

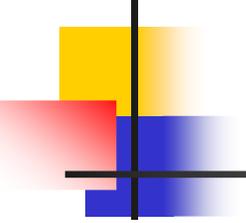
# Development Strategy

*for*

**Myanmar**

**Masahiko Ebashi**

**Myat Thein**



# Contents

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1. Present Status of the Economy
2. Characteristics of Current Economic Policies of Myanmar
3. Key Issues to be tackled
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  - b. Industrialization
  - c. Foreign exchange constraint
4. Road Map of Economic Reform

An aerial photograph of a city, likely Singapore, showing a dense urban landscape with various buildings, green spaces, and a large body of water in the background. The text "Present Status of the Economy" is overlaid in the center of the image.

# **Present Status of the Economy**

# Present Status of the Economy

The energetic and untiring efforts of the State leadership

The physical appearance of Myanmar has changed significantly for the better since SLORC/SPDC took over the reins of government in 1988.



There are now high rises, modern supermarkets, classy restaurants and gleaming new apartment buildings in Yangon, Mandalay and many other urban centers where there were none before. In the rural areas, there are now many new dams and irrigation networks boosting agricultural production.

## Present Status of the Economy

The energetic and untiring efforts of the State leadership



As a result, life in some of the villages has changed in many ways for the better. In some of these villages, there are now cinema houses, television sets, radios and bicycles where there were none or very few before. There are also many new or widened highways and roads crisscrossing the country and just as many bridges spanning rivers big and small throughout the country.

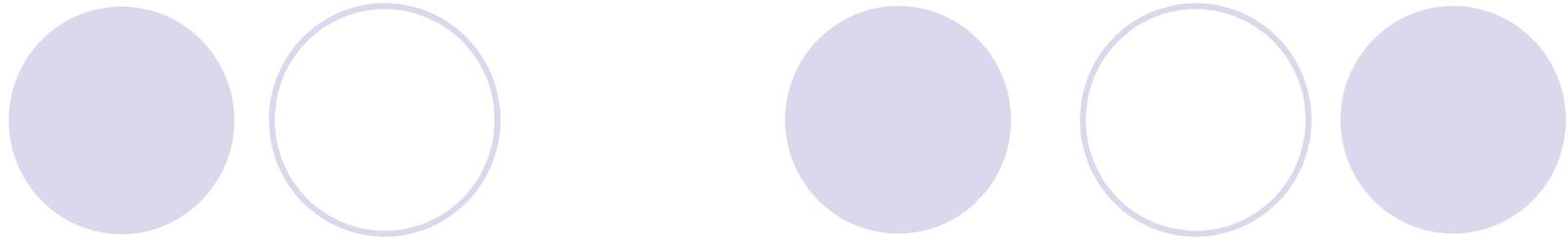
# Present Status of the Economy

The energetic and untiring efforts of the State leadership

All of these highly visible changes for the better have been brought about by the energetic and untiring efforts of the State leadership to:



- ❑ To create agriculture-led growth
- ❑ To build the physical infrastructure of the country
- ❑ To achieve relative peace and security through multiple cease-fire agreements with ethnic insurgencies
- ❑ To pave the way for the private sector to play a larger role in the economy.



# **Characteristics of the Current Economic Policies of Myanmar**

# Characteristics of Economic Policies of Myanmar

## Macroeconomic Instability *and* Control-oriented Policies

In spite of the achievements noted above, progress has been constrained by the problems of

### Macroeconomic Instability

+

### Control-oriented Policies

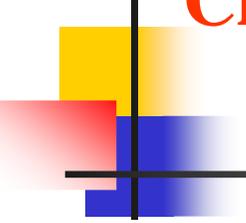
Perennial budgetary deficits - over 5% of GDP

Double digit inflation - over 23% per year

Depreciating parallel Exchange rate - \$1:K42 (1988/89) to \$1:K1000 (2001/02)

Perennial external imbalances - approx. US\$ 1,000 millions

1. Priority placed in state-owned enterprises and little emphasis on the private sector
2. Wariness towards foreign capital
3. Extensive government control over foreign trade and foreign exchange
4. State monopoly on foreign trade and domestic sale of important commodities
5. State control over lands
6. Extensive government intervention in the financial sector
7. Government intervention in pricing
8. Lack of transparency in policies, laws and regulations



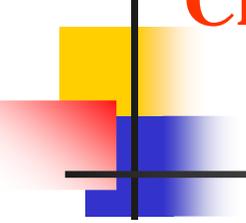
# Characteristics of Economic Policies of Myanmar

Macroeconomic Instability *and* Control-oriented Policies

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Macroeconomic Instability *and* Control-oriented Policies have prevented Myanmar from -

1. increasing saving and investment rates
2. attracting a substantial inflow of FDI
3. achieving significant progress in industrialization and changes in the structure of the economy
4. achieving sustained development of the economy over time *and*
5. reducing poverty to any significant degree



# Characteristics of Economic Policies of Myanmar

## Macroeconomic Instability *and* Control-oriented Policies

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Macroeconomic Instability *and* Control-oriented Policies have brought about the following negative effects in Myanmar's economy

1. Under-utilized foreign capital and technologies
2. Inefficient resource allocation owing to price distortions
3. Highly expensive transaction costs
4. Difficulty in accessing capital goods and raw materials at international prices
5. High cost of domestic materials which are monopolized by the state
6. Stagnant market entry and exit of private companies
7. Inadequate competitive markets
8. Inefficient investment, *and*
9. Repression of entrepreneurship

# Characteristics of Economic Policies of Myanmar

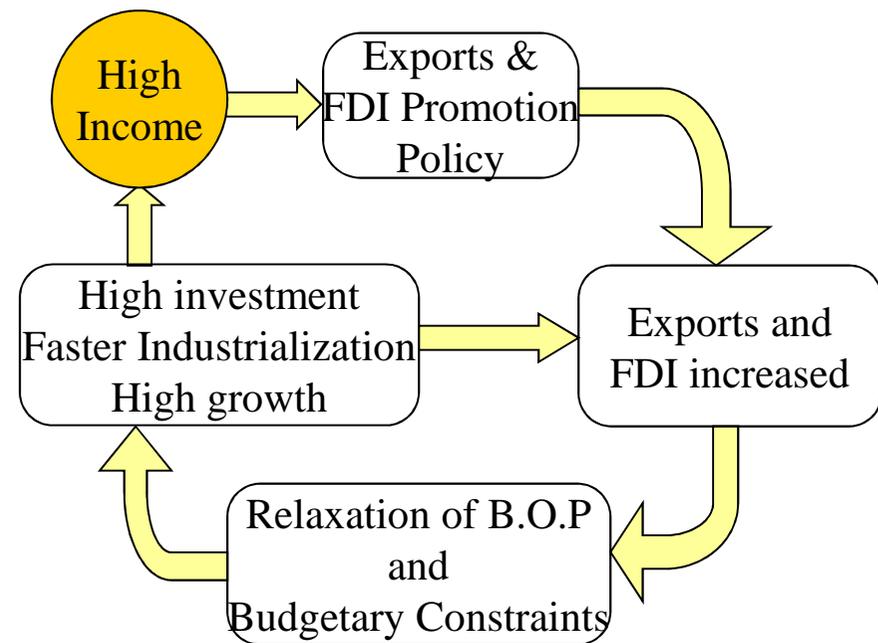
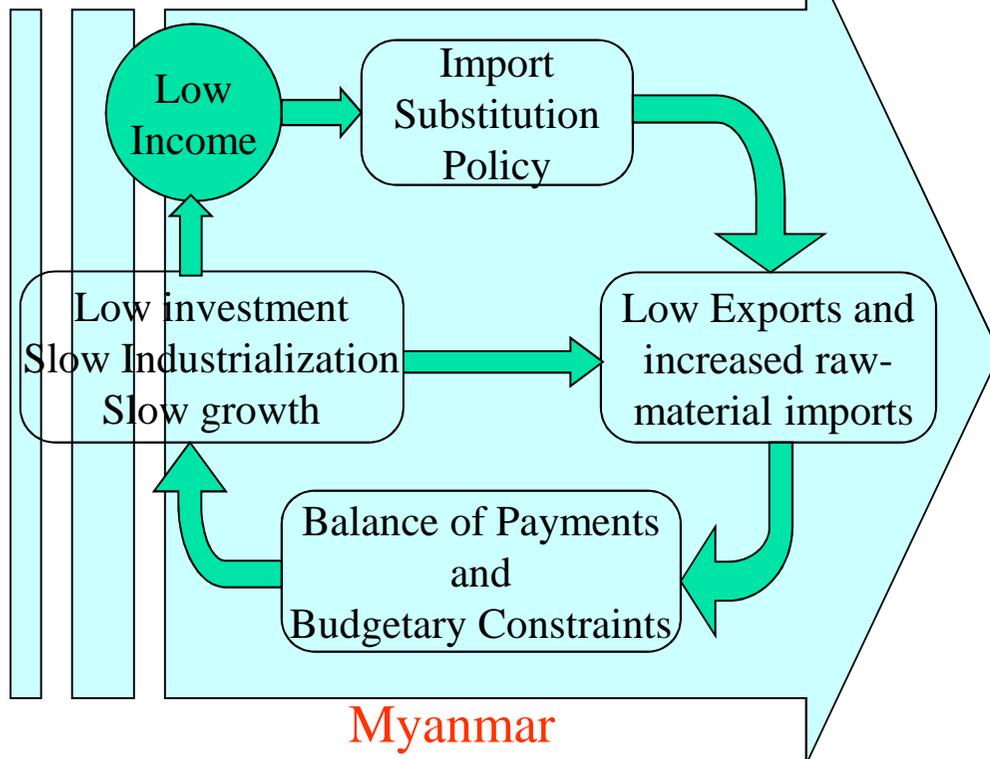
Macroeconomic Instability *and* Control-oriented Policies

In Addition, Macroeconomic Instability *and* Control-oriented Policies have also prevented Myanmar from breaking out of the vicious cycle trap.

*from a vicious cycle*

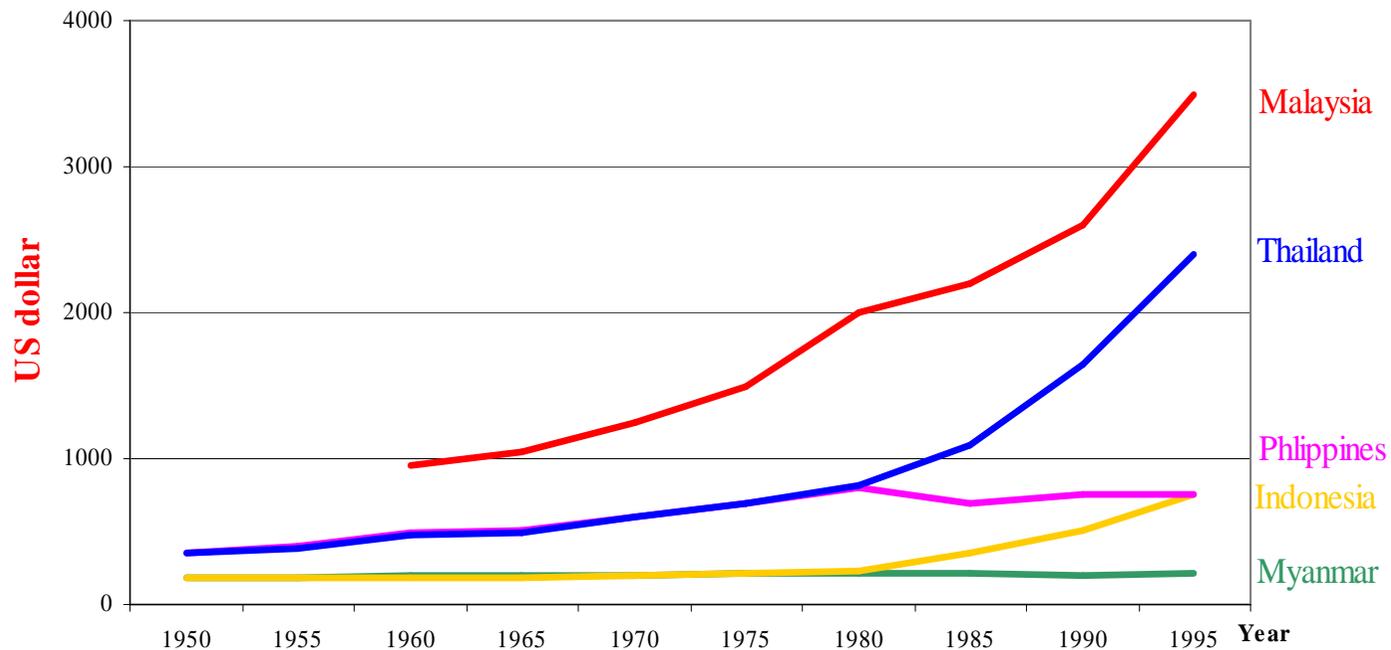
*to*

*a virtuous cycle*

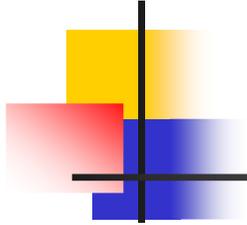


## Changes in Per Capita Income over time

Lack of change in per capita income of Myanmar over time clearly attest to its being trapped in the vicious circle of poverty.

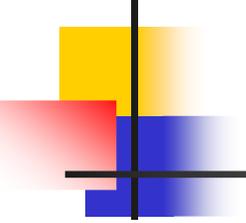


Dramatic changes in per capita incomes of HPAEs such as Malaysia and Thailand clearly show the benefits of economic reforms and structural adjustment.



**To create a new modern developed nation**

**Key Issues to be tackled**



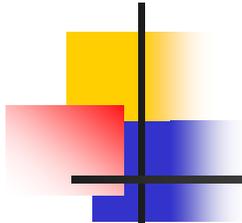
# Key Issues to be tackled

To create a new modern developed nation

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In order to achieve sustainable development with macroeconomic stability, at least three of currently prioritized policies and activities of Myanmar Government should be empowered.

1. Accelerate Rural development and the alleviation of poverty,
2. Promote Industrialization, *and*
3. Ease Foreign exchange constraint

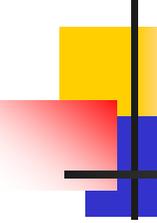


Accelerate rural development

*and*

the alleviation of poverty





## Rural development and the alleviation of poverty

### Current prioritized activity of Myanmar Government

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The problem of poverty in Myanmar is heading toward improvement through vitalization of private sector economic activities within market-oriented “open door” policy frame and construction of infrastructure, but **radical improvement is not yet visible**.

Current prioritized activities of alleviation of poverty in rural villages, which account for about 70% of the population, is a correct and important policy issue and hence that should be empowered.

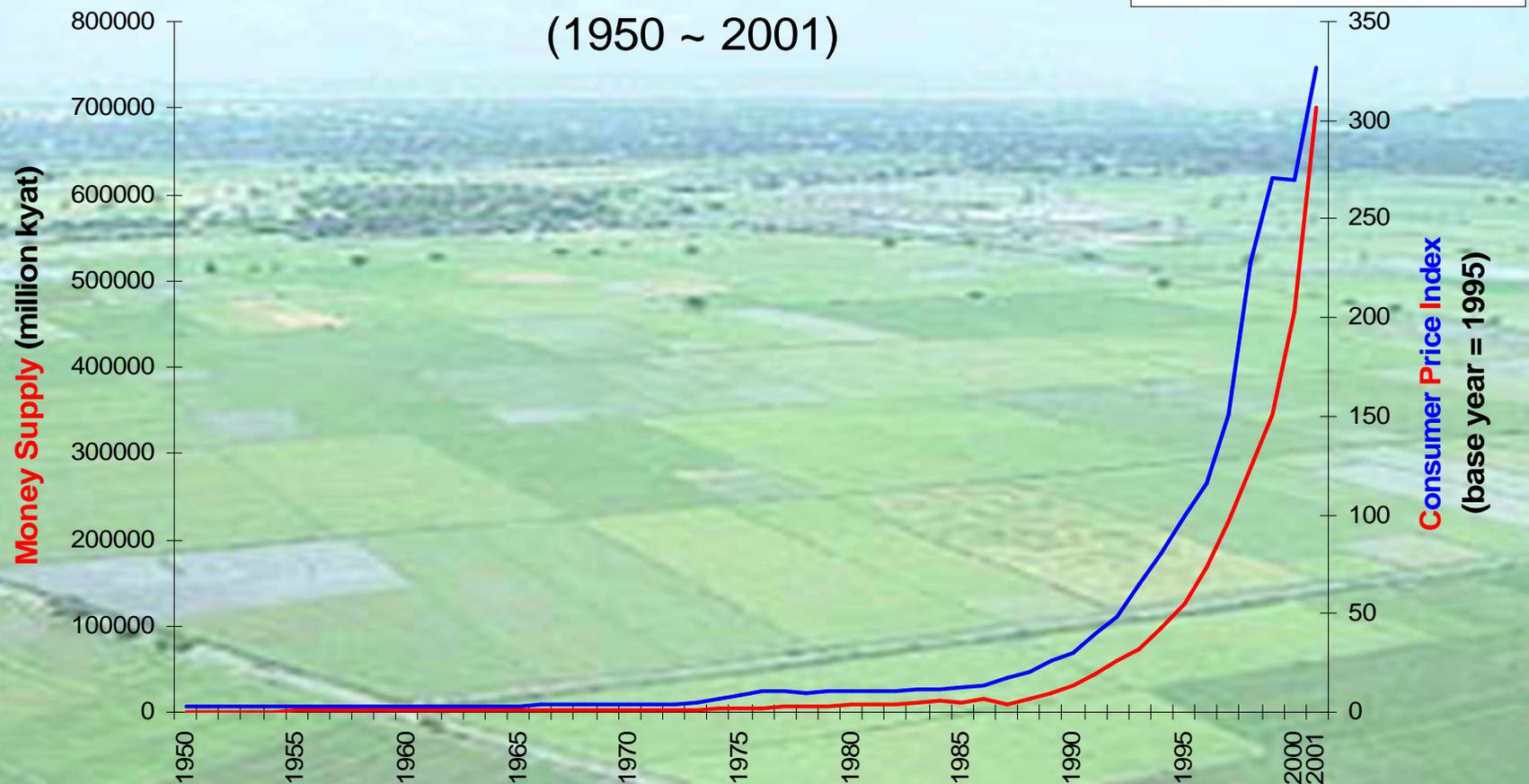
However, recent **severe inflation** has greatly reduced the real wages of public employees as well as rural workers, and there is a high probability that the urban poor might have been increasing in number.

# Rural development and the alleviation of poverty

## Major Causes of Inflation and its Control Measures

### Inflation and Monetary Growth

(1950 ~ 2001)

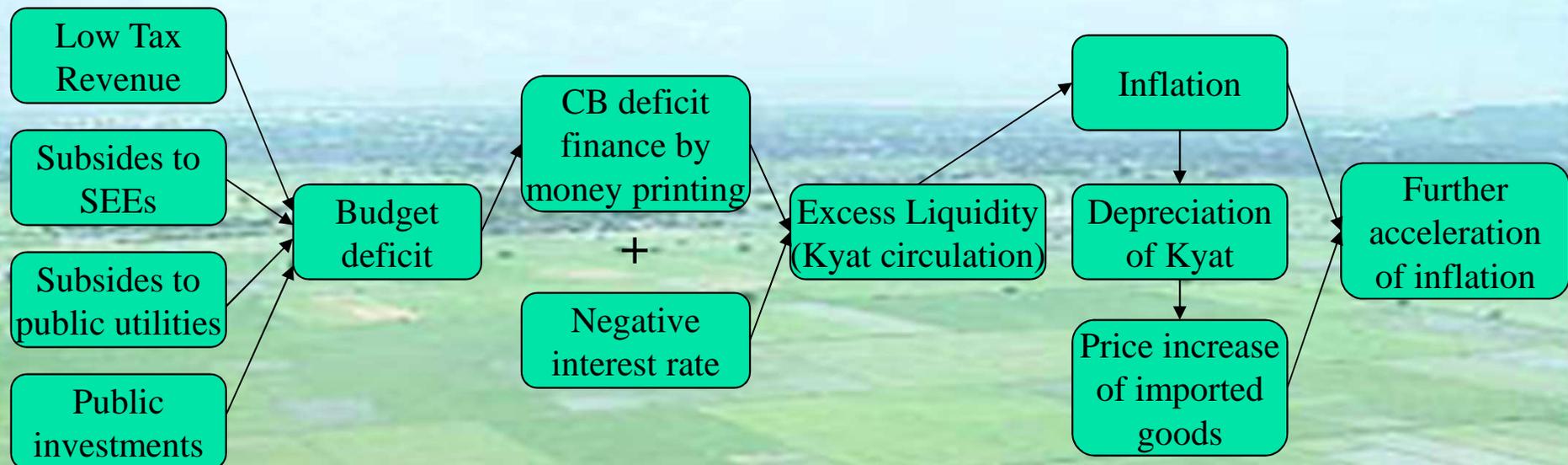


Source : IMF, *International Financial Statistics* 2003  
CSO, *Statistical Yearbook* (various issues)

# Rural development and the alleviation of poverty

## Major Causes of Inflation and its Control Measures

(Current Situation)



Central Bank financing for **the budget deficit** via the issuing of currency brings about the depreciation of Kyat in the parallel market, which promotes increases in the price of imported goods, and **accelerates inflation**.

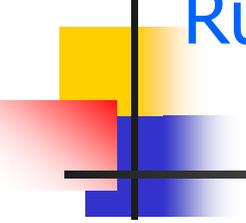
# GDP Growth Outlook (1970 ~ 2004 )

## Lesson from the Past

History has already proved that when money supply and the price level began to accelerate in the 1970s and then took off in the middle of the 1980s, the economic, social and ecological situation in Myanmar has deteriorated, an obvious sign of the collapsing economic system, leading to widespread civil unrest in 1988.



Source : IMF, *World Economic Outlook Database April 2003*



# Rural development and the alleviation of poverty

## Macroeconomic Instability *and* Control-oriented Policies



Control-oriented Policies and problems at present are much the same as in the past and they are also the reasons why Myanmar was left behind in the race for development.

Unless these are addressed with courage and commitment, Myanmar will be left still further behind in the quest for development in the coming decades.

Long-term peace and harmony amongst the peoples of Myanmar and national unity can only be secured through sustained development of the economy as in Malaysia.

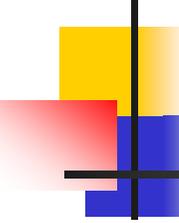
# Rural development and the alleviation of poverty

## Current prioritized activity of Myanmar Government

The important measures to support and accelerate poverty alleviation are;

1. Improvement of agricultural productivity
2. Promotion of rural electrification, *and*
3. Employment creation through the promotion of SMEs and small-business



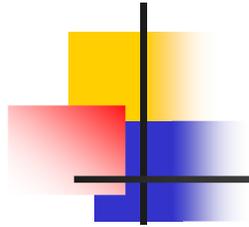


# Rural development and the alleviation of poverty

## Poverty alleviating Strategies

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- 
1. Eliminate Government intervention regarding crop pattern and price
  2. Clarify farmers' land use rights
  3. Improve financing for farmers
  4. Expand R&D and extension services
  5. Create infrastructures including feeder roads and irrigation channels
  6. Abolish compulsory delivery system of crops including paddy
  7. Review existing land duty and water tariff
  8. Promote rural electrification, *and*
  9. Create employment through promotion of SMEs

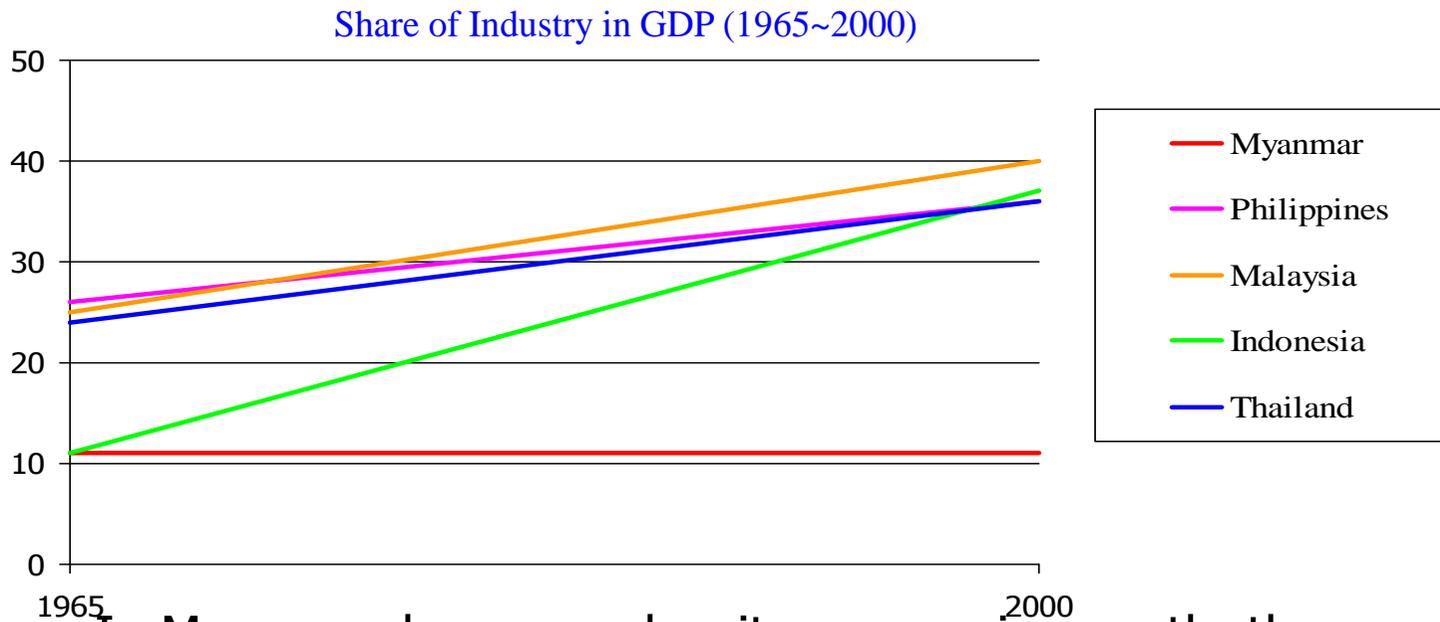


# Promotion of industrialization

# Promotion of industrialization

## The stagnation of industrialization

In the process of economic growth, agriculture's relative weight in GDP decreased, the weight of industry has increased, and the proportion of manufactured goods exports has increased as experienced in neighboring Asian countries.



In Myanmar, however, despite economic growth, the proportion of industry as a whole remains at a low level.

# Promotion of industrialization

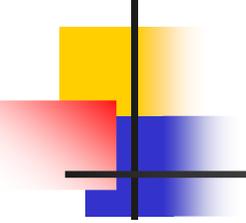
## The stagnation of industrialization

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The stagnation of industrialization in Myanmar has mainly been caused by:

1. the government policy to promote “import-substituting industries” centering on state-owned enterprises
2. the adoption of inward-looking trade policies which prevents the realization of benefits from trade
3. being wary of foreign capital and private enterprises
4. attaching low importance to private businesses and being unable to sufficient utilize the economic vitality of the private sector for economic development

# Promotion of industrialization



## Fundamental routes

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In order to promote industrialization in Myanmar, it is desirable for the government to turn away from its original economic policies, and adopt the following fundamental routes.

- Greater promotion of market economy
- Creation of economic system led by SMEs, through elimination of Government intervention
- Adoption of “outward-looking” trade policy
- Adoption of strategy to boost the country’s competitive advantages

# Promotion of industrialization

## Industrialization Strategies

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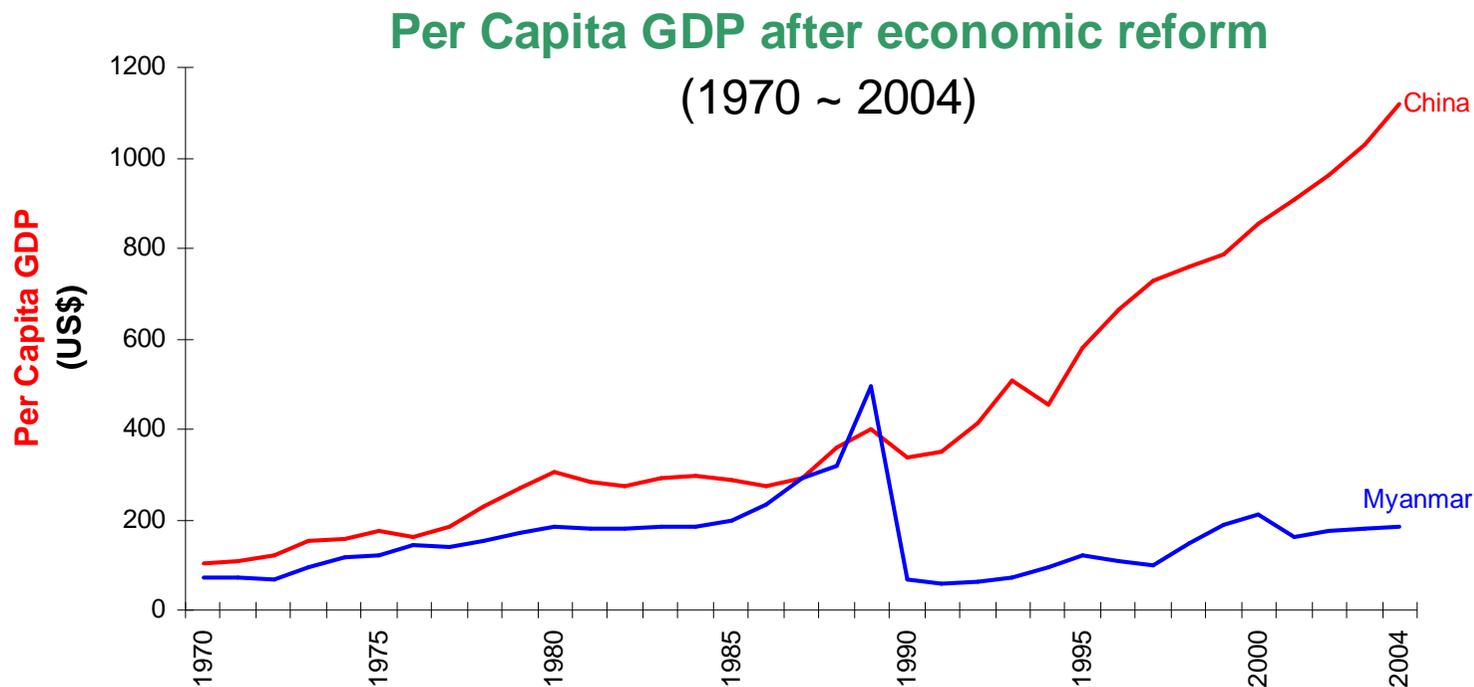
1. Promote private manufacturing industry
2. Promote export of manufactured goods
3. Promote inflow of Foreign Direct Investment
4. Effective reform of State Economic Enterprises
5. Strengthening the functions of the financial sector
6. Reform of some government agencies

# Benefits of Economic Reform

## China as an Example



Leading China toward modernization and economic reform since 1978, **Deng Xiaoping** masterminded reconstruction of an economy while maintaining political stability.



Source : IMF, *World Economic Outlook Database April 2003*

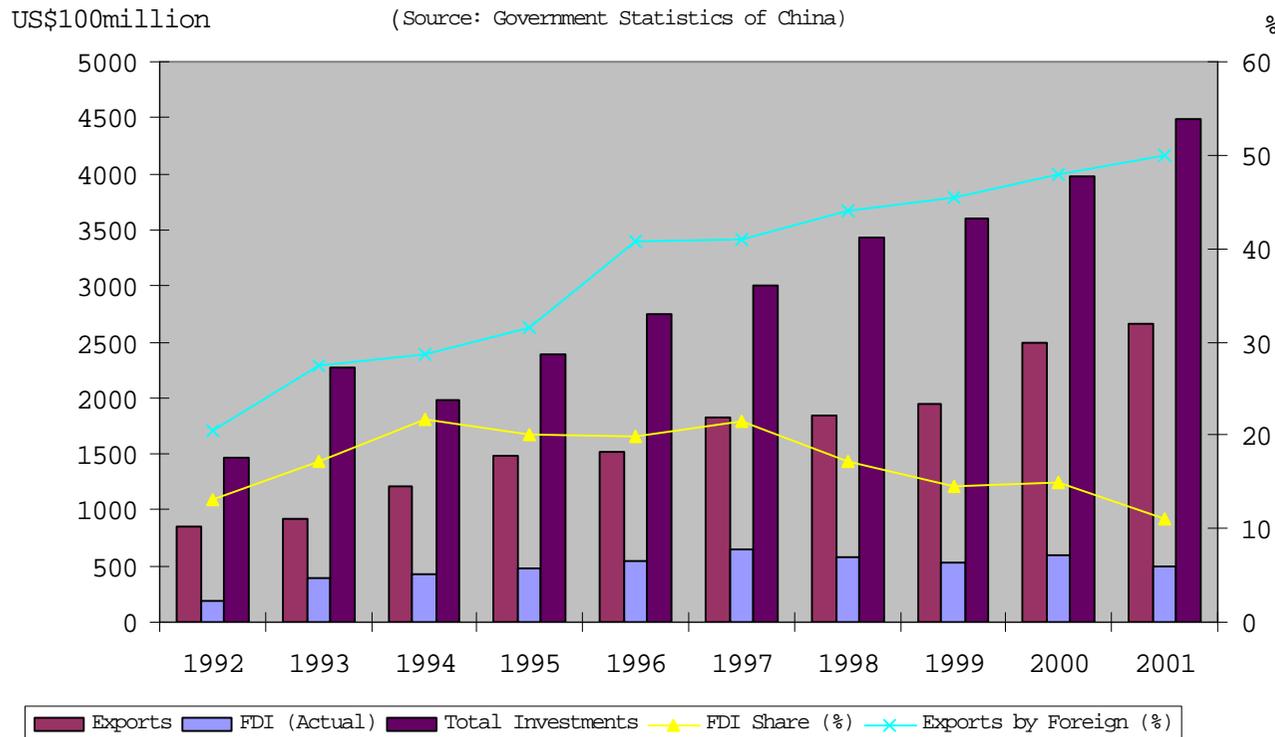
# Benefits of Economic Reform

## China as an Example



Establishing **Special Economy Zones (SEZ)** was an important move in Deng Xiaoping's plan. Under his leadership, China has been experiencing over 20 years of continuous economic boom that astonished the world.

Foreign Share in Chinese Economy



## Benefits of Economic Reform

### China as an Example



Hence, Deng Xiaoping was praised as a **National Hero**.

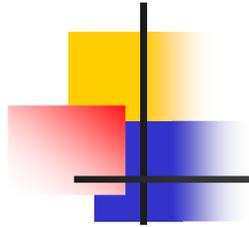
The theme of the 16<sup>th</sup> National congress is to hold high the great banner of **Deng Xiaoping Theory**.....(to) build a well-off society in an all-round way.

Reform and opening up are ways to make China powerful. We must press ahead with the reform in all areas resolutely. Uphold Deng Xiaoping Theory as our guide and constantly bring forth theoretical innovation.

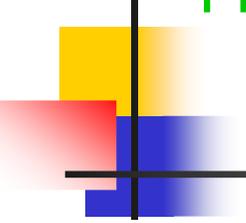
**Premier Jiang Zemin**

Report delivered at the 16<sup>th</sup> National Congress of (CPC)

on November 8, 2002



# Ease Foreign Exchange Constraint



## Measures to eliminate shortage of foreign exchange

### Major causes of foreign exchange shortage

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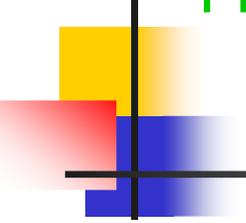
To speed up poverty alleviation and industrial development, one of the most important issues to be tackled is foreign exchange constraint. Major causes of foreign exchange shortage are:

#### ***Demand Factors***

1. Inward-looking trade policy
2. Import substituting industrialization
3. Dominance of Import-dependent SEEs

#### ***Supply Factors***

4. Low emphasis on export promotion
5. Low emphasis on FDI
6. Absence of Export Processing Zones (EPZs)



## Measures to eliminate shortage of foreign exchange

### Major causes of foreign exchange shortage

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The trade and Foreign Exchange controls adopted by the Government have not had the expected results.

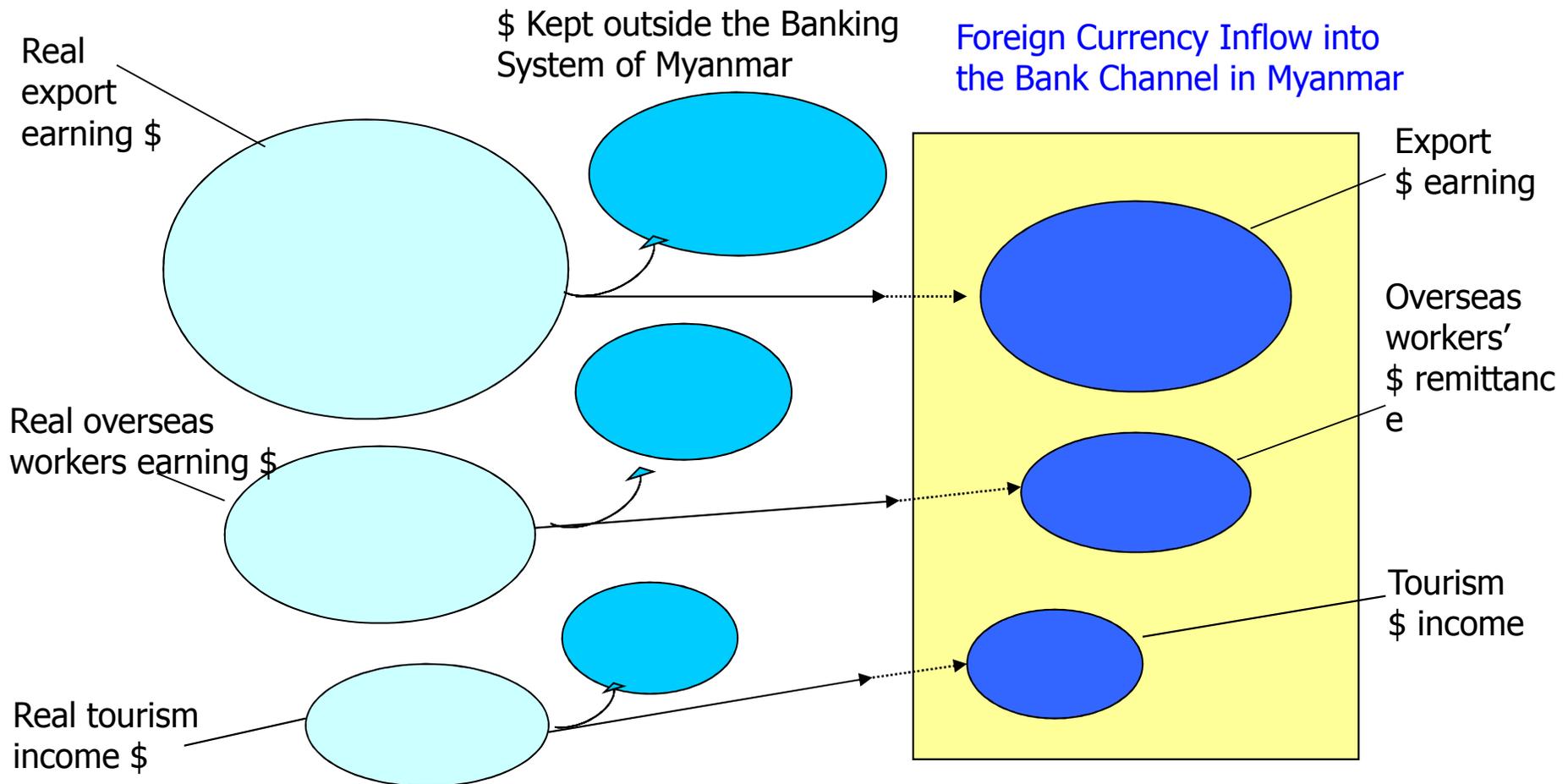
This is because measures to restrict demand which have been confined to the private sector also have a negative impact on supply.

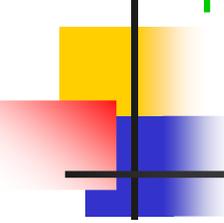
As a result, Myanmar's economy has fallen into a vicious circle of foreign exchange shortage and further strengthening of regulation.

# Measures to eliminate shortage of foreign exchange

## Causes of F.E shortage in Myanmar Banking System

Limited \$ Inflow into the Myanmar Bank Channels



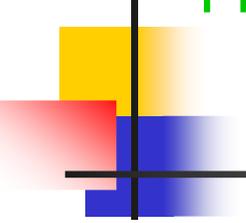


## Measures to eliminate shortage of foreign exchange

### Causes of limited \$ inflow into Myanmar Bank Channel

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- 1) existence of plural foreign exchange rate system  
( official exchange rate vs. the parallel market rate )
- 2) extensive import control restrictions
  1. limitation of monthly foreign remittance to max 10,000FEC
  2. import restriction based on list A and B
  3. prohibition of bank transfer between forex bank account
  4. prohibition of import by using non-export earning money
- 3) restriction of foreign exchange holding by private sector
- 4) negative real interest rate
- 5) low confidence on kyat currency  
( because of continuous depreciation and high inflation)

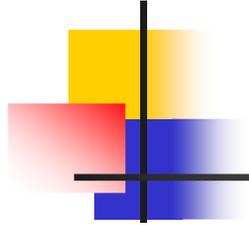


## Measures to eliminate shortage of foreign exchange

### Regulations needs to be urgently abolished

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1. Abolition of 10% tax on export
2. Abolition of compulsory application of the currency conversion at Foreign Exchange Center rate for foreign currency acquired by CMP business
3. Abolition of regulations on foreign currency remittance
4. Abolition of rules that limits List B imports to 20% of overall imports
5. Abolition of ban on bank transfer between foreign currency accounts
6. Permission of imports using foreign currency other than export earning money



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**Road Map  
of  
Economic Reform for Myanmar**

# Road Map of Economic Reform for Myanmar

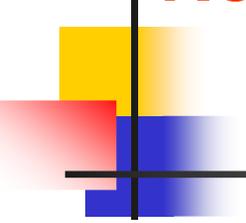
## Step 1 (within 1 Year)

- **Business confidence building**
- **Deregulation to expand exports**  
(to improve foreign currency situation)
- **Measures to promote FDI inflow into the export industries**
- **Import control measures**
- **Measures to decrease budget deficits**
- **Flexible Foreign Exchange Center rate management to move closer with the parallel market rate**

# Road Map of Economic Reform for Myanmar

## Step 2 (1 Year later from Step 1)

- **Unification of exchange rate**
- **Fiscal/Monetary policy reform**
- **Measures to promote exports**
- **Import policy measures**
- **Measures to promote FDI inflow**
- **SEEs reform**
- **Safety-net measures for the poor**



# Road Map of Economic Reform for Myanmar

## Step 3 (2 Years later from Step 1)

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- **Agricultural policy reform**
- **Establish rural electrification policy**
- **Strengthen the function of financial sector**
- **Measures to promote private manufacturing industries**
- **Export and FDI promotion**
- **Abolish import licensing system**
- **Abolish income tax on overseas workers' remittance**
- **Start preparation of tax reform**

# Development Strategy

Towards a new modern developed nation

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Let's work together for a  
new modern developed  
nation.

Thank You.