Myanmar in Economic Transition: 
Constraints and Related Issues Affecting the Agriculture Sector

Tin Soe
Yangon University of Distance Education, Yangon, Myanmar
Email: dapasean@baganmail.net.mm

ABSTRACT

The paper proceeds from the widely held assessment that Myanmar’s economy is handicapped by structural imbalance, instability, inefficient and imperfect markets, and distorted prices. The paper delineates how this general state of affairs is clearly evident in the agricultural sector. It then identifies the constraints retarding the development of agricultural growth. Among the factors blamed for blunting the sector’s competitiveness are policies on: land, production, procurement and price, foreign exchange, and subsidy. The excessive controls inherent in these policies, coupled with their erratic implementation, are seen to create a general atmosphere of uncertainty and unpredictability in the economy and an erosion of the government’s credibility.

Based on the negative impact of the existing policies and on the need to strengthen the competitiveness of the agricultural sector and thus help it contribute to the sustainable development of the country’s economy, the paper recommends alternative policy options. Foremost among these alternatives suggested are the contracting out of land use rights; the shift of focus towards maximizing farmers’ incomes and profits, rather than merely output; the liberalization of trade; unification of the exchange rates; reduction of subsidy to, or privatization of state-operated enterprises (SOEs), and allowing the entry of private enterprises to compete freely with SOEs.

INTRODUCTION

As one of the contributions to this exchange of experiences and lessons among ASEAN transition countries, this paper aims to analyze and identify the major constraints hindering, and related issues affecting, the development of the agricultural sector in Myanmar. The views, ideas and knowledge gained from the ‘Round Table’ discussion are expected to be very useful in the effort to strengthen the competitiveness of Myanmar agriculture and achieve a sustainable development of the national economy.

The experiences of Myanmar and others have shown that:

a) the most important reforms are those that encourage farmers to enhance their productivity and increase production, and
b) implementing liberal reforms based on incentives to ensure increased productivity and competitiveness would certainly accrue benefits to the country and its people.

These two points have been kept in mind in organizing and preparing this paper.

PRESENT STATE OF MYANMAR’S ECONOMY

Overall, Myanmar’s economy has not provided adequate incentives for growth. The GDP growth rates, although fairly high, were neither consistent nor sustained, and no significant structural change in the economy has yet taken place. Except for fish and shrimps in the fisheries sub-sector, and pulses and beans in the crops sub-
sector, the growth of agricultural exports experienced a downward trend, with severe fluctuations in both volume and value.

The crop sub-sector had sporadically shown some spurts of growth, but it was also neither consistent nor sustained. Paddy alone has been accorded very high priority, and the production policy has focused on maximizing output rather than farmers’ income. Accordingly, production has increased considerably, but the income levels of the farmers in real terms had not. This over-emphasis on paddy production prevented the development of crop diversification, thus depriving the economy of the enormous benefits that could be derived from a broad-based growth of agriculture. The farmers have never received the full price of their produce due to low public procurement prices, on the one hand, and rising inflation, on the other. This has greatly dampened the motivation of the farmers to raise yields by undertaking land improvement activities.

The performance of the fishery sub-sector was relatively more impressive with considerably high and sustained growth rates. This can be attributed to the privatization of the sub-sector which stimulated greater participation among the private enterprises. In contrast, the performance of the forestry sub-sector was not only poor but also characterized by wide fluctuations. Excessive controls and rigid, irrational, and inefficient policies and policy management, among others, were pointed out by the analysts as the main causes for such a state of affairs.

The uneven pattern of agricultural growth has been blamed on the lack of crop diversification as a result of heavy reliance on a few crops – a feature which had been negatively viewed as a legacy of their colonial history. Although the current ‘Pillar Crops’ strategy covers 10 crops, paddy still remains as the most important crop either in terms of sown acreage and production, or in terms of priority given in supplying inputs and providing loans and other extension services.

Based on the characteristics discussed above, a diagnosis of Myanmar’s economy would manifest problems involving structural imbalance, instability, inefficient and imperfect markets, and distorted prices. The incapable and incompetent institutions, which fail to cope with market realities, are deemed partly responsible for these afflictions. The unnecessary interventions and interruptions in the implementation and management of policies have also produced undesirable results such as distortions in the market and of prices. This has created an uncertain and unpredictable environment within which programs and plans can yield effective results. There are occasions when some policies have to be revised or completely changed midway through their implementation because of such unnecessary interventions. As expected, the credibility of the government has greatly suffered, eroding the people’s trust and confidence on it.

Moreover, the deteriorating quality of education and research has failed to produce the needed human resources — qualified scholars, researchers, and skilled workers — thereby posing another major constraint in the successful implementation of the policies. This, combined with the lack of funds and facilities, and the low level of technological resources, have contributed to the poor economic growth. The persistence of the socialistic mode of administration (such as centralized controls, and the dominant role taken by the inefficient state-operated enterprises or SOEs) has spawned a more negative than positive impact.

An accurate diagnosis and analysis of the economy is often not easy because of imperfect information, weak statistical base, low expertise and limited resources, among others. Even though a fairly correct diagnosis is arrived at and the real problems detected, the results are felt to be too embarrassing so they are not published. Thus, the scholars, researchers and analysts have mostly been engaged in a form of ‘self-censorship’ as they try to ensure that their analysis and presentation of the situation do not deviate too much from the official line as reflected in official speeches and publications.

**KEY POLICY ISSUES AND CONSTRAINTS IDENTIFIED**

There are of course many factors that have retarded the competitiveness of Myanmar agriculture in ASEAN and in the world market. Of these areas of concern, the policy-related issues are noted to be most important. The key policies or policy-related issues that are identified to be critical and would need genuine reform or
adjustment to strengthen the competitiveness of agriculture include the following:

- Land policy
- Production policy
- Procurement and price policies
- Exchange rate policy
- Subsidy policy
- Uncertainty and unpredictability of policies.

**Land Policy**

Land policies in Myanmar have historically been characterized by the following features:

a) Land is a State property (i.e., the State owns all the land).

b) The British colonists, after annexing Lower Myanmar in 1852, had declared the state ownership of all lands, but granted landholding rights to any cultivator who paid land tax and cultivated the land continuously for 12 years. This landholding right embodied other rights and benefits such as the free choice of crops to grow, the right to sell and mortgage the land, and the right of the landholder’s family to inherit the rights over the land.

c) In the postwar period up until 1963, the landholding rights and all other related rights/benefits mentioned above had persisted.

d) During the socialist era (1964-1988), most of the rights connected to land holding were discarded, except the rights to till the land and inherit the rights over the land. The cultivator who has been granted the tilling right was not allowed to divide, sell, mortgage, and transfer the land (except for inheritance purpose). The cultivated land areas were officially categorized broadly into two types: the “planned area” and “non-planned area”, and, accordingly, the crops grown into “planned crops” and “non-planned crops”. Measures to ensure that only planned crops were cultivated in the planned areas were strictly implemented.

e) From 1988 to date, most of the land policies pursued during the socialist era have continued to prevail. However, there is no more division of land into the “planned and non-planned areas”, and the crops into the “planned crops and non-planned crops.” Under a new system called the “Pillar Crops” policy, ‘pillar crops’ were identified for growing in specific areas.

The land policy in Myanmar is observed to be rigid, and the land use system is oftentimes irrational and inefficient. These two factors, instead of serving as incentives, actually served as disincentive to undertake land improvement activities. Consequently, negative developments such as land fragmentation and degradation, and deteriorating land productivity, have taken place.

**Production Policy**

The focus of the agricultural production policy in Myanmar, especially since 1964, has been on maximizing output (or production) rather than the incomes of the farmers. Since 1988, the emphasis on output has been intensified as domestic self-sufficiency and food security became the main concern of the policy makers. The ‘paddy after paddy’ or introduction of the ‘summer paddy’ in addition to the existing ‘monsoon paddy’ buttressed the output maximization drive. Production was controlled through various regulations governing such areas as the supplies of inputs and provision of loans, choice of crops to grow, and assigning of priorities to the crops, among others.

The conflict of interest between the policy objective of the government (to maximize output) and the objective of individual farmers (to maximize income) has therefore remained as a stumbling block to realizing the agricultural policy objectives of the government.

**Procurement and Price Policy**

Controlling trade through public procurement of agricultural products has been a common government practice in Myanmar since the mid-1960s. It was in 1964 under the Revolutionary Council (RC) regime led by Gen. Ne Win that farmers were required to deliver to the State a fixed quota of produce at low prices; the system was continued by the socialist government.

The compulsory quota was at first fixed at 10% of the produce, which later was set at 12 baskets (of 46 lbs per basket) per acre. The government justified its official procurement prices, which were much lower than the prevailing market
prices, by pointing to the many subsidies and free services given to farmers like the subsidized sales of chemical fertilizers, free provision of extension services, and so on.

The problem, however, is that the subsidized inputs, especially chemical fertilizers, fulfilled only about 20% of the farmers’ needs, constraining them to rely on the free market for the remaining four-fifths of their needs. This pushed the cost of production up, thus lowering their profit margins. The motivation to increase yields and output level after reaching a certain limit was also dampened by the need to increase one’s quota arising from the increase in output. The system thus distorted prices and destabilized the market, further demoralizing the cultivators. This policy was therefore severely criticized by many analysts as irrational, inefficient and ineffective.

The compulsory quota system was continued until 2002 by the State Law and Order Restoration Council (SLORC), which later changed its name to the State Peace and Development Council (SPDC). To liberalize the rice trade, the SPDC stopped the procurement of paddy directly from the farmers beginning with the 2003 harvest. The decision was welcomed by the traders and exporters, especially the Union of Myanmar Federation of Chamber of Commerce and Industry (UMFCCI), as well as by the farmers.

The move was expected to boost production for export and bring in higher income for the exporters and cultivators. Contrary to their expectations, however, the Ministry of Commerce, as ordered by the Union of Myanmar Trade Policy Council, banned private rice exports in consideration of the top priority accorded to domestic self-sufficiency and food security.

The immediate consequence of this measure has been to create excess supply in the domestic market and to lower retail prices, thus benefiting the consumers temporarily. The traders and exporters, however, encountered severe losses because they had made considerable investments in terms of funds, facilities and resources in preparation for effectively undertaking procurement and export activities.

Likewise, the income of cultivators has also been negatively affected. Further, the Trade Council decided in early 2004 to liberalize the trade of cotton, sugar and rubber but using the same terms and conditions applied to rice for the first two items. For rubber, export of the surplus stocks, after meeting the requirements for the domestic industries, was allowed but only after paying the 10% tax on the value of export.

These cases indicate the inconsistent nature of policies, as well as the lack of coordination between the top decision-making body and the Ministries concerned. The unreliable and unpredictable implementation of the policies greatly reduced the confidence and trust on the government by the producers and traders and marketers concerned. The result has been the persistent distortion of the market and prices.

**Exchange Rate Policy**

Another much talked-about policy area is that of the exchange rate which is neither uniform nor unified. In the official foreign exchange (FE) market, Myanmar’s currency, the kyat (K), is highly overvalued in terms of the exchange rate with the US dollar (USD), which is pegged at about K6.5 per dollar. In the free or open market, the prevailing rate ranges between K900 and K1000 to a dollar.

There are also several other parallel exchange rates in operation such as the ‘Money Changer Rate’, the ‘Custom Rate’, and the ‘Hotel Rate’, among others. These parallel FE markets and rates have not only caused to distort the market and prices but also negatively affected the exports and imports of the agricultural products and farm inputs. The overall result is the growing deficit in the balance of trade, and a spiraling inflation. All these severely destabilized the domestic market and prices and further reduced confidence and trust on government policies.

**Subsidy Policy and the Competitive Power of the SOEs**

The government is overly burdened by many subsidies and costs. One major reason for this is the fact that almost all of the inefficient State-Owned Enterprises (SOEs) of the Socialist Era together with the newly established ones are still under the control of the government which has to
deal with inefficient and ineffective management, obsolete technologies and under-capacity utilization.

According to the available information, these SOEs have been spending about 75 percent of the total government budget but the losses they incur every year are estimated to be at about 5 percent of GDP. There have been plans and programs to privatize them, but the procedures proved complicated and the whole process was so slow that no significant progress has yet been made in this area.

Only by transferring major production and trade burdens to the private sector, as shown by the experiences of China and Vietnam, can the heavy cost burden on the government be reduced greatly. The government can then focus its resources toward producing public goods and providing social safety nets to the poor. Alternatively, measures to improve the competitiveness of SOEs can also reduce losses and contribute much to national economic growth.

Uncertainty and Unpredictability of the Policies

It has been pointed out earlier that the prevailing environment of uncertainty and unpredictability hampered the effective implementation of economic policies. The lack of mechanisms to ensure that the policies were being implemented to achieve the intended outcome has been one of the major weaknesses of policy management in Myanmar. As happened often, in Myanmar, even the most well-designed and rational plans and programs are aborted or changed half way into their implementation without any prior notice or proper consultations, with disastrous consequences, of course. The recent cases of conditional or partial liberalization of rice and a few other crops provide good examples. Such developments demoralized both the traders and the cultivators simply because their plans and preparations had to be aborted. The enthusiasm and motivation of the growers to expand future production lost steam under such an environment of uncertainty and unpredictability.

Economic law dictates that any new policy to bring positive results would require adequate time, among others, for the market forces to respond and adjust to the ‘new’ market and other conditions. In Myanmar, the prevailing clouds of uncertainty and unpredictability are clearly not conducive for the implementation of even the most well-designed and rational policies. Not surprisingly, speculation and unstable markets and prices have prevailed.

CONSEQUENCES OF THE EXISTING POLICIES

As the agricultural statistics indicate, production of cotton, jute and all other major crops except wheat increased significantly during the period 1993–2003. Although this development has contributed to the high annual growth rate of the crop sub-sector, the increased production was mainly due to the increase in the areas cultivated rather than yields. Crop yields increased only marginally, and the growth of yields has trended downward in later years.

Despite the so-called ‘liberalization of the agricultural trade’, the government still plays a dominant role in the provision of farm inputs and in the processing and marketing of agricultural products. However, due to its limited financial resources, the government has failed to provide adequate farm inputs and other necessary services and assistance. These constraints could have been overcome, or at least greatly relieved, if the private sector, both domestic and foreign, had actively participated in these activities.

Crop intensification, through increased area and production of summer paddy in the irrigated areas, did not provide farmers a choice to diversify their cropping system for high incomes and to make optimal use of irrigation water. Rice not only requires more water and chemical inputs and incurs more cost but also has lower returns than other crops such as pulses and vegetables.

In irrigated areas where soils are sandy and unsuitable for paddy, a second crop should ideally be a high-value crop like pulses and beans. Experiences of other countries show that the optimum allocation of resources and maximum profitability from cultivation can be achieved only
by allowing the market forces and market signals to determine the choice of crops to be grown.

Although the export list of Myanmar covers a wide variety of crops, only rice, pulses and beans, and rubber to some extent, posted significant growth in both value and volume terms; however, the sustainability of such growth is questionable. Over the past decade, the growth of exports of rice and rice products in both volume and value, for example, was noted to be trending downward after peaking at 354,000 mt (or $78.2 million in value) in 1995–1996.

The factors blamed for this include (i) the deterioration in the quality of rice, (ii) the decline in the volume of surplus production, and (iii) heavy competition from Thailand and Vietnam. The decline in the volume of surplus production and quality of rice could, in fact, be attributed to the government’s procurement policy, which discouraged the farmers to increase yields and produce quality rice.

A good example in contrasts is that of pulses and beans. The government policy allowing the private sector to procure and export pulses freely at market prices has resulted in the rapid increase in the volume and value of pulses export during the past decade—from a modest level of 17,000 mt ($8.3 million) in 1989/90 to about 831,000 mt ($265.7 million) in 2000-2001. The lessons from the successful procurement and marketing of pulses can be effectively and gainfully applied to that of rice and other crops.

The performance of the fisheries sub-sector was the most impressive among the sub-sectors of agriculture. This again demonstrates the superiority of market means over strict government controls in the effort to enhance production and export. The fisheries and pulses and beans sub-sectors have been fully liberalized by privatization and other policy measures, and, consequently, achieved great increases in the production and export of these commodities in spite of meager technology improvements.

The performance of the forestry sub-sector was still far from satisfactory mainly due to inconsistent and inefficient policies and policy management. Reforming and adjusting the management and marketing systems in conformity with the changing production and marketing environments, and reinforcing disciplines and regulations, could have quelled the turmoil in the forestry sub-sector.

The present state of Myanmar’s economy in general can therefore be assessed as still lacking in incentives. Growth so far has been lopsided or unbalanced (as seen in the highest priority given to rice, at the expense of other crops) and the lack of diversification of crops as a result of reliance on a few crops. The farmers who are the targeted recipients of the benefits of policy reforms have not yet received the full price of their effort and produce due to the low procurement price prior to 2003 and the banning of exports since then, on the one hand, and the spiraling inflation, on the other hand.

Most of these difficulties encountered, as shown by the analysis, were the consequences of policies hitherto pursued and implemented, indicating clearly the need for further genuine reforms and adjustments to strengthen the competitiveness of agriculture.

Myanmar has made some commitments to support the ASEAN’s overall goals of shared regional progress and stability by achieving food security and alleviating poverty in a policy environment anchored on private sector participation and national competitiveness. Myanmar has also acceded to the CEPT Agreement and submitted its CEPT Product Lists and tariff reduction plan, the list of products to be phased in from the Temporary Exclusion List (TEL) into the Inclusion List (IL) with their tariff reduction schedule. In addition, Myanmar has to remove the quantitative restrictions (QRs) and non-tariff barriers (NTBs) by 1 January 2015.

The commitment to remove QRs and NTBs implies that Myanmar cannot follow a policy of import-substituting industrial development behind protective barriers. The focus of industrialization over the medium term has to be on industries with linkages with agriculture. This will lay the foundation for more broad-based industrialization over the longer term. These industries could be both import substituting and export promoting.

In the context of a private sector-led growth, government’s role would be to foster a policy framework that promotes the efficient development of the domestic private sector, provides adequate
infrastructure support, protects the environment, and ensures equitable distribution of the benefits of industrial development.

A competitiveness survey of critical sectors in ASEAN member countries has identified the following six sectors as potential high-growth key sectors for Myanmar: (1) Fisheries, (2) Transport, (3) Real estate, (4) Mining, (5) Petroleum products, and (6) Apparel and textiles (McKinsey et al. 2003). It was pointed out that the processed food industry holds significant potential for Myanmar. However, to what extent the policies have been streamlined to strengthen their productivity and growth is still an open question.

To fully reap the benefits of integration into ASEAN, Myanmar will need to tackle critical domestic issues that affect competitiveness across sectors in the economy. For example, the strict import controls that Myanmar uses to maintain its dual or multiple exchange rate system often limit domestic investors’ access to key inputs, reducing their competitiveness. With integration into ASEAN, Myanmar would garner increased investment and exports, which in turn would reduce the need to maintain its import controls.

A study undertaken by the Food and Agriculture Organization (FAO) and the Ministry of Agriculture and Irrigation (MOAI) in 2003-2004 reported that in terms of price competitiveness, conditions in Myanmar were favorable only for pulses and beans, a few plantation crops, chili, shrimps and pork out of 20 agricultural products considered.

In terms of competitiveness in quality and productivity, Myanmar’s agricultural products rated far from satisfactory. Excessive control is definitely not a better solution for improving the price and competitiveness of its agricultural output. Less intervention, along with the increased provision of public goods to the farmers by allowing them the free choice of crops to grow and of market to sell their produce as in the case of pulses and beans, is the ideal solution to strengthen the competitiveness of agriculture and raise the income levels of the farmers. In this regard, some alternative policy options that are expected to facilitate the competitive power of Myanmar agriculture are discussed below.

**Alternative Policy Options**

Based on a diagnosis of the problems ailing Myanmar’s agriculture, and an examination of the comparative experiences of other countries, especially China and Vietnam, the following alternative options are conceived to be effective in strengthening the competitiveness of Myanmar agriculture.

**Land Use Policy.** Two options of land use systems are suggested here for our purpose as better alternatives than the existing system.

**Option One: Contract System of Land Use**

While retaining the State’s ownership of land, land use rights can be contracted out to the farm households for a specified period of, say, 30-50 years. In doing so, the rights embodied in the contract such as allowing the farmer to mortgage land as collateral for getting loans must be legally protected. This fundamental change will allow rural households to gain greater income from their individual initiatives and efforts, thereby encouraging the farmers to produce more and sell more of their products in the open market. This system has been used successfully in China and Vietnam. Such problems as land tenancy, illegal sale or transfer of land, and absentee landholding cannot arise, as the State owns all the land by law. Domestic food supply in China, for instance, rapidly expanded to unprecedented levels under the ‘household responsibility system’, ensuring improved health and poverty alleviation among the Chinese people.

**Option Two: Liberalization of Production**

Under the prevailing circumstances, this option seems less likely to be preferred by the policy makers, but it is certainly better than the existing land use policy in Myanmar under which farmers are actually not free in their choice of crops to grow and of market to sell their produce. If production and marketing can be guided by the market and price signals, then the farmers will make rational decisions on the choice of crops to grow and of markets to sell their produce and thereby allocate resources, including land, more efficiently. The farmers can then be able to
maximize their incomes and profits through increased production of high-value products.

The land use right, at least in relation to the growing of crops should be flexible enough to respond appropriately to market demand and price signals. It should also be free from unnecessary interruptions if the objective is to strengthen the competitiveness of agriculture and raise the income level of farmers. The land use policy can be considered efficient and effective only if it can motivate the users of land to operate at their most productive and profitable levels. The government’s revenues and other needs can be met by levying taxes such as a land tax or an export tax rather than relying on the procurement of a compulsory delivery quota.

Production Policy. Only one alternative option is suggested for the production policy as follows:

Alternative option: Maximizing income levels of the farmers through maximizing output

Maximization of output serves only the government’s need, while maximization of income and profit is what the farmers want and need. The output maximization should therefore be used as a tool to maximize income and profit from farming. This can gainfully serve the objectives of both the cultivators and the government simultaneously.

Procurement and Price Policy. Regarding procurement and price policy, two alternative policy options are suggested as follows.

Option One: Liberalization of Trade

Farmers should get the full, or at least a fair, price of their produce so as to motivate them to increase production and improve the quality of their produce. This objective can be more efficiently and effectively achieved only through market means such as the liberalization of trade. Giving the farmers the right to sell, or export, their produce freely will allow them to manage their farm production in accordance with market principles. Tariffs, trade restrictions, and NTBs should either be removed or reduced to motivate the traders or exporters to increase the volume of their agricultural exports. There is little risk that export liberalization could cause domestic shortages. Instead, as has been experienced in China and Vietnam, export liberalization would induce a strong supply response that would eventually improve the food security situation.

Option Two: Guaranteed Minimum Price

Relying entirely on the free market as a guide for making decisions regarding the volume of agricultural production and enhancing competitiveness involves several risks as agricultural markets are mostly imperfect and competition is severe. In case of market failure, it is the cultivators who suffer most. A certain level of government’s involvement (or controls) therefore would be deemed necessary to protect the farmers from the ‘evil’ forces of the market.

In this regard, the option of maintaining a guaranteed minimum price (GMP) seems to be most appropriate and useful. This approach can contribute to the stabilization of agricultural market and prices. The recent experience of onion growers in Myanmar can be cited as a relevant example. In response to the increasing demand for Myanmar onions from the neighboring countries (especially Indonesia, Bangladesh, Sri Lanka and India) and to the encouraging support from the MOAI, the onion growers responded very positively by growing and producing more onions in the 2003 season than the previous year, hoping to receive high earnings from their exports.

However, without any prior notice or having instituted no proper arrangements to compensate for the loss, the government suddenly banned the export of onions on the ground that domestic self-sufficiency and food security must be given priority. This unexpected development resulted in an excess supply of onions which sent the prices plummeting and bringing about great losses for the onion growers. A large portion of the losses incurred could have been covered or compensated if a GMP, for example, had been in place.

Exchange Rate Policy. Regarding the exchange rate policy, two alternative options are suggested:

Option One: Unify the exchange rates

To unify the exchange rates in Myanmar, the International Monetary Fund has suggested the elimination of the official exchange rate in the public sector. Another study group consisting of foreign and local scholars and researchers
suggested that the official exchange rate in the public sector be replaced by an explicit system of taxes and subsidies through the budget to cushion the impact of the exchange rate unification on SOEs and other public sector units. They pointed out that the losses in the public sector will exceed the gains only marginally because SOEs are within the public sector and under the same budget account; SOEs which generate export earnings such as those dealing with exports of rice, timber, gems, etc. will be the major gainers and SOEs in imports such as users of raw materials, capital goods etc. will be the major losers.

Option Two: Constant adjustment approach

In this approach, the domestic market value of the US dollar is adjusted continuously to smooth out the fluctuations in the domestic economy and the international market environment. Such adjustments can bring in the following advantages:

a) The gap between the official and market foreign exchange rates is narrowed.
b) The system of exchange rates does not serve as a mechanism of indirect taxation of exports in the mobilization of hard currency;
c) This FE rate policy encourages profitability, trade-competitiveness and growth among producers and traders.
d) Exporters receive the full value of their earnings from export.
e) Speculation and other unproductive activities related to the trading and transfer of foreign exchange are not encouraged.

This approach has been successfully implemented in Vietnam.

Reduce Subsidy and Focus on Production and Provision of Public Goods. Only one alternative option is suggested below on the issues of subsidy and production of public goods.

Alternative Option: Transferring increasing share of cost burden to the private sector

Since limited funds are a perennial cause of concern for most governments, their resources should be allocated efficiently and cost-effectively. It is noted that China and Vietnam had overcome this problem by assigning principal responsibility for economic activities to households and private firms, thereby relieving the State of the burden of subsidizing the inefficient SOEs. The government is then able to focus its limited funds on producing basic public goods and providing social safety nets for the poor.

The experiences of China and Vietnam can provide valuable lessons for Myanmar because the latter is over-burdened with subsidies of various kinds. Despite receiving heavy subsidy from the government, almost all SOEs are facing losses every year. So by privatizing the inefficient SOEs and/or removing the subsidies, the Government can reduce its burden, and many scarce resources can be saved. This crucial move will allow the government to focus on producing basic public goods and putting in place the needed social safety nets for the poor.

Uplifting the Competitive Power of SOEs: The following two options have been considered as more beneficial and instrumental to achieving the above-cited purpose:

Option One: Running the SOEs in competition with the private enterprises

Economic growth cannot be secured or sustained without allowing the entry of the private sector into most areas of enterprise and maintaining a free and fair competition. And, without competition, the high quality of products, increased productivity, cost-effectiveness, and profitability and progress cannot be secured and maintained. The SOEs in Myanmar had shortcomings in terms of these standards simply because they were being protected by subsidies and other means. So by privatization of either ownership or management, or by any other appropriate arrangements, these SOEs should be made to operate in competition with the private investors, as what happened in India, China, and other countries.

Option Two: Privatizing SOEs through formation of joint ventures

Privatization can be achieved by several ways. Vietnam, for example, achieved success in its long-term program of “equitization” of SOEs. In the short term, the management system of SOEs in Vietnam was reformed under “Doi Moi” (Renovation) to improve the competitive power
of SOEs. However, SOEs in Myanmar are not yet familiar with this idea of equitization.

Having never undergone serious reforms in the past, the management system of the SOEs in Myanmar is still conservative and oriented towards monopoly and rigidity rather than flexibility and competition. Under the prevailing conditions in Myanmar, the formation of joint ventures with foreign enterprises seems to be more viable and appropriate than the “equitization” program launched in Vietnam for the privatization of SOEs.

CONCLUSIONS AND RECOMMENDATIONS

From the diagnosis and analysis made above on the constraints holding back the development of the agriculture sector in Myanmar, as well as other relevant issues affecting the sector, the following conclusions and suggestions would seem to be most viable.

6.1 Aim for a broad-based agricultural growth

The broad-based agricultural growth does not only ensure poverty reduction and domestic food security but can also improve the competitiveness of agriculture. To facilitate this type of growth, the agricultural policies should therefore be geared towards pushing the production of high-demand and high-value crops, as indicated by the market and price signals, and the diversification and promotion of exports, instead of focusing on growth of monocrops or favoring a very limited number of crops.

6.2 Contract out the land and grant a reasonable package of rights and privileges

To achieve a broad-based growth, an effective policy would be to contract out the land use or land tilling right to the farmers for a specified period of time, say 30 years to 50 years, with an added ‘package of other rights and privileges’ such as allowing them to use the land as collateral to get loans. This will increase productivity and output, reduce cost, enhance diversification, and widen the agricultural base, thereby improving the competitive power of agriculture and contributing to a broad-based growth.

This therefore can serve well the purposes of both the government and the cultivators. The viability and profitability of this option were already tested in several countries, especially in China, so that it can be used as a reliable tool for agricultural growth.

6.3 Focus production towards maximizing income and profit

The production policy should be geared towards the maximization of income and profit for the cultivator through increased production and/or output. This will be beneficial for both the government and the farmers because the former can get more revenues from tax on export and, perhaps, tax on land, and the latter will benefit from the rise in the level of income (and profit).

6.4 Liberalize trade

To realize the goals mentioned earlier, the government must liberalize trade by removing or reducing trade and non-trade barriers in order to motivate the traders to increase their exports. The resulting increased export demand will, in turn, push the farmers to expand their production. Contrary to the fear that export liberalization can cause domestic shortages, it can in fact induce a strong supply response that would effectively improve the food security situation, as has been experienced by China and Vietnam.

6.5 Unify the FE rates

For market and price integration and stability, the unification of the FE rates is a precondition. This can be done either by replacing the official exchange rate by a system of explicit tax and subsidy through the budget for the public sector or by the constant adjustment approach, as presented above. Since the official exchange rate now applies mainly to the exports and imports of the public sector, which accounts for only about 30% of total imports and of exports, any loss will be marginal because it involves merely a transfer of account between the SOEs which generate export earnings and the SOEs which spend for imports. Since the SOEs are under the same State sector and within a
consolidated budget, the costs will be mainly administrative and should be manageable. In any case, the important thing is to aim for unification of FE rates domestically in the private sector, at least in the first phase.

6.6 Reduce subsidy and focus on producing public goods

The present state of Myanmar’s economy suggests that massive infusion of investment will be required to raise the competitiveness of agriculture and achieve a sustainable growth. The government is not in a position to bear this burden because the government has already been overburdened with various kinds of subsidies and costs. By transferring the increasing shares of these costs to the private sector, the government, with the released funds and resources, can focus on the production of public goods like research, development, and education (RDE) and the provision of social safety nets to the poor.

The success stories in the fisheries, and pulses and beans sub-sectors demonstrate that the business activities of the fully privatized enterprises operating under market principles yield more benefits to the economy. The development of the private sector should go hand-in-hand with the development of pro-market institutions which assure the market system’s smooth and efficient functioning.

6.7 Let the SOEs compete freely and fairly with the private enterprises

No SOE in any country in the world has hitherto showed a record of success under government subsidy and protection, but many evidences are now available to show that the SOEs succeed and perform well under free and fair competition, without government subsidy and protection (such as in China, Vietnam and India, among others).

6.8 Upgrade the administrative and institutional efficiency and build up capacity

The necessary adjustments should also be made to instill efficiency in the administration system and ensure that it is supported by well-trained personnel. As aptly pointed out by Silverstein (1977:53): “Burma’s [Myanmar’s] political leaders, whether civilian or military, have not enjoyed the support of a well-trained and efficient administration”.

6.9 Undertake comprehensive, continuous, and serious reforms

The workings of the economy follow such a closely interrelated process that reform or adjustment of just one or two aspects or elements cannot bring about the desired results. Change must be comprehensively thought out so that selective reforms or adjustments can bring the economy nearer to the intended goals. And, it must be continuous because economic activities are an ongoing process.

6.10 Build confidence, trust, and credibility

Frequent and needless interventions by the State in the economy overriding the well-designed policies and plans, have led the entrepreneurs and consumers alike to mistrust or distrust the government. This has tarnished the image of the government and the Ministries or departments concerned, and diminished the public’s confidence in government, as well as, their enthusiasm to participate and cooperate in government programs and projects. It is therefore imperative to rebuild confidence and trust, and restore credibility to gain the support and cooperation of the public; and thus, facilitate the smooth functioning of market forces.

SUGGESTED MEASURES FOR TOP PRIORITY

Considering the factor endowments of the country and the overriding goal to sharpen its competitive edge, it is suggested that the following four areas be given priority to strengthen the competitiveness of Myanmar’s agriculture:

a) Putting in place of systems and incentives to establish agro-based, labor-intensive, small- and medium scale industries;

b) Capacity building of the institutions and organizations;

c) Uplifting the human resource development; and
d) Upgrading the quality of education and research.

To paraphrase the remark of a UN official: “Growth to be secured and sustained requires three things: good track, good engine and good driver.” Do we have them? If not, where and how can we get them? This Round Table [on Policies, Plans and Strategies for a Sustainable Agricultural Development in CLMV] may, perhaps, provide the answers we seek.

REFERENCES


