Some Thoughts on Myanmar's Economic Reforms

*Medhi Krongkaew**

The military coup d'etat in Myanmar in September 1988 not only changed the political picture of Myanmar with the installment of the State Law and Order Restoration Council or SLORC to power, it also changed the economic picture of Myanmar. Of course, the 1988 economic reforms were not the first reforms ever attempted by the Burmese government. The Burmese government had attempted to 'amend' its 'Burmese Way to Socialism' somewhat in the early 1970s with gestures such as the decentralisation of management and greater use of commercial incentives, and the acceptance of foreign assistance, especially from Japan, but such 'amendments' were few and far between and ineffective in helping Burmese economic problems. In fact, the economic problems had gotten worse, leading up to economic, social and political unrest culminating in the seizure of power in 1988 by SLORC.

There was a sharp reversal of economic policy in deed as well as in rhetoric after the coup in 1988. In deed, the new 'open door' policy would replace the existing 'Burmese Way to Socialism' policy. In rhetoric, SLORC went so far as to declare the end of the socialist system in Burma in March 1989. It has implemented drastic policy changes in several areas, especially in foreign direct investment promotion, banking deregulation, and domestic price decontrol.

There has been a noticeable improvement in economic conditions in Myanmar after a certain lag. In terms of the overall growth of the Myanmar economy, for example, the real rate of growth of GDP fell from 3.7 per cent in 1989 to 2.8 per cent in 1990 and -1.0 per cent in 1991 before recovering strongly to 10.9 per cent in 1992. The low, even negative economic growth during the first few years after several market-oriented reforms could be explained by the difficulties in institutional adjustments and the political situation before and after the general election of 1990.

The economic expansion slowed again in 1993 to 5.8 per cent, but rice production has gone up as result of higher procurement prices and improved fertilizer distribution. In keeping with the overall market reform policy favouring the private sector, investment in the private sector increased as credits to both cooperatives and private enterprises was made readily available.

Foreign direct investment also rose, particularly in hotels and other tourism facilities. Inflation continued to pose a major threat to the economy with the CPI increasing from 21.9 per cent in 1992 to 31.8 per cent in 1993. Exports started to increase markedly in 1992 and this trend continued in 1993. The Asian Development Bank has projected that over the next two years, that is, in 1994 and 1995, strong export growth would continue, helped by the new agreements made with China, particularly on trade, transportation and infrastructure. The tourism sector was also projected to provide an increasing source of foreign exchange.

Let us expand on the three policy reforms mentioned above. First of all, the announcement of the Foreign Investment Law in 1988 showed a complete reversal from the previous economic policy of autarky

* Director, the Institute of East Asian Studies and lecturer in the Faculty of Economics, Thammasat University.

which refused investments from overseas. The difficulties in domestic resource mobilisation, the shortage of foreign exchange and the dwindling official development assistance (ODA) gave the Myanmar government little choice but to open the country for foreign investment. By comparison with foreign investment laws in neighbouring countries, Myanmar's foreign investment law gives generous incentives to prospective investors such as a choice of wholly-owned enterprise or a joint venture with local private industries, and an 'irrevocable' guarantee against nationalisation.

Secondly, banking deregulation abolished the monopoly of the government providing commercial banking services. Both private commercial banks and overseas banks are allowed to set up branches in Myanmar. As of 1994, there were 8 private local banks and 7 foreign banks in operation. In addition, the government itself set up several new financial institutions such as the Myanmar Investment and Commercial Bank to facilitate foreign investment and the Myanmar Small Loans Enterprise to facilitate financial transactions.

Thirdly, the lifting of price controls on several agricultural products such as rice and maize should provide needed incentives for farmers to increase their production. Production levels did not show an immediate response to price decontrol because the length of time farmers needed to adjust themselves to the new situation as well as the time needed by government organisations to accommodate new policies. Eventually, however, if this market-oriented price liberalisation continues, there should be a perceptible increase in the supply response based on the empirical evidence that Burmese farmers are responsive to price changes.

Policy reform is far from complete. Liberalisation of interest rates as distinct from positive real administered rates is necessary for sustainable savings mobilisation and small business credit institutions. Privatisation of some or all of the State Economic Enterprises (SEEs) may be a logical next step in policy reform, although at the moment this is not yet under consideration by the government.

What could be considered one of the most important economic reforms that has yet to be undertaken is the liberalisation of the exchange rate. This is exactly the policy reform which is almost inconceivable for the policy makers at present to adopt or accept because of the enormous impact that it will create on the economy.

Economically, a severely overvalued exchange rate constrains trade and business. The nominal value of the Kyat is pegged to the Special Drawing Right (SDR) but this does not mean that the stability of the real exchange rate is maintained. The pegging with SDR while the US dollar is depreciating actually causes the official exchange rate of the Kyat to appreciate. But this gain and loss of official exchange rate differential pales in significance in comparison with the actual market exchange rate. The market exchange rate was about 120 Kyats to the dollar in 1994 while the official exchange rate was about 6 Kyats. In other words, the market exchange rate is about 20 times the official exchange rate. One can see the inevitability of black market operations and other distortions in the economy. Such an overvalued currency deters foreign investment and hurt exports. Although it is sometimes argued that such dual exchange rate regime earns the government subsidies to cover priority imports and other public expenditures, this is certainly not the final solution to the Myanmar problem. Although the black market that develops as a result of this excessive overvaluation acts as a safety valve preventing the breaking down of the financial system, it is untenable in the long-term development of the economy.

One of the reasons the government has been most reluctant to effect exchange rate reform is the fear of a severe inflationary spiral. It seems that to liberalise the exchange rate without too much inflationary damage or with some ability to control domestic inflation, Myanmar must be able to mobilise sufficient foreign resources. These resources could be forthcoming in at least four ways, namely, through export of goods and services, through foreign direct investment, through foreign borrowing, and through foreign development assistance of ODA.

Exports of goods are limited by the availability of exportable surpluses. Exports of services, especially tourism, show a great deal of promise and potential, but the tourist infrastructure is still very inadequate Foreign

Direct Inverment. (FDIs) are coming in but until the exchange rate regime is reformed the foreign investors are still apprehensive and uncertain. Foreign borrowing is difficult because of the low credit-rating of Myanmar in the international financial market, and also due to its unwillingness to borrow overseas. That leaves only the last means of solution, foreign assistance. I would go so far as to say that the ODA has become *a sine qua non* to the solution of Myanmar's economic problems. But being an international pariah or an international outcast, SLORC has been unable to receive sufficient ODA from outside. In fact, its ODA has been cut in the aftermath of the broken promise to abide by the result of the 1990 election.

In conclusion, I would say that Myanmar's military leaders have shown that they are genuinely concerned about reforming Myanmer's economic system, but somehow there appears to be significant constraints to their transferral of power to civilian government, and this has been a major blind spot preventing full economic and political contacts between many Western governments and Myanmar, and poses a serious peril to the success of its economic reforms. In this respect the Myanmar government is different from the Vietnamese and the Chinese governments which have become much more compliant to world's public opinion and pressure as regards their handling of human rights issues and economic and political liberalisation. It is hoped that, if and when SLORC finishes its drafting of the new Myanmar constitution and returns its power to the civilian government, a new era of Myanmar economic development could begin.

BIBLIOGRAPHY

Asian Development Bank (1994), *Asian Development Outlook*, Manila: Asian Development Bank.

Bandyopadhyay, Sekhar (1991), *Burma Today: Economic Development and Political Control Since 1962,* Calcutta: Calcutta University Press.

Economist Intelligence Unit (1994a), *EIU Country Profiles: Thailand and Myanmar,* London: EIU.

Economist Intelligence Unit (1994b), *EIU Country Report: Thailand and Myanmar*, 3rd quarter 1994, London: EIU.

Foreign Investment Commission (1994), *Investing in Myanmar,* 1994 Bangkok.

Hashimoto, Kazushi (1998), "Economic Development Issues in Burma" in Ichimura Shinichi (ed.) *Challenge of Asian Developing Countries: Issues and Analysis,* Tokyo: Asian Productivity Organisation.

Hill, Hal and Sisiri Jayasuriya (1986), *An Inward-Looking Economy in Transition: Economic Development in Burma since the 1960s,* Singapore: Institute of Southeast Asian Studies.

Kohama, Hirohisa (1982), "Development Strategy and Growth Performance: A Comparison of Burma and Malaysia", IDCJ Working Paper Series no.21, International Development Centre of Japan, Tokyo, March.

Ministry of National Planning and Economic Development, Government of the Union of Myanmar (1993), *Review of the Financial, Economic and Social Conditions, 1993/94,* Yangon.

Mya Maung (1991), *The Burma Road to Poverty*, New York: Praeger.

Mya Than (1988), "Growth Patterns of Burmese Agriculture: A Productivity Approach", Occasional Paper no.81, Singapore: Institute of Southeast Asian Studies.

Mya Than (1990), "The Union of Burma Foreign Investment Law: Prospects of Mobilising Foreign Capital for Development?" in Mya Than and Joseph L. H. Tan (eds) (1990), pp. 89-116.

Mya Than and Joseph L. H. Tan (eds.) (1990), *Myanmar Dilemmas and Options: the Challenge of Economic Transition in the 1990s*, Singapore: Institute of Southeast Asian Studies.

Preyaluck Donavanik (1993), "Myanmar: How Bodes Its Future", *Bangkok Bank Monthly Review*, vol. 34, June, pp. 14-26.

Steinberg, David I. (1982) *Burma: A Socialist Nation of Southeast Asia*, Boulder: Westview.

U Tun Wai (1990), "The Myanmar Economy at the Crossroads: Options and Constraints", in Mya Than and Tan (1990), pp. 18-52.

Uchimura, K., John Borthwick and E. Chabanian (1985), "Burma-Policies and Prospects for Economic Adjustments and Growth", World Bank, South Asia Regional Office.

UNDP (1988), *Selected Sectoral Reviews: Burma,* December.

UNDP (1994), *Human Dvelopment Report, 1994,* New York.

Vokes, Richard (1994), "Myanmar. Economy", in *Regional Surveys of the World: the Far East and Australasia,* 1994, 25th edition, London: Europa Publications, pp. 594-612.