEs being particularly vulnerable due to their limited financial and operational buffers.

Economic sanctions cause SMEs to face sourcing complexity, leading to supply chain disruptions and resulting in delays or interruptions in production processes. It also presents challenges in finding alternative suppliers or quickly adjusting their sourcing strategies. These measures increase operational risks, which can affect the ability to meet customer demands and maintain efficient operations (Ha & Thang, 2023).

In Sudan, economic sanctions had resulted in a 70% decrease in business activities, affecting trade transactions, financial growth, and the survival of individual enterprises. SMEs in Sudan are adversely affected by trade embargoes, asset freezes, financial transaction blockages, and prohibitions on business activities with American entities. Interestingly, small business owners in Sudan sustained. Despite the challenging economic climate, these small businesses survived by adopting innovative strategies such as seeking alternative funding options and exploring non-traditional business opportunities (Abdalla, 2017). This suggests that sanctions can not only suppress but also encourage local adaptation and self-reliance.

Myanmar's Political Economy and Post-2021 Crisis

Myanmar's political economy is characterized by strong ties between the military and its associated business conglomerates. Since the military coup in 1962, the military has maintained its economic monopolization through the establishment of military-owned conglomerates, such as MEHL and MEC, thereby retaining disproportionate influence over major sectors (Min & Kudo, 2014). This significant economic monopolization has created a structural dependency, whereby targeted sanctions, although aimed at those conglomerates, have broader spillover effects, disproportionately affecting non-targeted sectors, such as SMEs.

Following the 2021 coup, the impact worsened, as the state led to immediate political turmoil, including an ongoing civil war and economic instability, alongside civilian resistance movements such as the Civil Disobedience Movement (CDM) and the People's Defense Forces (PDF) (Ganesan, 2023). Western democracies, including the United States, have imposed targeted sanctions on military leaders, specifically Min Aung Hlaing and his associates, in an effort to restore democracy (Rogers et al., 2023). King (2022) warned that sanctions could lead to a significant decline in international investment, tourism, and economic activity, putting Myanmar's economy at risk and potentially throwing millions into poverty, which also showcases a "boomerang effect". The study also suggested that sanctions may unintentionally harm ordinary citizens by causing severe economic hardships and restricting access to essential resources and services. However, they aim to pressure the military junta.

Critically, emerging literature from local research highlights how these external sanctions interact with domestic instability to produce intricate challenges for the SME sector. According to Wai et al. (2021), SEMs experienced supply chain disruptions, raw material shortages, payment system difficulties, and weakened consumer demand. These findings highlight the compounding effects of both external sanctions and internal governance policy failures, particularly in SEM sectors. The study also identified border trade disruptions, cash flow problems, and banking instability, including difficulties in online payments and cash withdrawals, as major obstacles. Although some specific sectors, including delivery, cleaning, and essential goods, gained opportunities even during the COVID-19 third wave, the overall market for most SMEs in the post-coup era contracted sharply, with some reporting a 50% decline in sales. The study concludes that most SMEs are focusing on business survival rather than expansion, given the weakened and uncertain economy with diminished purchasing power, indicating a significant downturn in entrepreneurial growth.

The Case of Iran

Iran, on the other hand, provides a useful comparative lens. Iran has faced economic sanctions for decades, beginning in 1979 after the revolution and subsequent hostage crisis, which provoked the US to impose sanctions. As geopolitical and security concerns grew, sanctions expanded, including the U.S. dual containment policy in the 1980s. In the 1990s, the US aggressively imposed additional sanctions over concerns about Iran's nuclear program. By the 2000s, sanctions escalated, imposed not only by the US but also by the EU and UN, targeting to suppress Iran's nuclear ambitions and addressing geopolitical concerns (Hakimian et al., 2014). These measures again signify the "boomerang effect", with their most profound effects on non-targeted state actors and economic structures, particularly SMEs.

In Iran's SME sector, trade barriers, political instability, and legal challenges have created significant obstacles, making it difficult for both bankrupt and new enterprises to survive, particularly those facing financial constraints (Hassanzadeh et al., 2024). Likewise, Gümüş et al. (2022) stated that US sanctions and the COVID-19 pandemic severely impacted the operational efficiency, production, and development of SMEs, as economic relationships with EU countries were disrupted. Moreover, financial sanctions have disrupted SMEs' access to international banking services, securing loans, and conducting transactions with foreign partners. Consequently, the shortage and increasing demand for foreign currency led to inflation, which made raw materials and goods more expensive, thereby raising production expenses and reducing profitability for SMEs that heavily rely on imported materials (Yazdi-Feyzabadi et al., 2020). To maintain the value of the national currency, the Central Bank of Iran tightened the market freedom of currency exchange to suppress the demand. Even with these policies, Iran, however, failed to control the currency exchange market, resulting in further economic implications (Pedram, 2022). This situation illustrates the unintended spillover effects, where movement-led stabilization policies, although aimed at solving macroeconomic issues, end up damaging market mechanisms and worsening business uncertainty, especially for SMEs.

Despite these challenges, SMEs in Iran have demonstrated remarkable forms of adaptive resilience. Studies have shown that sanctions have had positive effects and encouraged Iran's SMEs, despite the economic hardship. One positive impact, for instance, was the reduction in the economy's dependence on oil and the promotion of self-efficacy (Majidi & Zarouni, 2022). The situation also encouraged Iranian SMEs to utilize and rely on domestic resources, fostering innovation through numerous investments in information technology, thereby enhancing their resilience and operational efficiency (Cheratian et al., 2023). Additionally, the situation has driven SMEs in Iran to develop stronger financial systems and functions as a strategic adaptation to economic constraints (Hassanzadeh et al., 2024).

Critically, the case of Iran presents an interesting comparative lens for Myanmar. Both countries exhibit heavily centralized economies with dominant state-linked entities, making their other sectors, such as SMEs, uniquely vulnerable to external sanctions. However, Iran's long-term exposure, government support policies, and internal market size may have allowed for more adaptation. In contrast, Myanmar's economic environment, characterized by sudden political shocks and ongoing instability, may hinder similar economic improvements. Exploring these contrasts is key to understanding how sanctions interact with domestic governance and structural constraints in different political economies.

Research Methodology

This study utilized a qualitative research approach to gain an in-depth understanding of the unique and complex realities faced by Yangon SMEs due to economic sanctions, employing a semi-structured interview method to capture detailed experiences and uncover diverse and detailed perspectives on their responses to the impact of sanctions, which would be challenging to capture through quantitative means. The primary data of this research were collected through semi-structured interviews with seven participants. Interviews were conducted in the Burmese language with open-ended questions and later translated into English for thematic coding and analysis.

The participants were purposefully selected using criterion-based purposive sampling to ensure that the sample reflected diverse perspectives based on firm size, institutional experience, and theoretical expertise, thereby enabling multidimensional conclusions. These participants can be divided into four distinct categories.

Category 1: Two small-sized enterprise owners were chosen to gather insights into the unique experience as they face more severe challenges. They were selected based on three criteria: (1) being located in Yangon City, (2) having a business age of more than 5 years, and (3) having a maximum of 60 employees or fewer.

Category 2: Three medium-sized enterprise owners were chosen to gain a broader view of the Yangon SME landscape and the insights that contrast with the experiences of smaller businesses. They were selected based on three criteria: (1) having a business age of at least 7 years, (2) running the business with 60 to 600 workers, and (3) being involved in daily business activities or having substantial decision-making authority.

Category 3: One representative from an organization that works on the development of SMEs in Yangon was included due to their expertise and hands-on experience in supporting SMEs. The organization was selected based on a proven track record of supporting SMEs in Yangon for at least seven years. The representative of the organization must have: (1) at least five years of working experience and (2) be someone working in a position where he/she closely work with SEMs to gain the on-ground perspective.

Category 4: One scholar expert was included to gain a broader understanding of the challenges faced by SMEs in Yangon from an academic and theoretical perspective. The scholar was selected based on three criteria: (1) a strong academic background in economic development and SME research, (2) published work on relevant topics, and (3) relevance to Myanmar's economic context.

Table 1 List of Participants

No.	Participant	Gender	Group	Exp. year
1	A	Female	Small-business owner	5 years
2	B	Female	Small-business owner	6 years
3	C	Male	Medium-sized business owner	10 years
4	D	Female	Medium-sized business owner	7 years
5	E	Female	Medium-sized business owner	8 years
6	F	Female	Representative of an SME developmental organization	5 years
7	G	Male	Economic Scholar	6 years

The study also acknowledges the limitations of a small sample size and participants' willingness to speak openly due to the political sensitivity, which may have limited disclosure of some insights. However, insights collected from multiple stakeholders have helped mitigate this limitation to some extent.

Research Findings

Transactional Constraints

Three major issues are intricately linked and impact the daily operations of SMEs, including banking-related problems, inflation, and supply chain disruptions.

1) Banking Issues: The first problem is banking-related problems, both at the international and domestic levels. At the international level, sanctions have affected the financial transactions of export enterprises. For instance, Participant C and G reported that export businesses can no longer directly deal with trades or transfer money due to the consequences of trade and financial restrictions. Instead, those businesses must either use agents or establish a subsidiary or other entity in another country to operate correctly. At the local level, the people of Myanmar have lost trust in banks, as well as digital banking transfers, since they can no longer trust the government authorities that can control or intervene in the banks. As a result, people withdraw their money and keep it as cash. When people rush to withdraw cash, banks often need to limit the amount that can be withdrawn due to liquidity constraints, which contributes to the financial complications of SME operations. Participant C explained its difficulty, "In my rice export businesses, local farmers typically do not have bank accounts or online banking access, so cash is a must when they sell. We typically receive digital payments from large export companies in Yangon, and we need cash to pay back the farmers. Due to current restrictions, we either cannot withdraw money or can only withdraw limited amounts as bank authorities dictate." These conditions have created a challenging financial environment where formal banking has become unreliable, forcing SMEs to rely on costly and risky alternatives for everyday transactions.

2) Inflation Impact: The second problem is inflation, which significantly impacts the prices of raw materials and operational costs. Participant C further expressed, "The value of the Myanmar currency was dropping rapidly, like ice cream melting in summer. For instance, a pair of 14-inch rubber balls used for removing the husk of rice grain used to cost 80,000 MMK (25 USD) before 2021, but the price rapidly increased to 280,000 MMK (86 USD) in November 2023, and 650,000 MMK (200 USD) in June 2024." The consequences vary depending on the market and product type. Not all businesses are necessarily affected by inflation. For instance,

Participant E with car dealing business, explained that "even though the price of vehicles has significantly grown, profit can still be made with higher resale prices since people are collecting assets like cars to avoid the effect of Myanmar currency devaluation." Experienced business owners with strong financial capabilities can better cope with the current economic situation because adequate financial resources enable them to maintain operations with less impact from rising prices. In contrast, businesses with weaker financial capacity faced operational difficulties, and some even had to shut down. Participant A shared a personal story: "My cousin's sister ran a small popcorn business that was quite successful, but she had to stop operations due to high expenses." Overall, the impact of inflation has widened the gap between financially resilient and vulnerable SMEs, forcing those with limited capital to face a higher risk of closure, and smaller businesses to either gradually reduce operations or exit the market altogether.

3) Supply Chain Disruption: The third major issue is supply chain disruption, which is exacerbated by trade restrictions, transitional constraints, and inflation. Businesses now have to rely on some countries that serve as agents for imports. This additional step increases costs and complicates logistics. For instance, Participant D highlighted, "As a sanctioned country, Myanmar can no longer import automotive parts and supplies directly from EU countries. We now have to import these materials through either Singapore or Thailand. In the past, we could import directly and sell at reasonable prices. However, with the need to transit through a second country, we have to pay an extra 3 to 7 percent, and it becomes impossible to sell at the previous price." Participant B also expressed that the difficulty in sourcing essential kitchen supplies, such as gas and curry paste from Thailand, disrupts restaurant operations. Financial restrictions have restrained smooth transactions, while inflation drives up import costs. Participants B, C, D, and F agreed that these compounded effects have a severe impact on businesses that rely on imported goods. Participant F also highlighted, "Before 2021, starting a business was relatively straightforward. Now, it is much more complicated due to various import challenges." These findings suggest that trade barriers, compounded by inflation and policy limitations, have deeply strained Yangon SMEs' supply chains, consequently raising costs, delaying operations, and discouraging new businesses.

Administrative Challenges

Under the context of administrative challenges, there are two top issues, including (1) workforce management and (2) market and sales challenges.

1) Workforce Management: The first issue is the workforce management problem resulting from inflation. Participants A, C, D, and E from SME owners reported that salaries for workers were raised, indicating that SME owners are trying to be responsive to the well-being of their workers in this inflationary climate. However, small businesses can only afford to raise salaries for specific workers to keep the business running, and some workers have had to be reduced. Participants A, B, and E continue to run their business with low profits for the sake of current workers, despite a significant drop in product demand and very low profit margins. These responses reflect a broader perspective where SME owners are absorbing financial strain to protect their workforce. However, the resulting economic climate provides a limited chance for sustainability, putting long-term labor retention at serious risk.

2) Market and Sales Challenges: The second issue is market and sales challenges resulting from inflation. Participants A and B, from the food and service business, reported that their businesses experienced a shrinking market size and decreased consumer demand, resulting from smaller spending capacity due to high costs and unemployment. Participant B reported, "On one hand, we are facing price increases for business operations, but on the other hand, prices cannot be raised due to the fear of losing customers. It is a difficult balance." This situation has forced businesses to produce only a specific volume, yet they still struggle to sell them at reasonable prices.

Recommendations
This section includes two key suggestions: (1) targeted financial support; (2) programs to support displaced workers.
1) Targeted Financial Support: The first suggestion is targeted financial support. Participants A, B, C, and F highlighted that financial assistance and investment are crucial for the SME sector. Participant C noted, "Agricultural and production technology plays a crucial role in rice production-related SMEs. We need access to business loans and technological support to improve our production capabilities." Participant A supported this perspective, suggesting that grant programs would be more beneficial than loans under the current economic climate.
2) Programs for Displaced Workers: The second suggestion is to establish programs to support displaced workers. Participant G, an economic expert, suggested that international entities should create initiatives to prepare displaced workers for new opportunities. Participant G further explained, "When EU companies withdraw from Myanmar, it could result in job losses. Before the departure of these companies, programs like language training or vocational courses could be implemented to help displaced workers secure jobs in other countries."

Conclusion and Discussion

Impacts of Economic Sanctions on the Day-to-Day Operations of SMEs in Yangon Since the 2021 Coup
To understand the intricate complications faced by Yangon SMEs, the researcher has identified two main categories of challenges: (1) financial restrictions and (2) trade restrictions.
1) Financial Restrictions: Under the broad category of financial restrictions, Yangon SMEs face numerous challenges, including international transaction constraints, inflation, and domestic banking issues.
Yangon, as an economic hub with its port facility, handles all Myanmar export goods. However, financial restrictions have limited trade deals and the daily operations of export enterprises. Before the 2021 coup, export businesses freely received payments from international dealers through the Myanmar Foreign Trade Bank (MFTB). Since September 1, 2023, Singapore's United Overseas Bank (UOB) has cut its ties with banks in Myanmar, restricting all payments to and from Myanmar accounts (Kit & Yang, 2023). According to Zhang (2022), when domestic enterprises face transitional constraints, they tend to opt for processing trade over general trade, resulting in lower profits compared to general trade. That is precisely what happens to Yangon export enterprises. For instance, Participant C's business typically received payments directly through MFTB. However, due to sanctions, they now have to route transactions through banks in Thailand, adding both financial and bureaucratic burdens. Similarly, Participant G shared that some Myanmar export companies have set up new entities in Dubai, shipping their products there first and then selling them from Dubai. Clearly, financial constraints have limited the export capabilities of Yangon-based enterprises, directly impacting the country's revenue and its ability to participate in global trade. Such practices not only lower transparency but also reduce national income, thereby contributing to broader macroeconomic instability. This impact has led to the next issue, inflation.
A reduced national income has led to lower foreign currency reserves, which, coupled with rising inflation, has made it harder to sustain the Kyat's value. According to McCauley & Chan (2014), when a country has fewer foreign currency reserves, its central bank loses the ability to maintain the stability of its national currency. Without enough reserves, the central bank cannot effectively combat sudden capital outflows, causing the currency's value to fluctuate more and often become weaker. Evidently, the Central Bank of Myanmar (CBM) can no longer maintain the value of the national currency. To solve this situation, CBM set an official exchange rate of 2,100 kyats per dollar in August 2022. However, the actual exchange rate in the market and private banks remained stable at 2,800 kyats per dollar for several months. By

May 2023's third week, the kyat dropped to 3,000 per dollar (The Irrawaddy, 2023). This clearly shows that the Myanmar government's fixed exchange rate policy has failed to stabilize the rate or prevent currency devaluation. Instead, it has only made the situation worse, also indicating the Myanmar government's failure to implement an effective monetary policy. Participant G further expressed that whenever there is price fluctuation, whether in the USD, gold, or rice markets, the government responds by arresting the seller or fixing the price, rather than investigating and resolving the root causes with effective economic policies. These kinds of authoritarian measures exhibit similar patterns to those observed in Iran and Venezuela. Iran also faced a situation where the value of its currency dropped dramatically due to the spillover effect of financial restrictions. With growing concerns, the Central Bank of Iran actively interfered in the currency market to maintain its value. Through combating the Smuggling of Commodities and foreign exchange laws, the government tightened currency exchange freedom by determining who could access foreign currency, how much, and for what purpose, and imposing penalties on those who held, carried, or sold currencies. Although these measures temporarily suppressed demand, they were ineffective in controlling the currency market, causing further instability (Pedram, 2022). Comparatively, Venezuela experienced a similar situation where government-imposed exchange rate controls and heavy-handed economic policies led to severe currency devaluation. The Venezuelan government's attempts to control the exchange rate and restrict access to foreign currency resulted in a flourishing black market and further economic instability (Corrales & Penfold-Becerra, 2011). These cases demonstrate how government policies aimed at managing inflation can exacerbate the economic challenges faced by local businesses and individuals.

The failure of the Myanmar government's financial policies and its intervention in both government and private bank operations has led to the people losing trust in the banking system. People have been rushing in cash withdrawals, preferring to hold physical money. The strain on banks has forced them to restrict cash withdrawals as the crisis worsens, with many fearing bank insolvency and economic instability (The Irrawaddy, 2023). This entire scenario reflects one of the findings from a survey conducted by van der Cruijsen et al. (2020), which stated that trust in financial institutions is procyclical, depending on the economic situation, especially during financial crises. Considering Myanmar's case, the evolving economic crisis and the struggles of its people have further contributed to the mistrust of banks at the domestic level. Financial restrictions, through their consequences on foreign currency shortages, banking mistrust, inflation, and government policies, have created persistent challenges for the daily operations of Yangon SMEs. The whole situation also illustrates a compounding effect where international sanctions and domestic misgovernance disproportionately affect SMEs' operations.

2) Trade Restrictions: Under trade restrictions, the operational environment for SMEs is primarily disrupted by two main challenges: supply chain issues and inflation, both of which are exacerbated by government policies.

The first problem is the supply chain disruption. Myanmar relies heavily on imports, as it cannot produce certain raw materials or end products, and economic sanctions have disrupted supply chains, creating sourcing complexities and delays in obtaining raw materials (Ha & Thang, 2023). Due to the trade sanctions, some businesses can no longer import supplies and raw materials from other countries. Participant D reported that importing automotive parts and supplies directly from the EU is no longer possible, creating additional operational challenges, such as increased costs and delays due to sourcing through third countries like Thailand or China. This has affected the ability to maintain stock and fulfill customer demand efficiently. Participant B also highlighted that in her restaurant business, the availability of kitchen gas, curry paste, and flavors imported from other countries like Thailand became one of the challenges in operations, resulting in interruptions in daily food preparation and menu adjustments, as some key ingredients are no longer regularly available or have become too expensive. These findings align with the case of Iran under the trade restrictions. Iran also experienced a situation where trade restrictions undermined Iranian supply chains through their numerous consequences, including import and export constraints, delivery restrictions on purchased and sold items, and a decline in supplier numbers (Shakeri et al., 2016). Moreover, Myanmar's newly implemented import policies have also caused a significant impact on the supply chain. The government has imposed limitations on certain goods, which resulted in a strained supply chain. Participant D highlighted that it was relatively straightforward to import materials previously, but now, with new regulations, the process has become significantly more complicated. Specific documentation became required for each category of goods. This increased bureaucracy adds to the delays and costs, further disrupting the supply chain. In contrast, the Iranian government's approach to trade restrictions was remarkable. For instance, economic dependence on oil has decreased, and the promotion of self-sufficiency has been implemented (Majidi & Zarouni, 2022). Government policies have encouraged Iran’s SMEs to utilize and rely on domestic resources, fostering innovation through investments in information technology to enhance resilience and operational efficiency (Cheratian et al., 2023). Additionally, the situation has driven SMEs in Iran to develop stronger financial systems and functions as a strategic adaptation to economic constraints (Hassanzadeh et al., 2024). With the strategic support of the government, Iran’s SME sector not only survived but also developed despite the severe economic hardship. Critically, Myanmar’s context differs from the Iranian case not only in terms of sanction design but in state response. Unlike Iran, which supported its SME sector through innovation and policy adaptation, the Myanmar government has made things worse for its SMEs by imposing stricter controls that have a severe impact on market flexibility and increase risks to SMEs' resilience.

The second problem is inflation. Supply chain disruptions have increased the cost of raw materials, making SMEs struggle with higher production expenses, which in turn further increase product prices across the market. This scenario has triggered two significant issues for SMEs. Firstly, the rise in prices damages consumer demand, as Gafurdjan (2024) stated in his study, which found that inflation has a significant influence on consumer behavior. As prices increase, consumers tend to adjust their spending habits by prioritizing basic needs, such as food, housing, and healthcare, which is also the case for Yangon SMEs. Since their consumers no longer have jobs or regular income and face financial burdens, the demand of the whole market has consequently dropped. Consequently, SMEs cannot operate their functions properly in a shrinking market with limited production activity and expansion deterrents; therefore, some businesses are even seeking opportunities outside Myanmar. Secondly, government regulations aimed at combating inflation have posed additional challenges for SME operations. As inflation continues, the Myanmar government has fixed the price for certain essential goods, restricting businesses from selling above the set rate. Participant C highlighted that the government had controlled the rice selling and buying price within an unreasonable range. Guenette (2020) has highlighted in his study that price control often hinders enterprise growth and development, as it can depress profit margins and discourage businesses from investing or expanding. In Participant C’s case, farmers, factories, and dealer agents have invested in all production processes, incurring high operational costs. However, the government’s price control policy has mistreated them, forcing them to lose significant profit margins. Despite rising costs, businesses cannot increase prices, as the government can intervene and penalize them for doing so. This highlights how price control policies, although meant to combat inflation, can accidentally harm SMEs and make it harder for them to operate, leaving them between unsustainable costs and harsh policy enforcement.

To summarize, sanctions and government policies each contribute to exacerbating these problems. It is essential to recognize that these challenges are interlinked, with both sanctions and government policy enforcement contributing to the operational difficulties faced by SMEs. In some cases, government policy can worsen the operational challenges resulting from sanctions.

Recommendations on How Sending Entities Could Impose Informed and Responsive Sanctions

Given the intricate interaction of sanctions and domestic misgovernance in a fragile state, two main recommendations have been identified for sending entities to mitigate the impact of sanctions:

1) Provide Investment Loans and Financial Assistance to SMEs: In the short term, Investment loans and financial assistance programs would be a great thing to help SMEs. Access to capital is crucial for SMEs to sustain operations, invest in new technologies, and expand their businesses. Providing investment loans and financial assistance can help mitigate the negative impacts of sanctions. Participant G explained that the actions and restrictions imposed by the Myanmar military government have exacerbated the difficulties faced by SMEs and the population, extending beyond the direct effects of sanctions. Currently, SMEs in Myanmar cannot obtain financial assistance from the government, and the support of the international community would be beneficial. As highlighted by Bala (2016), government and international support, including financial incentives, can significantly enhance the growth and resilience of SMEs. According to a study by Muriithi (2018), similar initiatives have proven successful in other developing countries, where government-backed loans helped SMEs survive and even thrive during economic downturns.

In the medium term, local SME development programs can play a crucial role in empowering these businesses under such an economic climate, as Participant F suggested. Programs, including business training, mentorship, and market access, can be implemented by collaborating with local NGOs or development programs. The experience of Iran under sanctions, as documented by Majidi & Zarouni (2022), demonstrates that targeted support programs can help mitigate the adverse effects of economic restrictions.

In the long term, policy advocacy to promote financial inclusion within Myanmar's banking sector can be beneficial for the prospects of Yangon SEMs. Thein et al. (2025) noted in their study that Myanmar SMEs typically face difficulty accessing bank loans, as the banking sector tends to favor large enterprises. They stressed that when Myanmar SMEs apply for bank loans, only 21% are approved, unlike in Iran, where government loan programs were employed to support micro-level enterprises under sanctions (ECO Trade and Development Bank, 2017).

2) Implement Programs to Support Displaced Workers: Sanctions can often result in unintended outcomes, such as increased poverty and humanitarian suffering, rather than achieving their political objectives (Choukroune, 2021). Therefore, when imposing sanctions, it is essential to calculate the potential impacts on the people and develop measures to mitigate these effects, thereby protecting civilians from severe repercussions. Participant G pointed out that when EU companies withdrew from Myanmar due to sanctions, it resulted in significant unemployment in Yangon, forcing workers to flee to other countries to seek jobs legally or illegally.

To mitigate these adverse effects, sending entities should implement programs by collaborating with local organizations or available NGOs to support displaced workers and prepare them for new opportunities. Programs could include language training and vocational courses to help them secure jobs in other countries. Participant G suggested that language training programs could help migrants better integrate into the Thai workforce, thereby improving their chances of securing stable employment. Additionally, vocational courses can provide the technical skills needed for various industries, thereby broadening employment opportunities.

In conclusion, economic sanctions are used as a diplomatic tool in the international arena to influence the behavior of certain states. Myanmar is one of the nations that has been imposed with massive sanctions since the 2021 coup. This situation has brought uncertainty over Myanmar's economy and negatively impacted local businesses, particularly SMEs. Yangon, as an economic hub, is home to the largest number of SMEs and is currently experiencing a significant decline in economic well-being. The research found that Yangon SMEs' operational challenges result from transactional constraints at both national and international levels, inflation, supply chain issues, and declining consumer demand. Economic sanctions have an indirect impact, with intricate links to many challenging factors rooted in financial and trade restrictions. However, sanctions alone are not the sole cause of the challenges; government policies are also exacerbating the difficulties for SME operations. Two main recommendations are proposed to mitigate the impact of sanctions: providing investment loans and financial assistance to SMEs, and implementing support programs for displaced workers.

This study contributes to ongoing policy debates on sanctions reform by emphasizing the need to integrate SME protection mechanisms into sanctions design. It also highlights the intricate interplay between international measures and local economic policies in fragile states, such as Myanmar. Future research should consider sector-specific analyses to understand how specific industries experience and adapt to the impacts of economic sanctions. Longitudinal studies could also track the evolving impacts over time, particularly under changing political and economic conditions. Gathering these insights would be vital both for developing sanctions policy and strengthening support systems for SMEs.

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