

BURMA - ECONOMIC PROBLEMS AND PROSPECTS

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I. INTRODUCTORY REMARKS

The purpose of this paper is to give an impression of the economic structure and development of Burma, a country that after a period of inward-looking policy from the mid-seventies on had become more open to foreign trade and to foreign capital.

Because of the geopolitical situation and specific internal political problems a discussion of the mere economic figures would not be sufficient to shed light on the development process; we will also have to refer to historical and political aspects.

II. GEOGRAPHICAL SETTING

The Socialist Republic of Burma is naturally isolated from its neighbours. The frontier with Bangladesh and India is given by the Naga hills; the frontier to China in the north and east follows an extension of the Himalayas and the mountains of Yunnan. The frontier with Laos follows the Mekong River, and the border with Thailand lies along the mountain ranges which lead to the Malay peninsula.

From the point of view of natural resources endowment Burma is one of the richest countries in South Asia. With a population of 36 million (1984/85) and an area of about 680 000 km² Burma suffers none of the problems associated with population growth. The lower valleys and deltas of the two main rivers, Irrawaddy and Sittang, are especially suitable for rice cultivation and rice, with 47 % of sown acreage, is still the main agricultural produce. Other main crops are sesamum (14 %), groundnut (6 %), beans and pulses, maize, cotton and jute¹. Burma is also well endowed with hardwoods. About 75 % of the world teak reserves are estimated to be located in Burma. Fishery resources are far from being fully utilized. The most important minerals are lead, zinc,

tin, tungsten and oil². Also a large potential for hydroelectric power exists and significant resources of natural gas have been discovered in the Gulf of Martaban.

III. POLITICAL STRUCTURE

The foreign policy of Burma follows the principle of strict neutrality, and results, to a certain extent, from taking into account the interests of the major neighbouring political powers China and India and the fear of getting involved in regional conflicts³.

Since independence from Britain in 1948, Burma has been plagued by internal conflicts between the ethnic Burmans and minorities - and communist rebels (even though after the military coup in 1962, Burma follows the path of Socialism). There are about 40 different ethnic groups with 136 different languages and dialects. About 67 per cent of the population are ethnic Burmans who mainly inhabit Upper and Lower Burma and the Irrawaddy Valley whilst most of the minorities (Burmese as opposed to the ethnic 'Burmans') inhabit the highlands which surround the Burmans horseshoe-shaped from the north-east, the north and the north-west. Some of the minorities like the Shan, Karen and Kachin have also settled in the neighbouring countries, a fact which presents a further complication for the control of these regions by the central government. Estimations are that some 30 % of the population and 50 % of the country are not really under effective governmental control.

The Union of Burma was agreed upon in 1947 by the Burmans and the leaders of the minorities with the option for the minorities to leave the Union after 10 years. The Union, however was already questioned shortly after this agreement by rebels of the Karen and, at the beginning of the sixties, by conflicts with the Shan, Kachin and Naga. The potential secession of the Shan state in March 1962 was one of the main reasons for the military coup which ended not only the crisis but also the system of parliamentary democracy⁵.

The document "The Burmese Way to Socialism" published less than two months later proclaimed

- socialist economic planning,
- the nationalization of "such vital means of production as agricultural and industrial production, distribution, transportation, communications, external trade, etc.",
- removal of the bureaucratic machinery and the laying "firm foundations for a socialist democratic one",
- altruism as a basis of society,
- an inward-looking economic policy.

Although "the vanguard and custodian of a socialist democratic state are primarily peasants and workers", also "the middle strata and those who will

work with integrity and loyalty for the general weal" shall participate. By means of military rule, the country was governed by the Burma Socialist Programme Party (PSPP) up to 1974 and since then by a civilian People's Assembly (Pyithu Hluttaw).

The nationalization in part was directed against foreigners. Many Indian, Chinese and people of other nationalities who had come with the British had to leave the country in 1963/64.

The dominance of the central state, and hence by the ethnic Burmans, was not changed by the new Constitution of 1974. All activities within the state - legislative, executive and judicial - are, as before, under complete control of the BSPP and, therefore, indirectly by the military which effectively controls the BSPP.

According to Constitution of 1974 the basic principles of the state include the following:

- "A socialist society is the goal of the State." (Art.5)
- "The economic system of the State is a socialist economic system." (Art. 6)
- "The State shall adopt a single-party system. The Burma Socialist Programme Party is the sole political party and it shall lead the state." (Art. 11)
- "The State
 - (a) is the ultimate owner of all natural resources above and below the ground, above and beneath the waters and in the atmosphere, and also of all the land;
 - (c) shall develop, extract, exploit and utilize the natural resources in the interest of the working people of all the national races." (Art. 18)
- "The State shall nationalize the means of production within the land. Suitable enterprises shall be owned and operated by co-operatives." (Art. 19)
- "The State may, in accordance with law, permit such private enterprises which do not undermine the socialist economic system." (Art. 20)

With the new Constitution three new states were created - the Chin State, the Arakan State, and the Mon State. The formation of these new states created a formal balance among the minorities in the now seven states⁶, and the Burmans who reside in the seven divisions Rangoon, Tenasserim, Irrawaddy, Pegu, Magwe, Mandalay, and Saging. This formal separation into 14 administrative units, however does not mean effective political participation of the regions. Political power resides in the center and thus in the hand of the Burman majority⁷ who control the military and the party. For example, states and divisions do not have their own budgets and are not separately represented in a bicameral legislation as was the case prior to military coup. Today there is only the unicameral Pyithu Hluttaw. The divisions and states are further split up in townships (314) and village tracts - a grouping of several villages. In urban areas, the equivalent is the ward. At each level a people's council is formed. The councils are responsible for "economic and social affairs, the administration of justice, law and order, economic planning, budget preparation, construction, communication, collection of vital statistics and so on. The BSPP at all levels determines who will run for election at

each level, and the candidates, from all evidence available, run unopposed.¹⁸

IV. ECONOMIC STRUCTURE

After the military coup of 1962 massive efforts towards nationalization of the economy were made⁹. However, private activity is still of great importance in a lot of sectors, e.g. in retail trade, transport, small scale industry and inland fishery. In 1984/85 the active labour force was estimated to be 14.79 million, of which only 1.57 million were engaged in the state sector whereas 13.22 were engaged in the co-operatives and private sector. Land is mainly cultivated by private small-holders. With 63.5 % of the estimated active labour force engaged in agriculture this also is a basis for a relative equal income distribution compared to other countries of the region. In 1984/85 61 % of the holdings were under 5 acres, 25 % from 5 to 10 acres, 12 % from 10 to 20 acres. The state only contributes 0.4 % of the value of net agricultural output, whilst that of co-operatives is 3.9 %¹⁰. Although cultivation in agriculture was mainly led in private hands, the sector is controlled by the government's monopoly to export and by procurement at fixed prices of major agriculture crops. In some sectors the state's contribution to the value of net output and services is almost 100 % (communication: 100 %, energy sector: 99.9 % and 0.1 % co-operatives, mining: 90 % and 2.2 % co-operatives, financial institutions: 98.9 % and 1.1 % co-operatives, social and administrative services: 98.7 % and 1.3 % co-operatives). The state's contribution is also important in construction (81.1 %), transportation (36 %), processing and manufacturing (56.7 %), forestry (33.8 %) and trade (46.4 %)¹¹.

Some 1734 state-owned factories and establishments were in operation in 1984/85. Most of them (908) were engaged in producing industrial raw material; workshops and dockyards followed with 305 entities, food and beverage with 219¹². Nearly half of the 713 co-operative factories and establishments were engaged in food and beverages (341) and this sector also dominates in private factories and establishments (12753 from 38910 total private factories and establishments). The next important private sector is clothing and wearing apparel with 9410 entities. The majority of private factories and establishments belongs to the small scale sector, 95 % employ less than 10 workers and only 6 have more than 100 workers. State-owned factories and establishments sometimes are rather small too, 53.4 % belonging to the group of less than 10 workers and only 25.3 % employing more than 100 workers¹³.

In the processing and manufacturing sector, the private contribution is especially important in food and beverages (73 % of the value of production), household goods (45 %), clothing and wearing apparel (53 %), and construction materials (35 %). Industrial raw materials, mineral and petroleum products, transport vehicles and other product lines are dominated by state enterprises. The overall percentage of the private sector in processing and manufacturing

in 1984/85 was 54.7 % according to official statistics, compared to only 51.8 % in 1982/83. In 1984/85 the total state contribution was 38.9 %, that of the co-operatives 4.7 % and the private sector 56.4 %¹⁴.

However, in interpreting this data some caution is advisable. It is impossible accurately to measure the private sector's contribution, because those activities are mainly in the small-scale sector, rice farming, and in illegal imports and narcotics smuggling - activities that are far beyond the reach of official statistics. This is reflected by the fact that almost anything can be obtained on Rangoon's black market.

Investment is mainly channeled into the public sector (1984/85: 80.2 %, 1985/86: 74.5 % according to the plan)¹⁵, however, an exact estimate for re-invested earnings in the private sector is impossible.

The structure of the value of net output and services at 1969/70 constant prices from 1961/62 to 1984/85 shows that there has been no dramatical shift in the importance of sectors in the past, agriculture being still the most important sector with 28.5 % in 1984/85, processing and manufacturing stagnating at about 10-11 %, livestock and fishery with 6.8 % being also one of the most important sectors¹⁶.

Moreover, agriculture is also the main export sector accounting for about 50 %, whilst forest products and minerals and gems account for 27 % and 13 % respectively. About 70 % of exports are directed to Asian Countries, 13 % alone to India and 12 % to the European Economic Community. Official imports mainly consist of capital goods (61 %), raw materials and spares for inter-industry use (32 %). Imports of consumer goods for 1983/84 are estimated to have been only 7 %. Japan with 34 % is the leading trading partner in imports, the European Economic Community follows with 26 %, East European Countries with 16 %, China 4.5 %, whereas the North American Countries with about 4 % are of minor importance¹⁷.

V. ECONOMIC PLANNING

The official, state controlled economy of Burma, is guided by 4-year-plans. The year 1984/85 was the third one of the Fourth Four Year Plan. The fiscal year being from 1 April to 31 March. According to the Report to the Pyithu Hluttaw the annual plan targets for 1984/85 were almost fully achieved for the productive sector, whereas the performance of the service sector surpassed the planned targets. The increase in real GDP is given with 6.6 %. The plan targets are very detailed and in some ministries a quarterly reporting system about the achievement of the targets exists.

The Planning Department of the Ministry of Planning and Finance is the main agency responsible for the formulation and implementation of central planning at national and regional levels. It has to coordinate and review the

sectoral drafts proposed by the various ministries in accordance with the Economic Plan Guidelines laid down by the BSPP. Sectoral plans and regional economic plans, proposed by the State and Divisional Peoples Councils are integrated into one single State Economic Plan with the assistance of the Planning Department staffs at township, divisional/state and national levels. The reviewed drafts of the economic plan are submitted to the various organs of state power for approval and finally submitted to the Pyithu Hluttaw for endorsement and enactment as the Economic Plan Bill¹⁸.

VI. STATE ECONOMIC ORGANIZATION

The state's economic activities are fully integrated into the relevant ministries. Most of the ministries are divided in departments and "corporations". The departments fulfill functional activities (e.g. the Planning and Statistical Department in the Ministry of Agriculture and Forests, the Industrial Planning Department in Ministry of No. 1 Industry), whereas the "corporations" are producing (or service) units which are subdivided in enterprises¹⁹.

Official external trade is entirely handled by state enterprises. Since 1976, the respective State Economic Enterprises have been responsible for attaining planned export and import goals. The Ministry of Trade is mainly responsible for the export of rice, rice products, animal feedstuff, pulses and beans, which together with timber are the major export products of Burma²⁰.

VII. ECONOMIC POLICIES AND ECONOMIC DEVELOPMENT

Up to 1972 Burma practised an inward-looking policy with low reliance on foreign trade, external aid and cooperation. Even tourism at that time was only possible with a 24-hours-visa. The industrial structure was diversified by import substitution in the heavy industry sector. Although successful in reducing income inequality and in the provision of social services, e.g. in the health sector and in education, the growth rate and rate of accumulation was rather modest²¹. The introduction of the "Twenty-Year-Plan" in 1972, as a framework for the 4-year plans, led to the adoption of more pragmatic and flexible policy.

In the process of industrialization, priority was given to the use of natural resources, resulting in a higher proportion of investment being devoted to agriculture, forestry and mining. The primary sector was also given priority to earn foreign exchange and to increase the import capacity for intermediate and capital goods. Furthermore, prices for agricultural produces were in-

creased as an incentive for higher production.

The most important success of the past decade was the introduction of high yield varieties of rice which is reflected by the yield per acre from 1961/62 to 1984/85 being nearly doubled²². Material incentives for workers and management in State Enterprises were also introduced in 1975 by the "Guidelines for operating on commercial lines to be used by all State Economic Organisations in the various Ministries". Other main elements of these guidelines were the separation of State Enterprises from the central government's budget. Previously fully financed by the budget, now they are forced to get the financial means for working capital and for investment from the Myanmar Economic Bank and to pay interest on it. They are thus expected to earn a surplus. Finally, to avoid illegal activities, the "Bill on the Rights of Private Enterprises" of 1977 defines the areas which are reserved for the state and co-operative sectors - it does, however, allow private-enterprise participation in the other activities. These are agriculture, forestry, livestock, fishery, mining and transport (up to a certain size and with some exceptions) and other industries under various limitations and controls.

In 1973 Burma started opening to international financial cooperation by joining the Asian Development Bank (ADB) and in 1983 external public debt totalled 2,226.1 million \$²³.

The estimated average annual rate of real growth for 1970-81 was 4.0 %. According to official statistics Burma's gross domestic product (GDP) in Kyat (which is tied to the IMF's SDR) increased by 5.7 % in 1982/83, by 4.8 % in 1983/84 and by 6.6 % in 1984/85²⁴. Inofficial estimates, however, are lower and assume a real growth in GDP from 2-5 per cent, not sufficient to bring about a fundamental change in the living conditions.

With an estimated per capita GNP of 180 \$ in 1983 Burma belongs to the countries with the lowest per capita income. However, official statistics might underestimate the actual income in the private sector and the situation is further mitigated by a more equal income distribution compared to other countries. In addition absolute poverty is not as obvious as in other countries of the region with a much higher per capita income. Not surprisingly, therefore, Burma belongs to the top 10 countries ranked by life expectancy in relation to income in a World Bank analysis²⁵.

For 1985/86 the GDP at constant prices will, according to the plan, increase by 6.9 %, the contribution of agriculture by 5.1 %, livestock and fishery 5.7 %, forestry 6.9 %, mining 13.8 %, processing and manufacturing 17.1 %, energy sector 22.6 %, construction 2.0 %, services and transportation 5.4 %, services for the communication sector 15.9 %, services for the financial sector 7.4 %, rentals and other services 2.9 % and trade 6.8 %. These figures demonstrate the growing importance of mining, the processing and manufacturing and the related energy sectors²⁶. This would be in line with the long-term plan to transform the country's economy from an agricultural country into first an agro-based industrializing country and then into an industrialized one²⁷. By 1993/94, the end of the Twenty-Year Plan, the

private sector shall be reduced to only 26 % of the economy²⁸.

VIII. OBSTACLES FOR ECONOMIC DEVELOPMENT

Burma, like many other developing countries, in the last years was negatively affected by the international economic situation. In particular the decline, as shown in the following table, in the unit value of the important export commodities has had a negative impact on the Burman economy.

Table 1: Unit Prices of Selected Export Commodities of Burma (in Kyat)

| | 1981/82 | 1984/85 |
|----------------------------------|---------|---------|
| Rice per metric ton | 2 350 | 1 577 |
| Rubber per ton | 6 387 | 5 500 |
| Refined lead per ton | 5 349 | 3 500 |
| Tungsten concentrate per ton | 53 133 | 35 000 |
| Petroleum coke per metric ton | 536 | 318 |
| Teak (log) per cubic ton | 4 855 | 4 500 |
| Teak (sawn timber) per cubic ton | 4 909 | 4 500 |
| Hardwood (log) per cubic ton | 1 135 | 1 060 |
| Fish per metric ton | 6 309 | 5 000 |

Source: Report to the Pyithu Hluttaw 1985/86.

There was an overall decrease in the commodity terms of trade to 80.6 compared to 1969/70 = 100. Although the physical exports increased considerably (e.g. rice from 575 thousand metric tons in 1981/82 to 803 thousand metric tons in 1984/85), the decrease in the unit values resulted in a shortfall in the export targets. Total exports were only K 3 653.8 million in 1984/85 as against the target of K 4 269.8 million which consequently lead to a reduction in imports in 1984/85 to K 5 650.0 million as against the annual plan target of 6 270.0 million. Increased prices for imported capital goods, spare parts and raw materials had also raised the production costs of goods and services of the State Economic Enterprises. Due to political reasons, the prices and tariffs of essential goods and services were held stable, which resulted in financial difficulties for some of the State Economic Enterprises. The decrease of the terms of trade, therefore, not only reduced the real import capacity of export earnings, but also negatively affected investible surplus of the State Economic Enterprises.

Beside these external effects, there are internal obstacles to development

too. For example, the relationship between Buddhist culture (85 % of the population are Buddhist) and the development process are subject of continuous debate. Some lines of arguments are that Buddhism does not discourage the accumulation of wealth, but channels a large percentage of the surplus into activities that will assure the donor a pleasurable rebirth. In doing so the Buddhist is investing in his own future with the assurance of great rewards, greater than the subjective value of rewards from investment in economic activities²⁹. Moreover the conflicts with ethnic and communist insurgencies have diminished the capacity of the country to invest in economic activities. Military expenditure is estimated to be as high as 40 % of the state budget³⁰. To find a modus vivendi with the minorities would, therefore, be important for political and economic reasons as well. There seems, however, to be no actual danger to the political stability of the state.

With the key sectors for an industrial development being in the hands of the state, the entrepreneurship and flexibility in State Economic Enterprises is critical for economic progress. However, despite the reform of 1975 the ability of the enterprises to react flexibly on changing economic conditions or new opportunities is limited by the bureaucratic planning system. A greater influence of the State Economic Enterprises on price policy and diversification of output could be helpful. However, without fundamental improvements in the planning capacity of the bureaucracy the current plan to reduce the private share on the economy might prove disastrous.

IX. ECONOMIC PROSPECTS

In the long run - it seems to me - economic progress will strongly depend on how the ethnic conflicts can be settled, the quality of the economic planning system and on the role finally given to the private sector.

In the short and medium term, the declining import capacity of traditional exports could undermine the plans to industrialize the country and to diversify the economy. Since exports in the last few years have fallen behind target also imports have had to be reduced. The declining import capacity also highlights the importance of foreign assistance to the economy. This can be seen by a comparison of gross domestic savings and gross domestic capital formation. In 1983 gross capital formation, with 21.7 % of GDP, was much higher than gross domestic savings, with 17.2 % of GDP, demonstrating the importance of outside financing. The growing reliance on foreign capital is also reflected in an increase of external public debt and in the debt service ratio³¹.

In order not to get too much involved in debt problems, therefore, it is not only critical that capital be channeled into the most efficient use, but is also essential that the foreign exchange impact gets a proper weight in project evaluation and selection. This is especially important because of the over-

valued Kyat and the central bank's monopoly to dispose of foreign currency provides a disincentive for corporations to export. A strategy in project selection, therefore, should not be directed only to import substitution. To avoid international debt problems, those projects should be favoured which promise not only to provide for the domestic market, but also to compete successfully with part of their capacity on international export markets.

Such a policy could also offer the opportunity for foreign direct investment in the form of joint ventures. Although up to now no investment law exists, agreements could be reached on an individual level. This was demonstrated by a recent and up to now successful joint venture with a German firm in the field of mechanical engineering. Any significant discovery of natural gas in the Gulf of Martaban and an increase of both onshore and offshore petroleum exploration programs, could lead to further opportunities for industrial co-operation.

Notes:

- 1) Ministry of Planning and Finance, Report to the Pyithu Hluttaw on the Financial, Economic and Social Conditions of the Socialist Republic of the Union of Burma for 1985/86, Rangoon 1985.
- 2) *ibid.*; see also UNIDO, International Centre for Industrial Studies, Country Industrial Development Profile of the Socialist Republic of the Union of Burma, UNIDO/ICIS, 140, 8 January 1980, pp.7-9.
- 3) For a discussion of the foreign policy see Maung Maung Gyi, Foreign Policy of Burma Since 1962: Negative Neutralism for Group Survival. In: F.K. Lehman (ed.), Military Rule in Burma Since 1962, A Kaleidoscope of Views, Institute of Southeast Asian Studies, Singapore: 1980, pp.9-28. For the following see also H.Dohmen, R.Machetzki, O.Weggel, Malaysia-Vietnam-Birma. Drei mögliche Wege für Südostasien? In: Aus Politik und Zeitgeschichte, Beilage zur Wochenzeitschrift Das Parlament, 12.März 1977; W.Draguhn, R.Hofmeier and W.Schönborn (eds.), Politisches Lexikon Asien und Südpazifik, München: C.H.Beck 1980, pp.44-53, D.I.Steinberg, Burma's Road toward Development: Growth and Ideology Under Military Rule, Boulder, Colorado: Westview Press 1982.
- 4) For the acute situation see H.MacDougall and J.A.Wiant, Burma in 1984. In: Asian Survey (1985), pp.241-248.
- 5) Steinberg, D.I., Burma's Road toward Development (see note 3), p.167.
- 6) The other states are the Karen State, Shan State, Kayah State and the Kachin State (Art.31).
- 7) Burmans comprise about 75 % of population, various Karen groups totalling 9.2 %, Shan 6 %, Kachin 3 %, see Steinberg, D.I., Burma's Road toward Development (see note 3), p.8.

- 8) *ibid.*, p.70. For a discussion of the new constitution see A.D.Moscotti, *Burma's Constitution and Election of 1974. A Source Book, Research Notes and Discussions Series No.5*, Institute of Southeast Asian Studies, Singapore: 1977.
- 9) See also K.Fleischmann, *Die Wirtschaft Birmas*. In: *Internationales Asienforum* (1972), pp.252-279.
- 10) Ministry of Planning and Finance, pp.22, 46.
- 11) *ibid.*, p.37.
- 12) *ibid.*, p.130.
- 13) *ibid.*, pp.131-132.
- 14) *ibid.*, pp.137 ff., own calculation.
- 15) *ibid.*, p.291.
- 16) *ibid.*, p.33. Figures are not value added. Total interindustry use (about 40 %) is included.
- 17) *ibid.*, p.183 ff.
- 18) See Ministry of Trade, *State Economic Organizations*, Rangoon 1983, p.88 ff., Steinberg, D.I., *Burma's Road toward Development* (see note 3), p.170 ff.; Steinberg, D.I., *Economic Growth with Equity? The Burmese Experience*. In: *Contemporary Southeast Asia* (1982), pp.124-151, pp.136 ff.
- 19) See Ministry of Trade, *State Economic Organization*, Rangoon 1983; Sell, A., *Economic Structure and Development of Burma*, *Berichte aus dem Weltwirtschaftlichen Colloquium der Universität Bremen*, Nr.5, 1985.
- 20) See Ministry of Trade, *Export List of Burma*, Rangoon 1982.
- 21) According to the *World Development Report* the average growth rate of GDP for 1960-70 was 2.6 %.
- 22) Ministry of Planning and Finance, p.81.
- 23) *Asian Development Bank, Annual Report 1984*, Manila 1985.
- 24) Ministry of Planning and Finance, p.2.
- 25) *World Development Report, 1980*, p.38.
- 26) Ministry of Planning and Finance, p.15 ff.
- 27) U Maung Ohm, *Speech held on 25 May 1985*, Rangoon.
- 28) Steinberg, D.I., *Economic Growth with Equity* (see note 18), p.140.
- 29) Steinberg, D.I., *Burma's Road toward Development* (see note 3), pp.176 ff.
- 30) *ibid.*, p.165.
- 31) *External public debt outstanding in 1981 totalled \$ 1,638 million and in 1983 2,226 million. The debt service ratio in percent of export on goods and services in 1981 was 21.9 and 33.5 in 1983. See Asian Development Bank, Annual Report 1984*, p.111.