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Policy Dilemmas and Economic Development: A Case Study of Myanmar Economy in Transition

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. Introduction

Myanmar covers an area of 676,577 sq. km (or 261,228 sq. miles) with 2,800 km of coastline along the Indian Ocean. It is bordered by five nations, China, Laos, and Thailand on the East and Northeast, and India and Bangladesh on the West. Myanmar is the largest country in mainland Southeast Asia; twice the size of Vietnam and over a quarter larger than Thailand. The total population of Myanmar was estimated officially at 53.22 million in 2003-2004, and this population comprises of some 130 ethnic groups or nationalities spreading over 14 States and Divisions, with over three-quarters of the population living in the rural areas.

1.1 Purpose of the Paper

The main purpose of this paper is to explore and analyze how the policies in Myanmar turned into dilemmas for development and then suggest the options for resolving problems and attaining development.

1.2 A Brief Economic Background

Myanmar is endowed with rich natural resources and favorable land-man ratio, but, unfortunately, Myanmar and her people still remained poor. Myanmar's history of economic development since independence can be divided into three chronological segments of political economy as follows: the period of parliamentary democracy with a mixed but free economic system (1948-1962) the period of command and socialist economy under military rule (1962-1988) and the period of market-oriented economy

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under military rule (1988-to date)

Myanmar economy was relatively stable during the first period, but began to deteriorate since the second period at an accelerating pace that once the most developed country in Southeast Asian region until early 1960s was degraded to the status of Least Developed Country (LDC) in 1987. The dissatisfaction of people heightened in 1988 and broke out into general uprising, which eventually led to a change of government in that year in a *coup-de-tat* by the ' State Law and Order Restoration Council('SLORC) which later changed its name to the ' State Peace and Development Council('SPDC)

The SLORC/SPDC initiated some liberal reforms¹ and made considerable investment to build the physical infrastructures, which paid off as reflected in the successful implementation of the First Four-Year Short Term Plan (1992/93-1995/96) However, the reform was partial and short lived, and the economy suffered later from the legacy of central planning and macroeconomic imbalances. Many flaws and deficiencies were noted in both formulation and implementation of policies and plans so that the economic performance was very poor, and the economy was plagued by high inflation and macroeconomic instabilities with all characteristic features of underdevelopment.

1.3 National Economic Objectives and Goals

There are four explicitly stated national economic objectives as follows:

- (1) Development of agriculture as the base and all round development of other sectors of the economy as well;
- (2) Proper evolution of the market-oriented economic system;
- (3) Development of the economy inviting participation in terms of technical know-how and investments from sources inside the country and abroad, and
- (4) The initiative to shape the national economy must be kept in the hands of the State and other national peoples.

There are two explicitly stated national goals; namely, (1) Building Myanmar to become a modern developed nation, and (2) Catching-up her ASEAN counterparts first and then the developed countries like Japan and finally the industrialized Western countries in level of economic development by 2015, 2020 and 2030, respectively².

1.4 Means to Achieve the End

The objectives and goals are to be achieved through planning by setting high growth rates of GDP to be able to catch up development levels of ASEAN and other developed countries. The targets were set in high physical quantity, and maximizing these targets seemed to become the objective function of the planners, conceiving perhaps that high growth rates are synonymous to development.

The theoretical basis of the policies adopted by the present military regime in Myanmar is observed to be related to the 'stages of growth theory' that had been widely adopted by the developing countries in the 1950s and 1960s. The theory saw the process of development as a series of sequential stages through which all countries must pass and conceived saving and investment as the two most important prerequisites for development³. However, this theory had been discarded in almost all countries since late 1960s, and adopted market theories since then as a most reliable and desirable approach, but in Myanmar, the invalid old theories were noted to be still playing a dominant role in policy making.

. Economic Environment and Performance

2.1 Macroeconomic Environment

The situation of macroeconomic environment of Myanmar was briefly analyzed by taking into account only three major economic indicators, namely, market, inflation and foreign exchange rate, which more urgently needed attention in Myanmar economy context.

Markets: Its Nature and Characteristics

The imperfect and segmented markets with widespread speculations and an uncertain and insecure environment prevailed in Myanmar for long now. This was mainly caused by inconsistent and inefficient policies, too much controls and restrictions on free flow of inputs, including information, and output⁴. While globalization demands outward-orientation with more competitive edge to win in business, Myanmar's policies were oriented towards inward-looking and isolation with more and more restrictions and regulations. This has upset market efficiency and pushed up costs, which constrained all potentials and capabilities of market-oriented

growth. Although socialism and centralized planning system had been discarded since 1988, more and more centralization, controls and intervention have taken place, which further caused to deteriorate efficiency in resource allocation, production, trade and investment etc.

Inflation

The inflation in Myanmar was, in fact, induced by the inefficient socialist policies of the 1960s. The macroeconomic stability was sustained until 1962 by maintaining the demand-supply balance, but this balance and stability was upset under the socialist policies. Misallocation of scarce resources with heavy wastages and high costs caused inflation to take root. It had been fueled later by the irrational and inappropriate policies of market and prices, budget and expenditure allocations, and exchange rates, among others. The public expenditures in Myanmar were noted to be disproportionately allocated on areas that have not contributed directly to current production⁵.

Table 1: Inflation: Selected Asian Countries, 2000-05 (% change from previous year)

Year	2000	2001	2002	2003	2004	2005 ^a	2000-05 (avg:)
1.Singapore	1.3	1.0	-0.4	0.5	1.7	0.4	0.8
2.Malaysia	1.5	1.4	1.8	1.2	1.4	2.9	1.7
3.Thailand	1.7	1.6	0.6	1.8	2.8	4.5	2.2
4.Cambodia	-0.8	0.7	3.7	0.5	5.6	5.5	2.5
5.Vietnam	-1.7	-0.4	3.8	3.1	7.8	8.4	3.5
6.Philippines	4.0	6.8	3.0	3.5	6.0	7.6	5.2
7.Indonesia	3.6	4.4	3.5	3.1	4.6	9.3	4.8
8.Laos	25.1	7.8	10.6	15.5	10.5	8.0	12.9
<i>ASEAN avg: (1 to 8)</i>	4.3	2.9	3.3	3.7	5.1	5.8	4.2
9.Taiwan	1.2	0.0	-0.2	-0.3	1.6	2.3	0.8
10.China, PR of	0.4	0.7	-0.8	1.2	3.9	1.9	1.2
11.Bangladesh	2.8	1.9	2.8	4.4	5.8	6.5	4.0
12.India	3.8	4.3	4.0	3.9	3.8	4.5	4.1
13.Pakistan	3.6	4.4	3.5	3.1	4.6	9.3	4.8
14.Sri Lanka	6.2	14.2	9.6	6.3	7.6	11.6	9.3
15. Bangladesh	2.8	1.9	2.8	4.4	5.8	6.5	4.0
<i>Average (9 to 15)</i>	3.0	3.9	3.1	3.3	4.7	6.1	4.0
<i>All Average (1 to 15)</i>	3.7	3.4	3.2	3.5	4.9	6.0	4.1
16. Myanmar	-1.6	34.6	58.0	26.8	12.0	9.0	23.1

Source: ESCAP *Econ & Social Survey of Asia & the Pacific 2006*, New York, 2006) pp. 208-09; and for Myanmar, MNPAED, Yangon. Note: a = estimates

The extent of inflation in Myanmar in facts and figures for a six year period from 2000 to 2005 is reported in Table (1) in comparison with ASEAN and some selected Asian countries. The (official) average rate of inflation for Myanmar over the six-year period was 23%, which was about five times higher than the average rate for all 15 Asian countries (4.1%) and the average rate for eight ASEAN countries (4.2%) during the same period. Laos registered the highest rate of inflation of 12.9%, but the rate was still much lower than that in Myanmar. High money supply (M2) growth to finance budget deficits⁶, heavy government expenditures, and several other cost-push factors⁷ were identified as the factors responsible for such a high inflation rate in Myanmar. The Myanmar authorities made known to the public of their intention to reduce inflation rate to 5% level in fiscal year 2006/07, but its plausibility is questionable in view of recent new developments that have pushed costs further up. For example, under the impact of recent gasoline price hike⁸, heavy cost of shifting to the national capital *Nay Pyi Taw* which was still continuing, and raising salaries of public employees⁹, reducing the inflation rate to 5% seems to be unrealistic.

Exchange Rate

There are various foreign exchange rates in Myanmar that are not yet unified; parallel rates co-exist side by side with the official rates, which itself varies under different conditions and occasions depending on the user and the purpose of use.

Official Exchange Rate Myanmar currency, kyat (K) has been officially fixed at K8.5085 for 1 SDR on 2nd May, 1977, meaning that kyat is officially fixed at K6 per US dollar¹⁰. This rate remained intact for the past 30 years now, but this period has been a period of dramatic change in the economic conditions and environment in other countries¹¹, suggesting that the rate has gone completely out of alignment with regional and international trends in costs and prices. As the private sector generally ignored this official exchange rate in their transaction of privately conducted trade and economic activities, the regime has introduced the Foreign Exchange Certificate(FEC) in February 1993. At present, it is estimated that about 70% of the country's FE business is conducted at the parallel rates¹².

Parallel Exchange Rates The average parallel exchange rate in 1988 was K42 per USD, which increased to K 1,065 in 2005, to K 1280-1300 during first half of 2007 and further to around K1400 during the latter half of 2007. So the value of Kyat in 2005 has fallen by over 25 times of what it was worth in 1988, and over 31 times in 2007.

The official rate of K6 per US dollar is applied in official and intra governmental foreign exchange dealings. It is required by rules that a state owned enterprise (SOE) engaged in the export trade and earned FE must surrender the exchange earnings to a central fund, which paid back at the official rate of K6 for its earnings. The losses incurred by the exporting SOEs were met out of the government's budget. However, FE is allocated out of the central fund at K6 to the dollar to the favored sectors, pet projects and high priority expenditures such as for defense. This type of intra governmental exchange dealings at the official rate makes it difficult to determine, on the government's receipts side, which enterprises are actually making profits and which are not. Similarly, on the expenditure side, valuing certain imports and cost of items purchased at K6 to the dollar will greatly understate the expenses incurred in terms of kyat.

Unifying Exchange Rate Many analysts have long been insisting the government to undertake reforms to unify the multiple exchange rates. For example, the IMF recommended to gradually moving operations of SOEs to the parallel FE rate that would not add to the budget deficit and would not disturb the FE market by matching importing and exporting enterprises based on their foreign exchange transaction volumes¹³. The government ignored the proposal as it was perceived as too liberal and risky politically.

Some critics recommended the kyat exchange rate to be market-determined and stabilized at a realistic level for which a transitional period would be necessary to avoid havoc in exchange market¹⁴. There are other suggestions which emphasized on replacing the official exchange rate by an explicit system of taxes and subsidies through the budget for the public sector, or, as an alternative option, to constantly adjust the domestic market value of the US\$ continuously to smooth out fluctuations in local economy and international market environment¹⁵.

Although the government has not yet endorsed any of such proposals, the movements of exchange rates have not been permitted a free fall of the kyat. When the regime feels that the exchange rate is falling too fast and is getting out of hand, it intervened by using the “administrative measures.” These *ad-hoc* measures were noted to be effective only temporarily, but mostly failed in the longer terms¹⁶. The activities of the privileged and well connected business groups and organizations that engage in lucrative speculative activities in the market also considerably destabilized the exchange market.

2.2 Performance of the Economy

With this macroeconomic backdrop, performance of Myanmar economy is briefly analyzed below by focusing on eight major economic indicators; namely, GDP growth rates, per capita GDP level, GDI/GDP ratios, export/GDP ratios, structural change, foreign exchange rate, and inflation.

GDP Growth The average GDP growth rate of the Myanmar for a six-year period (2000-2005) as officially reported, was 12.6%. The comparable figures for other developing Asian countries ranged between 3.5% (for Taiwan) and 8.5% (for China) during the same period. The year on year growth rates also showed that Myanmar’s rate was unusually higher than other countries. The GDP growth rates of all four country-groups (NIEs, second tier NIEs, other developing countries, and least developed countries) showed that the rates were trending downwards from about 7% in 2000 to 5% in 2005, while Myanmar’s rates persisted at or around 13% continuously for six years (Table 2)

Most analysts have doubts with Myanmar’s official GDP growth rates; the ESCAP estimated Myanmar economy to be grown by 5% for 2005/06, while the IMF’s estimate put it at range of 3.2% to 5.3% for four years (from 2004/05 to 2007/08)⁷. For 2007, Myanmar’s official estimate of GDP growth was even higher of 13.8%, but few, if any, accept it as realistic. As indicated by the comparative figures in Table 2, the real GDP growth rates were consistent for other countries, excepting Myanmar, ranging between 3.5% and 8.5%, but Myanmar’s rates were extraordinarily high of 13.8%, 12.6%, 12.2%, and 12.6%, respectively, for the years, 2003 through 2006 (Table 3)

The GDP growth rates for Myanmar alone by decades for a period of 60 years (1950/51 to 2004/05) showed that the rates were consistent for first five decades ending in 1990, the rates ranging between 1.9% and 6.9%, while for the last decade, 1999/00 - 2004/05, the rate became unusual of 12.6% (Table 4). A continuous real GDP growth rates of over 12% for a decade in a row is impossible unless a favorable environment persisted for that decade. However, Myanmar's economic and policy environment have never been favorable during the last decade.

GDI/GDP Ratios These ratios were noted to be consistent and realistic until 1990, although subject to fluctuations (Table 4). During the first decade (1950/51-1959/60) Myanmar had achieved an average GDP growth rate of about 6% with a high GDI/GDP ratio of about 19%. Then in the following second and third decades (1961/62-1970/71 and 1970/71-1979/80) the economy deteriorated with real GDP growth rates declining to about 4%, while the GDI/GDP ratio fell between 12% and 13%. The fourth decade (1980/81-1989/90) was the worst in Myanmar's post independence history with the average GDP growth rate of 1.9%, as against 2% population growth rate, but the GDI/GDP ratio was high of 16.1%. During the fifth decade (1990/91-1999/2000) GDP growth rate was considerably high of 6.1%, while the GDI/GDP ratio deteriorated to 13.6% (from a high of 16.1% during the previous decade). Then, during the 1999/00-2004/05 period, the GDP grew more than double from 6.1% to 12.6%, while the GDI/GDP ratio declined from 13.6% to 11.8%. The relationship between GDP growth rates and GDI/GDP ratios indicated that they were neither consistent nor realistic. Attaining the increased GDP growth rates while the GDI/GDP ratios were declining was conceptually untenable. So, it seemed absurd to claim (by the officials) that the GDP growth rates increased, while the GDI/GDP ratios were declining.

Per Capita GDP The official estimate of Myanmar's per capita GDP for 2003/04 was K144984, but that estimate in terms of US dollars was not available to make a meaningful comparison with other countries. The estimates of other institutions and individuals were also inconsistent and varied widely from one another that it is difficult to determine which one is more reasonable and reliable¹⁸. Thus, the purchasing

power parity in dollar terms, which seems to be relatively more reliable, is used here for our purpose. The per capita GDP in terms of PPP\$ also showed that it was lowest for Myanmar. Even the levels of per capita GDP of the three least developed countries of ASEAN countries, Laos, Cambodia and Vietnam, were significantly higher than that of Myanmar (Table 5)

Table 2: GDP Growth Rates, Selected Asian Countries, 2000-2005

Countries	2000	2001	2002	2003	2004	2005	2000-05 (Average)
I. Newly industrializing Economies (NIEs)							
(1) Korea, Republic of	8.5	3.8	7.0	3.1	4.6	4.1	5.2
(2) Hong Kong	10.2	0.5	1.9	3.2	8.1	5.7	4.9
(3) Singapore	9.7	-1.8	3.2	1.4	8.4	4.1	4.2
(4) Taiwan	5.8	-2.2	3.9	3.3	5.7	4.2	3.5
<i>Average NIEs</i>	8.6	0.1	4.0	2.8	6.7	4.5	4.5
II. Second Tier NIEs							
(5) Malaysia	8.9	0.3	4.1	5.3	7.1	5.7	5.2
(6) Thailand	4.8	2.2	5.3	6.9	6.1	5.6	5.2
(7) Indonesia	4.9	3.8	4.3	5.0	5.1	5.5	4.8
<i>Avg: Second Tier NIEs</i>	6.2	2.1	4.6	5.7	6.1	5.6	5.1
III. Other Developing C' tries							
(8) China	8.0	7.5	8.3	9.3	9.5	8.5	8.5
(9) Vietnam	6.1	5.8	6.4	7.1	7.5	7.6	6.8
(10) India	4.4	5.8	4.0	8.5	6.5	6.9	6.0
(11) Pakistan	3.9	1.8	3.1	5.1	6.4	7.0	4.6
(12) Philippines	4.4	1.8	4.3	4.7	6.1	5.0	4.4
(13) Sri Lanka	6.0	-1.5	4.0	5.9	5.5	5.2	4.2
<i>Avg: Other Developing C' tries</i>	5.5	3.5	5.0	6.8	6.9	6.7	5.8
IV. Least Developed C' tries							
(14) Bhutan	5.5	7.1	6.7	6.5	7.0	8.0	6.8
(15) Laos	5.8	5.8	5.9	6.5	7.0	6.2	6.2
(16) Bangladesh	5.9	5.3	4.4	5.3	5.5	5.3	5.3
(17) Cambodia	7.0	5.6	5.5	5.2	6.0	2.3	5.3
(18) Nepal	6.0	4.8	-0.4	2.9	3.3	3.0	3.3
<i>Avg: Least Developed C' tries</i>	6.0	5.7	4.4	5.2	5.7	5.1	5.4
<i>Avg: All Selected 18 C' tries</i>	6.6	2.9	4.5	5.1	6.4	5.5	5.2
(19) Myanmar	13.7	11.3	12.0	13.8	13.6	13.2	12.9

Source: ADB, *Key Indicators of Developing Asian and Pacific Countries* (Manila, ADB, On-line Edition, 2005) and for Myanmar, Ministry of National Planning and Economic Development, Yangon.

Table 3: Real GDP Growth and Inflation in South East Asia (Percentage)

Country	Real GDP Growth				Inflation ^{a, f}			
	2003	2004 ^b	2005 ^c	2006 ^c	2003	2004 ^b	2005 ^c	2006 ^c
Cambodia	5.2	4.3	1.9	4.3	1.1	2.0	3.0	3.7
Indonesia	4.9	5.1	5.5	5.7	6.6	6.1	7.0	5.8
Laos	5.9	6.5	7.0	7.0	15.5	11.2	7.7	5.4
Malaysia	5.3	7.1	6.0	6.1	1.2	1.4	2.2	2.7
Philippines	4.7	6.1	5.3	5.2	6.0	6.0	5.0	n.a
Singapore	4.4	8.4	5.2	4.9	1.7	1.4	1.3	n.a
Thailand	6.9	6.1	6.0	6.3	2.7	3.2	2.4	n.a
Vietnam	7.3	7.7	8.5	8.0	9.5	6.5	8.0	n.a
Myanmar:Official	13.8	12.6	12.2	12.6	26.8	12.0	9.0	23.1
ESCAP Est.	0.0	3.6	3.3	3.0	20.0	35.0	40.0	45.0

Source: UN-ESCAP: Economic and Social Survey of Asia and the Pacific, New York, 2005

Note: a = Changes in the CPI; b = Estimate; c = Forecast/target; f = Inflation at the end of period; n.a=not available

Table 4: Growth rates of Real GDP & GDI/GDP ratio, Myanmar, 1950/51 - 2004/05

Fiscal years	Average GDP growth rate (%)	Average GDI/GDP ratio (%)
1950/51 - 1959/60	5.8	18.9
1961/62 - 1970/71	3.5	12.2
1970/71 - 1979-80	3.9	12.8
1980/81 - 1989-90	1.9	16.1
1990/91 - 1990/00	6.1	13.6
1999/00 - 2004/05	12.6	11.8

Source: U Myint (2006a)

Table 5: Per Capita GDP in Terms of PPP in US\$, Myanmar & other ASEAN Countries, 2002

Country	Country Per Capita GDP (PPP in US\$)
Singapore	24,040
Brunei	19,210
Malaysia	9,120
Thailand	7,010
Philippines	4,170
Indonesia	3,230
Vietnam	2,300
Cambodia	2,060
Laos	1,720
Myanmar	1,488

Source: UNDP. HD Report 2004 (New York) , Table 1, pp. 139-42

Structural Change

The conditions of structural change among the ASEAN countries as reported in Table 6 showed that no significant structural change has taken place in Myanmar economy alone over the entire period under consideration¹⁹, while other ASEAN countries have had. Industry's share in GDP of Myanmar showed a slight increase from 12% in 1970 to 13.6 % in 2003, an increase of 1.6% over a time span of three decades! Myanmar's share of industry in GDP was one of the lowest among ASEAN countries, and, contrary to expectation, the share of services in Myanmar's GDP was noted to fall from 38.5% to 40.8 % in the earlier years to 34.5 % in 2003, which was again an unusual trend.

Table 6: Structural change in the economies of ASEAN Countries 2002

	Agriculture.....				Industry.....				Service.....			
Countries	1970	1980	1990	2003	1970	1980	1990	2003	1970	1980	1990	2003
Singapore	2.2	1.3	0.4	0.1	36.4	38.1	34.4	32.7	61.4	60.6	65.3	66.4
Malaysia	n.a	22.9	15.2	9.5	n.a	35.8	42.2	48.6	n.a	41.3	42.6	45.5
Thailand	30.2	23.2	12.5	9.8	25.7	28.7	37.2	44.0	44.1	48.1	50.3	46.7
Indonesia	35.0	24.8	19.4	16.6	28.0	43.4	39.1	43.6	37.0	31.8	41.5	39.9
Philippines	28.2	25.1	21.9	14.5	33.7	38.8	34.5	32.6	38.1	36.1	43.6	53.5
Vietnam	n.a	50.0	38.7	21.8	n.a	23.1	22.7	40.0	n.a	26.9	38.6	38.2
Cambodia	n.a	n.a	55.6	37.2	n.a	n.a	11.2	26.8	n.a	n.a	33.2	36.0
Laos	n.a	n.a	61.2	48.6	n.a	n.a	14.5	25.9	n.a	n.a	24.3	25.5
Myanmar	49.5	46.5	57.3	51.9	12.0	12.7	10.5	13.6	38.5	40.8	32.2	34.5

Source: For Myanmar, MNPED, Yangon; for other ASEAN countries, ADB: Asian Development Outlook 1995, 2002, 2005

Export and Export/GDP Ratio

The export (at current prices) showed a modest increase from an average of K1097 million in the first decade (1950/51-1959/60) to 19,955 million in 2002/03, an increase of about 19 times over six decades. The export/GDP ratio was also consistent with other countries during that time. For example, the average export/GDP ratio was 22.6% for the first decade (1950/51-1959/60), which was consistent with the ratios observed in other countries of the time, but the ratio for the 2000/01-2002/03 period for Myanmar dipped down to an unbelievably low of 0.44%. It was incompatible to any other Asian country (Table 7)

Table 7: GDP, Exports, & Export/GDP Ratio, Myanmar, 1950/51-1959/60, 2000/01-02/03 (K.mil., current prices)

Fiscal year	50/51-59/60 (avg:)	2000/01	2001/02	2002/03 (avg:)	1950/51-2002/03
GDP	4940	2,552,733	3,548,472	5,527,000	3,876,068
Exports	1097	12,627	16,350	19,955	16,311
Exp/GDP ratio(%)	22.62	0.49	0.46	0.36	0.44

Source: CSO, *Statistical Yearbook 2003*, table 14.02. p.315

Pattern and Composition of Export

As there was no significant structural change in the economy, the pattern and composition of export of Myanmar also remained unchanged with the traditional items accounting for 55.2% of export earnings. When border trade is also included, total exports increased to about 73% (Table 8) So, the commodity composition of exports of Myanmar over the decade, 1988/89-1998/99, has not changed substantially from what it was over 60 years ago in 1938/39!

However, it was observed that substitution of export items has been taken place within the primary products during the last two decades. For example, the importance of rice as a major export item has been declined; the volume of rice exports averaged only about 240 thousand tons per year during the 1988/89 - 1998/99 decade, which accounted for only 7.3% of the 3.3 million tons exported in 1938/39. In terms of export value also, rice export during this decade accounted for only about 7% of total export revenues (Table 8) Minerals export also became less important in recent years. The fall in the shares of exports of rice and minerals was noted to be substituted by the rise in other traditional items of exports; namely, pulses and beans, marine products, and recently natural gas.

The performance of pulses and beans exports was particularly good in the 1990s, rising from a mere 17.1 thousand tons in 1988/89 to over 1 million tons in 2001/02. Consequently, FE earnings from these exports increased dramatically from \$8.3 million to \$282 million over the same period. This good performance was achieved by the private traders as a response to the incentives provided by liberalization of export trade of pulses and beans by the government. This experience suggests at least two

important things; *first, it shows that a good policy can result in substantial economic benefits, and, secondly, free market is much more reliable and rewarding than the control system in achieving progress.*

Two other developments in Myanmar export in the late 1990s also worth mentioning. The first was garment exports which burst on the foreign trade scene in 1999/2000 with a shot up to \$436 million of export earnings from garment which increased from around \$70 million in the previous two years. The garment then became one of the top export earners, accounting for nearly a third of total export receipts in that year. Foreign exchange earnings from garments increased further to \$583 million in 2000/01 and, although declined in the following year, remained still high at \$456 million in 2001/02. (Table 8)

The second important development is natural gas exports, which became a major export item in 2000/01 with a contribution of \$776 million in foreign exchange earnings. The gas export earning continued to hold the top position with \$704 million in 2001/02. The data showed that natural gas and garments together contributed nearly half of Myanmar's export earnings since 2001/02. At present, natural gas is number one export earner with over 30% of total export earnings, followed by garments (19%), and the unspecified other exports (11%), respectively. So, some changes in the composition of export have indeed taken place over the period, but, unfortunately, the new items of export are still primary products, exported mostly in raw or crude form.

The prospect of gas export in the future is good, but that of garment is not so due mainly to have a high import content as textiles, cloth, yarn, and other materials in garment exports and to sanctions imposed by the US and Western countries on the import of garments from Myanmar²⁰. The reserves and hence exports of natural gas can also decline over time as it is a non-renewal resource on the one hand and domestic demand for natural gas may increase with rising needs for energy as the country develops on the other hand.

However, Myanmar's increased total exports earnings of \$2.8 bn in 2003 was noted to be still far less than that of her ASEAN neighbors; for example, it formed only 3% of Malaysia's exports of \$99 billion, 3.5% of Thailand's exports of \$80 billion, and 4% of Indonesia's exports of \$63 billion, respectively. Even by including the values of border

trade, Myanmar's trade value was still incompatible to these countries²¹.

Policy as a Determinant for Unfavorable Environment and Poor Performance

The analysis made above has clearly shown that the macroeconomic environment of Myanmar was unfavorable for and conducive to economic development. As a consequence, the performance of the economy as reflected in major economic indicators was also poor. It is noted that the studies on Myanmar economic development in transition have commonly pointed out policies as the main responsible factor for such a state of unfavorable environment and poor economic performance. In the passages that follow, a concise and critical account on the characteristics of policies and plans in Myanmar and its sources, and how they patterned the country's economic development is given.

. Policies and Plans in Myanmar

3.1 Main Characteristics of the Policies and Plans

The policies and plans in Myanmar especially since early 1960s under military regimes were characterized by inconsistency, instability, interruption and discontinuation, rigidity and limited scope and vision, lack of transparency, unpredictability and uncertainty, quantitative physical targets-orientation, inefficient and ineffective implementation, and use and abuse of consultancy and advisory services.

Inconsistency and Instability

One of the major weaknesses of policies in Myanmar was its inconsistency and instability resulting from incompetent formulation and frequent changes before and during implementation. The planning and executive machinery itself had undergone frequent changes that caused discontinuity of many decisions. For example, the National Planning Board established in 1946 has changed to the Economic Planning Board in 1947, again to Economic Council in 1949-50, then to Economic and Social Board around 1951-52 which lasted until 1961-62, then to National Planning Commission (together with the Ministry of Finance and Revenue) since 1962-63 to 1987-88, and finally to the Ministry of National Planning and Economic Development (MNPED) till

Table 8: Value & Vol. of Merchandise Exports of Myanmar:1998/99-2002.03

FY	88/89	98/99	99/00	00/01	01/02	02/03	88-98 (avg:)	00-02 (avg:)
Value of Exports in US\$ million								
Total Export	320.2	1113.1	1353.4	2442.9	2620.1	2960.2	709.3	2554.6
Pulses & Beans	8.3	181.8	188.9	255.3	281.9	268.9	127.8	268.7
Teak	94.3	102.5	116.4	100.2	211.6	213.1	122.4	175.0
Rice&rice products	8.5	26.7	10.4	34.6	112.2	97.1	48.3	81.3
Hardwood	9.7	23.8	31.7	23.4	68.1	73.9	32.4	55.1
Fish&Fish Products	9.6	52.2	37.1	44.9	46.1	71.8	35.2	45.5
Base metal & ore	11.0	11.8	46.2	49.9	42.7	43.2	8.6	46.3
Rubber	2.0	16.1	12.1	10.3	11.2	13.7	14.1	10.8
Animal feedstuff	1.0	0.8	0.4	n.a.	n.a.	1.0	2.7	n.a.
<i>Subtotal (Traditional)</i>	144.4	416.0	443.2	518.6	773.8	782.7	391.5	646.2
Other	18.0	355.1	312.3	357.2	407.5	398.0	179.7	218.9
Garments	n.a.	75.5	436.0	582.8	443.9	455.7	13.2	456.6
Gas	n.a.	0.8	4.9	775.6	704.4	807.0	0.1	740.0
Volume of Exports ('000 metric tons; '000 cu. tons for teak & hardwood)								
Pulses & beans	17.1	621.5	560.9	831.3	1034.8	1038.3	404.2	933
Teak	147.7	172.2	234.0	218.2	200.4	429.3	175.3	209
Rice& rice products	48.1	120.4	54.9	251.4	939.1	793.5	239.1	595
Hardwood	72.0	242.7	335.3	329.4	285.6	308.0	217.2	307
Fish&Fish products	5.3	46.6	31.4	49.1	71.5	82.0	29.4	60.3
Base metal & ore	25.9	8.2	33.5	36.9	41.7	35.0	27.8	39.3
Rubber	2.3	29.7	29.2	20.1	24.9	21.7	16.3	22
Animal feedstuff	15.8	8.9	11.1	0.4	0.6	20.6	29.1	n.a.
Share in total value of exports (in percent)								
P&B	2.6	16.3	14.0	10.5	12.3	9.4	18.0	10.5
Teak	29.5	9.2	8.6	4.1	9.2	7.5	17.3	6.9
Rice&rice products	2.7	2.4	0.8	1.4	4.9	3.4	6.8	3.2
Hardwood	3.0	2.1	2.3	1.0	3.0	2.6	4.6	2.2
Fish&fish products	3.0	4.7	2.7	1.8	2.0	2.5	4.9	1.8
Base metal& ore	3.4	1.1	3.4	2.0	1.9	1.5	1.2	1.8
Rubber	0.6	1.4	0.9	0.4	0.5	0.5	2.0	n.a.
Animal feedstuff	0.3	0.1	n.a.	n.a.	n.a.	n.a.	0.4	n.a.
<i>Subtotal (Traditional)</i>	45.1	37.4	32.7	21.2	33.7	27.5	55.2	25.3
Other	5.6	31.9	23.1	14.6	3.5	14.0	25.3	10.7
Garments n.a.	6.7	32.2	24.0	19.4	12.1	1.9	18.5	
Gas	n.a.	0.1	0.4	31.7	30.7	28.3	n.a.	30.2
<i>Total exports</i>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: IMF & World Bank reports on Myanmar

Note: n.a. = not available or negligible; items 1 to 8 are designated as traditional exports

now.²² The change of policies following the change of a government was a common phenomenon in Myanmar with the consequence of lack of confidence on government policies by the public. There were also no clear definitions and division of functions among government Ministries so that overlapping of activities among the Ministries

and departments was frequent, resulting in misallocation or inefficient allocation of resources, wastages and high costs.

Interruption and Discontinuation

Since Myanmar's independence in 1948, there was no period that had passed without interruptions, discontinuities and instabilities in the policies and plans of Myanmar. Any new government that comes to power is most likely to discontinue the projects initiated by the previous government(s) unless it has some kinds of legal bindings or commitments to continue. The planning bodies and successive governments might have full of good intentions and ideas but sufficient time was not given to permit any method to succeed. For example, the planners have chosen the cooperative societies as favorite means in their attempt to 'Burmanize' the foreign trade and domestic industries around 1948-49, but after 2 or 3 years it was abandoned in favor of the corporate form of enterprise. Then again, a few years later, the formation of JVs with foreign private enterprises (like the JVs with the Burma Corporation in 1951 and the one with the Burma Oil Company in 1954) became the centre of attention. Then, a few years later, the JVs were formed with domestic business firms as JVC1, JVC2, and so on²³.

In the government sector also, many changing forms of the board and corporations have been noted. First, there was the form of the Marketing Boards, (e.g., State Agricultural Marketing Board) then the Development Corporations, (e.g., Industrial Development Corporation, Mineral Resources Development Corporation, and so on) and then the decentralized organization run along commercial lines, (e.g., Burma Economic Development Corporation, which is basically a holding company with many subsidiaries) These changes, at times, led to improvements but mostly encountered setback as the previous methods were not given a chance to yield results.

This frequent interruption or discontinuation of policies and plans following a change of government has severely constrained and/or distorted the potential growth to continue. For example, the Revolutionary Council did not proceed from any previous plans, but moved along on an operational basis in the manner of the caretaker regime. Expiring private contracts and import licenses were not renewed, foreign trade was brought under the government monopoly, and exchange control was extended to all

remittances. Consequently, privately owned businesses in the hands of foreigners began to dry up as imported merchandize and foreign exchange became difficult for them to acquire.

Another experience was the demonetization of legal tender. In a desperate attempt to ' control the outflow of currency by those who had converted goods and other movables into cash ' since the banks had been nationalized, the RC had demonetized K100 and K50 notes three times in two years. To justify its action, the government alleged that more than half of the money in circulation (which was estimated to be at K223 crores) was in these high notes and was being used in ways that were damaging the economy.²⁴ However, the move had not only failed to achieve the objective but also served as one of the major sources of distrust on government's financial and fiscal policies. The effect of this measure had been disastrous to the economy, which never recovered until the downfall of the socialist government in 1988.

Rigidity and Limited Scope and Vision

Most policies and plans are so rigid and limited in scope and vision that they are not workable in practice. Although socialism was discarded since 1988/89, centralized controls and interventions in the economy widely persisted still, sometimes more extreme than the past, suggesting that the policy regime failed to learn lessons from the past experience. Most high ranking military officials have a tendency of disfavoring decentralization for fear of losing the privileges and benefits associated with centralization. This practice has a strong link to the socio-cultural and political tradition of the historical past, which has undergone little or no change in substance to suit to the changed conditions.²⁵

Lack of Transparency, Unpredictability and Uncertainty

Too much centralization resulted in lack of transparency of policies and plans, which, in turn, caused more unpredictability and uncertainty of the policy environment. What has been decided or approved could be abruptly revised or even discontinued any moment without prior notice or giving any reasons for the actions. This unpredictable and uncertain nature constrained the inflows of investment with negative impact to economic growth. There are many such cases; recent decision to

hike gasoline price was one such example. It has been made secretly in a fashion of military operation, and notified the decision to the implementing agents (gasoline supply stations) secretly at mid-night to implement the decision at early morning of the following day. Public was seldom informed of the decisions on matters related to them, and the economists were rarely consulted with in decision-making.²⁶

Physical Quantity-Oriented Targets

Most plan targets, especially since early 1960s, were set in terms of physical quantity, and maximization of quantitative output was the prime objective of the government policies without sufficient consideration of the price and income effects and other consequences. Important issues like capital accumulation, value-added production, export diversification and promotion, raising real incomes and profit levels of the citizens and the producers, and macro-economic stabilization, among many others, have never been considered seriously and comprehensively. As a result, despite the official claim of ‘ over-fulfillment ’ of targets, the country and its people remained poor.

Inefficient and Distorted Implementation

Most policies were over-ambitious and irrational that, oftentimes, the FE shortages have forced the governments to cut back investments from the planned targets. The price policies are also generally irrational and inefficient as reflected, for example, in keeping the domestic producer prices of paddy well below those prevailing in world markets so as to get revenues for the government, which, in fact, has served as an impediment to expansion of agricultural output. The distribution of projects between quick versus long term yields has not always been balanced, and, as a result, the incremental capital output ratio (ICOR) in many time periods were much higher than those in neighboring Asian countries. Focus on import substitution with relative neglect of the export promotion and diversification was another much criticized aspect of Myanmar government policies. It is also important to mention the fact that the reports on performances generally downplayed difficulties in implementation, and overestimated potential output so that most of the reports generally failed to reflect the true situations of performance and problems.

Another important point regarding with the failure of policies was their getting distortion or deformation during implementation. Policies and plans were formulated and implemented by the non-experts and unskilled, non-professionals. As pointed out by Donnison (1973: 103) “ it [policy-making in Myanmar] was not [done by] the more highly qualified, Western-educated Myanmar men and women who carried their country to independence, but [by] a more home-grown and far less educated product”²⁷. There were some other responsible factors in which freedom from economic and other anxieties historically seemed to be an important one²⁸. The strong influence of individualism, egalitarianism and narrow-minded nationalism on formulation and implementation of the policies and plans oftentimes distorted the original blue print of the policies and plans during implementation²⁹. The strong economic nationalism might unnecessarily focus on the desirability of SOEs in the economy without much consideration on its rationality and plausibility³⁰. The actions of RC in nationalizing enterprises and bringing trades under State monopoly since 1963-64, for example, stemmed from such a misconception.

Use and Abuse of Consultancy and Advisory Services

The policy-makers and the Government Ministers generally seek advice from the advisors and consultants³¹. The SPDC has formed the Myanmar Academy as a national Think-Tank organization, under which various umbrella branches of academies are formed on the basis of specialized disciplines such as Myanmar Academy of Arts and Science, Myanmar Academy of Agricultural Science, Myanmar Academy of Engineering, and so on. One of the purposes of forming these academies is to mobilize the retired and in-service professors, rectors, researchers and scholars to provide consultancy services and to fill up the vacuum caused by the severe shortage of qualified scholars, researchers, and scientists in all fields. One glaring defect of the Myanmar Academy, however, is that there are no academies for economics and for law, the two most important disciplines where effective research is in urgent need for the country’s development. The two disciplines are incorporated into the Myanmar Academy of Arts and Science as subsidiary branches.

The matter of concern, however, is the way the consultancy services are used and the credibility of the advice or suggestions. Most, if not all, of the advisors/consultants

employed have no formal or specialized training and experience in policies or planning so that the knowledge and skill of them are not suitable and effective for the job they are doing. It happened oftentimes in Myanmar that an 'economic advisor' is usually not an economist³². The retired DGs were mostly re-employed as advisors in their owned Ministries, but, although they have wide administrative experiences, they were neither specialists nor experts on policies. In short, unlike in many other countries, the advisors or consultants in Myanmar are generally not professionally competent and capable persons.

The advisors/consultants are rarely formally consulted in formulating policies, and, if used, it is usually to legitimize the decisions made by the policy makers to convince the public. At times, the services of consultants/scholars/researchers have been abused. Assignments to them were controlled and intervened that the final 'report' usually came out in a distorted and incomprehensive form³³. This being the common experience, the consultants/advisors would normally prepare a report that would please the bosses. As a matter of historical cultural fact, although the social status of the intellectuals or learned persons in Myanmar society is high traditionally, the ruling class has rarely given them an effective role in policy making or in implementing them.

3.2 Process and Procedures of Formulation and Implementation of Policies and Plans

Why such peculiar characteristics of policies and plans? There were, of course, a number of responsible factors for that. Of them, the historical traditions and socio-cultural factors were found to exert strong influence in formulation and implementation of policies, but they will not be elaborated here³⁴. Only the technical and/or mechanical aspects of the issue, namely, the process and procedures of formulation and implementation of policies and plans in Myanmar are briefly discussed here. This aspect deserves attention because they are empirical or applied works by which the policy objectives and goals were set and implemented, but inherently containing many flaws and deficiencies. A brief account on the process and procedures of formulation and implementation of policies and plans in Myanmar is expected to attest this fact³⁵.

Process of Formulation of Policies and Plans

In Myanmar, as in any other country, the national policy guidelines are usually set by the highest state body and the Ministries are then assigned to translate and formulate them into policies and plans. The Ministries would form the necessary “Committees” which consist of the senior officials like the Directors General and ‘advisors’ from the Ministries concerned. These “Committees” would review the available resources like capital, labor and raw materials etc. for the plan period, and determine the physical targets of production, consumption, social services, etc. The draft policies and plans then go to the Minister concerned, and the physical part of the plan is then adjusted to the financial part with the Ministry of Finance and Revenue. The Ministry of National Planning and Economic Development (MNPED) is responsible for coordination or management of all these tasks in the process of planning so that the MNPED is one of the most important Ministries. The MNPED would finally submit the adjusted policies and plans to the top state body for approval. The top body will review and revise the draft plan and finally approve the plan for implementation.

For all important policy decisions, Secretary 1 of the SLORC/SPDC would discuss the matter with the Ministers concerned who, in turn, brief the matter to their Directors General. At the Ministerial level, a short paper is prepared for Minister who briefs the Head of State, and then the matter goes to the Cabinet. Discussions may now be held with the Prime Minister in place of the Head of State. For Cabinet meetings, regular memoranda are prepared, copies of which are sent to all Ministers. Meetings are usually followed by minutes which are circulated to all attendees. For all trade related matters, there is a Trade Policy Council presently chaired by the Vice Chairman of the SPDC and Deputy Commander-in-Chief of the armed forces. However, in regard to rice marketing, the newly established “Myanmar Rice Trade Leading Committee” formed specifically for this purpose, deals with all matters and these need not go through the Trade Policy Council.

One glaring defect of the past policies and plans was lack of specific definitions as well as associated plans and sub-plans for supporting the Master Plan and Sectoral Plans. For example, most plans were not backed by a financial plan or a human resource plan or by other necessary plans that link and/or support the relevant

activities of the main plans. The concepts of economic efficiency or feasibility were also not comprehensively considered.

Implementation of Policies and Plans

The government departments assigned for implementation of policies would draw up physical targets and programs designed to ensure its effective implementation. As such, implementation tends to be *target and task oriented*, the achievement of input and output targets tends to be of greater importance than impact. Setting the physical targets and programs for implementation is usually done by the administrative and departmental officials, but not by the professionals or experts. The information on which the targets and programs were based is also usually obtained from the office files and reports concerned, and the reliability of them is seldom checked or proven. Moreover, a two-way communication was noted to be lacking in the process. As a matter of fact, in the hierarchy of top to bottom, consensus-seeking is not a traditional cultural practice in historical Myanmar³⁶. Consequently, policies and plans in Myanmar mostly failed to reflect reality and, thus, not feasible economically, although they might technically be sound.

. Policy Dilemmas and Options

The preceding analysis indicated that policies in Myanmar entailed many flaws, inconsistencies, and contradictions. When they are combined with other deficiencies, the policies, instead of contributing to development, turned into dilemmas that inhibited development. The notable deficiencies included inconsistent and unpredictable policies with misleading and/or unrealistic policy goals, segmented and imperfect markets and distorted prices, unreliable and inefficient financial and banking systems, poor HRD, shortage of expertise and skills, and outmoded, inefficient, incompetent and incapable implementing institutions, among many others. These deficiencies have persisted unchecked for long, while internal and external business and economic environments have dramatically changed. Failure to revise or change the policies inconformity with the changed conditions could be regarded as the first dilemma.

The experience so far of Myanmar's economic development under the military

regimes tends to suggest that the only means or method the policy makers understood was command, control and intervention. They seemed to have exhausted in ideas and outlook either to revise the old policies or to find better alternative policy options to energize and make policies more effective and productive. Their political and economic ambitions were high but without efficient, effective and plausible policy means to achieve the end. Moreover, the ambitions and objectives and the means and ends were noted to be contradicting to one another. This unconformity between the ambitions and means to realize them could be perceived as the second policy dilemma.

Once a policy is adopted, it remained unchanged or unrevised for so long, despite the changed conditions, opportunities, and environment. The policy regime rarely tried to adjust their objectives and goals to the changed conditions, or to change the methods (strategies and instruments) used to implement the policy objectives. This dogmatism and rigidity in policy management could be seen as the third dilemma.

Most policies in Myanmar since her independence in 1948 were noted to conceive development as analogous to GDP growth in physical quantity terms. This conception has remained unchanged, and seemed to be stronger under the present SPDC regime. The economic policies of SPDC were noted to equate the high GDP growth rates with building a modern, developed nation, which has led them to drive towards achieving the implausibly high growth rates of GDP under an environment of lack of almost everything to support it. The same is true for their conception on ' rich natural resources of the country ' with neglect on the importance of HRD. The policy attached importance of building ' agricultural base ,' but without clear definition of what ' agricultural base ' is and when will the built-up of this base be completed. Long persistence of these misconceived policies with poor performance, without initiation of any effective reform, was another indication that the policy regime lacked vision, or has rigid mind-set. Failure to read and respond in time correctly various signals of the market and prices was another indication of ignorant nature of the policy makers. The dearth of concepts and their inability to get out of such a vicious cycle of misconceptions could be perceived as a fourth dilemma.

The policy goal of catching up others is, in fact, implausible, and many analysts argued against trying to implement this unrealistic goal by pointing out that what the SPDC regime has planned to achieve by the end of the Thirty Year Plan in 2030 have

already been achieved by many ASEAN countries since in the 1990s, implying that other countries will be far ahead of Myanmar after thirty years from now³⁷. Trying to catch up others was thus a misleading goal, and implementing for that purpose a waste of time and resources. In this regard, Prof. Thurow's argument on the implausibility of the claim of China's official analysts that their nation will catch up with the United States long before the 22nd century arrives is noteworthy and relevant for the case of Myanmar³⁸. Not realizing to differentiate right and wrong and sticking up stubbornly on what they thought was right could be thought of as a fifth dilemma.

As a consequence of such dilemmas, the challenges for economic development of Myanmar have also accumulated, which include:

- (1) Stabilizing the macro-economy, especially by reforming the financial and monetary systems and containing inflation;
- (2) Mobilizing and boosting up the domestic and foreign investments by creating a favorable environment;
- (3) Strengthening agricultural base by revising the policy priority towards maximizing income via maximizing production or output;
- (4) Promotion of SMEs and allied industries and encouraging value-added production;
- (5) Privatizing the SOEs or reforming them towards improving efficiency and profitability;
- (6) Unifying the FE rates and improving the purchasing power of kyats;
- (7) Linking the infrastructures more to productive activities;
- (8) Diversifying and promoting exports of the value-added items and services;
- (9) Promotion of tourism and allied services industries;
- (10) Building up the capacity and capability of the HRs and institutions;
- (11) Upgrading and improving the quality of education and research; and
- (12) Alleviate poverty and corruptions.

The first thing that should be done in Myanmar is to restore and maintain the macroeconomic stability for which a package of policy measures will be necessary. The rampant inflation must be contained, the financial and banking systems must be put in order, and the value of Myanmar currency, Kyat, must be stabilized. Persistence of high inflation for over four decades now since the 1960s has dramatically eroded the purchasing power of Kyat and created instabilities and speculations. The policies to

control money supply, cost-push factors, and trade deficits and so on will therefore be inevitable. To mobilize the domestic and foreign investment effectively, it is necessary to create a favorable economic and policy environment.

Strengthening the agricultural base is indeed an important requirement, but reliance on the present policy of maximizing physical quantitative output, and exporting the primary products in its raw form alone cannot ensure the strengthening agricultural base. Maximizing output should not be the end; it should be an effective means to achieve the end of maximizing incomes of the cultivators and the farm sector. Production should be outward- oriented for export promotion and export substitution rather than for domestic self-sufficiency and import substitution. This does not necessarily mean that self-sufficiency is not important. It is important for domestic stability, but it can be achieved by other means such as manipulation of policy and strategy.

Reliance on cultivation of primary products and selling them in their raw forms alone will not ensure to increase the income levels of the cultivators. Cultivation should be supported and motivated by the promotion of SMEs, especially labor- and natural resources-intensive cottage industries. These SMEs have to be the main source of value-added production, thereby inducing farmers to produce more for the market and providing more employment opportunities for rural people.

Heavy reliance on agriculture and natural resources alone for national economic development since independence was another weakness. This reliance became heavier under the SLORC/SPDC regimes as reflected in the first of four national economic objectives, which states ' development of agriculture as the base and all round development of other sectors of the economy as well .' As what constitutes an agricultural base has not been well defined, one is unsure of how far to go to build this agricultural base, and when will this building be completed. This does not necessarily mean that agriculture should not be given priority. The point is that the focus of policy and strategy should be to ensure increased farm productivity and income levels of the farm people. Increasing farm incomes also means improving the well-being of the poorer segments of society as poverty tends to be more widespread in the rural areas.

Moreover, agriculture is a major source of export earnings. It has strong links with

the rest of the economy by providing raw materials to industry and creating a market for goods and services produced by other sectors. As the largest contributor to GDP, it is the key sector on which reliance has to be placed to mobilize resources for capital formation and economic development.

Building infrastructure for rural development such as dams, roads and railways, especially in remote areas has benefited to geographically disadvantaged groups and thus met the country's social concerns. Hence, there are strong economic and social imperatives for Myanmar to build up its agricultural base. The extent to which such imperatives are met through agriculture development provides a basis for assessing the soundness of the agricultural base to foster growth of other sectors of the economy. However, looking at changes in sectoral shares of GDP of other Asian countries, it seems that Myanmar should not only concentrate on building up its agriculture base, but should also redirect more attention to increasing the shares of industry in GDP. Encouraging the SMEs, as experienced in other countries like Vietnam, is one of the most appropriate options in this regard. There are some arguments in favor of the leading-edge industries such as telecommunications and information technology as they have high growth potential in the 21st. century. However, in this regard, a number of constraints like limited highly qualified human resources, high technology and expertise, infrastructures, and a package of advance inputs and practices among others, would inhibit Myanmar to compete with others³⁹. Myanmar can take advantage of available opportunities for development of low technology such as labor-intensive, agriculture and resource-based industries in increasing the share of industrial sector in GDP.

The SPDC favored and encouraged the import substitution industries, but its economic plausibility and beneficiary was conditional. The conditions include the existence of large market size for the products, economies of scale of production, inflows of FDI for such industries, and no or lack of competition to protect the industries.⁴⁰ The service sector especially tourism is also important and has high potential for Myanmar as it is not affected by a small domestic market or a relatively underdeveloped manufacturing sector.

. Concluding Remarks

Myanmar has indeed great potentials for development, but to transform these potentials into real growth, the flaws and weaknesses of policies and plans as identified above must be remedied and revised by a change in the perception and conception of natural resources and human resources. In other words, mind-set of the policy makers should be changed. It should recognize that Myanmar's most valuable resource is its people, but not its vast natural resources as always claimed with false pride by the policy makers. Only the change of mind-set can lead to recognize the need for improvement of human capabilities to make effective use of physical capital. Only then, improving the quality and capacity of social and economic institutions such as education system will come to the forefront of policy priority.

Even in the case of agricultural development, it is not realistic to expect good results by merely bringing additional land areas under cultivation. Many other complementary measures like land reform and a wide range of other related issues such as pricing, distribution, taxation etc will be required. Myanmar will need to take the necessary and bold economic reform measures first to come out of its current status of a least developed country, and then proceed towards further development. Myanmar should not make undue reliance on its perceived good natural resource base and on building physical infrastructure alone. Attention of policy should be turned to upgrade the quality, capacity and capability of her human resources and institutions, concurrently combating and containing corruption if the policy goal is to build up a modern developed nation. After all, change in mind-set of the policy makers is inevitable and need urgently.

Notes

- 1 The reforms lifted the state monopoly of procurement and trade of rice and eight other major crops, removed restrictions on private sector participation in domestic and foreign trade, permitted to open private commercial banks, to establish JVs with state enterprises and to undertake foreign exchange transactions in the parallel market, invited foreign investment, and improved the legal and regulatory framework, among others.
- 2 The aims of the 'Thirty Year Industrial Development Plan' are stated explicitly that Myanmar's economic development will be at the same level of (i) fellow ASEAN countries by the end of the Second Five Year Plan (i.e., 2015) (ii) advanced Asian countries like Japan by the end of the Fourth Five Year Plan (2020) and (iii) industrialized countries of the West by the end of the Sixth Five Year Plan (2030) (See MIDC, *Industrial Development of Myanmar: Thirty Year Plan, 2001/02-2030/31*. (in Burmese) Yangon, Govt. of Myanmar Jan., 2002)
- 3 See Todaro (1997) Also see Tin Soe (1999)

- 4 Markets in Myanmar are segmented not only in terms of controlled and uncontrolled ones but also in terms of formal and informal, official and parallel, informed and uninformed, and of the government, semi-government, pro- government (or government crony) joint-ventures, cooperatives, and private segments and so on, existing and operating side by side. They are not segmented on the basis of brands or other promotional activities as suggested by the marketing theories and strategies, but mostly conditioned by socio-political factors.
- 5 See U Myint (2006a)
- 6 According to official statistics, the average rate of M2 growth was 29% over the five-year period (2000-05) Comparable figure for 18 other Asian countries for the same period was 13.6%. Among ASEAN countries, Laos alone experienced double digit inflation but still much lower than that in Myanmar, while, despite high average M2 growth of 23.2%, Cambodia's inflation rate was low of 3.5%.
- 7 Other cost push factors include: (i) Use of obsolete machineries and equipments in production and in other key areas; (ii) Shortage of energy supply disrupting production; (iii) Inefficient SOEs, contributing to wastage & high costs; (iv) Outdated, complex and unaccountable laws and regulations, creating delays and uncertainty and adding up costs; (v) Widespread corruption; (vi) Large contributions by the businessmen to govt sponsored religious and social activities; (vii) Large increases in charges for state controlled goods and public services and utilities; and (viii) Deteriorating external value of the kyat, causing increased cost of imported inputs and goods.
- 8 The gasoline prices were raised first from K180/gallon to K1500/gallon (i.e., by over 733 percent) in October 2005, and again to K2500/gallon since 15th August 2007 (or a further hike by 66.67% within less than two years)
- 9 The salaries have been raised in the range of 500% to 1,200% for low and high salaried employess in Mar 2006.
- 10 US\$1=SDR 1.4380, so by dividing K8.5085 (kyat value for SDR 1) by 1.4380 SDR, we get K5.9169 (or K6) a USD.
- 11 The period saw vast shifts in economic and production structures, incomes, consumption patterns, tastes and life styles in many of Myanmar neighbors and in other countries. Myanmar went the other way that led to a LDC in 1987.
- 12 U Myint (2006b)
- 13 The IMF views this as a transitional arrangement which will lead finally to unification of the kyat exchange rate. It will make accounts of SOEs more transparent, and enable more rational allocation of money to them from the central fund. Furthermore, exporting enterprises would be making profits and will have incentive to expand their operations.
- 14 See U Myint (2006b)
- 15 See Tin Soe (2004: 81)
- 16 For example, in mid 1990s, the authorities have bench-marked K500 a US dollar as the limit but, the exchange rate fluctuated in the range of K1360-K1420 since May 2006 through October 2007. How far the kyat will fall is thus unpredictable, but the fall is expected to be substantial if transactions on the current account of the balance of payments are liberalized.
- 17 The IMF argued that Myanmar's high industrial growth is inconsistent with the relatively low increase in industrial power consumption, manufacturing use of petroleum products and the decline in capital goods imports. IMF also pointed out that the high official growth figures of Myanmar did not fare well when social indicators are considered in comparison to other Asian countries.
- 18 For example, the World Bank estimated Myanmar's level of GDP per capita between \$323 and \$396 in 1997. The IMF estimates, however, ranged from \$154 (2004) to \$295 (FY 1998/99) In another estimate, the UN Committee for Development Policy gave Myanmar's per capita Gross National Income to be \$282 in 2002, while the WTO gave a much higher per capita income in 1997 of \$3657. All estimates are, however, consistent in indicating a constant decline over the period between 1988 and 2004.
- 19 U Myint (2006a: pp.5-6) illustrated the absence of structural change in Myanmar economy since her independence in 1948 by showing the agriculture's share in GDP of 47.9% in 1938/39 changing insignificantly to 51.9 % in 2003 after over a period of six decades!
- 20 Garment exports have a high import content as textiles, cloth, yarn, and other materials and machinery are usually imported from abroad so that value added and net FE receipts are much less than the value of exports recorded under this item. Western developed countries are the main markets for garments and access to such markets was disrupted by sanctions and boycotts on account of political and other reasons.
- 21 Assuming the unofficial trade value as twice the official value, total export of Myanmar will be \$8.4 bn (= official value of \$2.8 bn plus unofficial value of \$5.6 bn) which was still a small percentage of 9% to 13%

- of the exports of the three neighbors noted above.
- 22 See U Thet Tun, 'Burma's Experience in Economic Planning', *Open Mind*, 1/12, October 1960.
 - 23 In 1956-57, the government, with a view to bringing down the prices, formed seven JVCs with private Burmese businesses to handle the import and internal distribution of various commodities.
 - 24 See "The Elimination of Black Money," *The Working People's Daily* (May 18, 1964). Also see editorials of *The Nation* (May 18, 1964) and *The Guardian* (May 19, 1964).
 - 25 See Tin Soe (2001, 2003).
 - 26 Tun Wai (1996); Thet Tun (1960).
 - 27 See F.S.V. Donnison (1970) p103.
 - 28 Ibid; Also see Thet Tun (1960) and Tun Wai (1996).
 - 29 Everett E. Hagen (1956) p.7; Thet Tun (1960).
 - 30 Ibid, p. 40. Also see Maung Maung Gyi (1983).
 - 31 For example, Govt Advisor of the Eight Year (Pyidawtha) Plan (1952-60) was J.S. Furnivall, a well known Myanmar expert and economist. He served a brief period until 1963 under Gen. Ne Win and quit. Following Furnivall's departure, Gen. Ne Win employed local advisors only.
 - 32 For example, National Financial Advisor, U Ba Nyein, was neither a financial expert nor an economist, but a BCS (Burma Civil Service). Another "Economic Advisor", Dr. Khin Maung Nyunt, was also not an economist but a statistician. He was a former Rector of the Yangon Institute of Economics as well as a member of the 'Pyithu Hluttaw' (Peoples' Assembly) under the socialist military regime. His appointment was seen by many as a reward for his long service for the BSPP.
 - 33 Personal experience.
 - 34 For a detail comprehensive account, see Tin Soe (2001, 2005).
 - 35 This section relied for facts and information on 'Agricultural Development Plans, Policies and Strategies, and Institutions in Myanmar', A Report prepared by Dr. Tin Soe in 2004 under the Project, MOAI-FAO TCP MYA 2902.
 - 36 For further details, see Tin Soe (2003).
 - 37 See U Myint (2006a,b).
 - 38 See Thurrow, 'For Chinese economy numbers don't add up', in *Int'l Herald Tribune*, (Aug. 21, 2007).
 - 39 It will require, for example, to critically review the current state of telecoms and transport infrastructures, the energy situation, administrative capability, legal and institutional framework, style of macroeconomic management, level of financial sector development, quality of services provided by public utilities, rules and regulations governing conduct of business as well as a number of other factors that are considered necessary to create a climate of free and fair competition that is conducive to private sector development and proper functioning of a market-oriented economy.
 - 40 See H. Shoji (2007) and Tin Soe (2004).

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