FINDING DOLLARS AND SENSE: BURMA'S ECONOMY IN 2010

Sean Turnell

In recent times, questions concerning the state of Burma's economy have been unusually prominent. The December 2009 visit to Burma of Nobel Prize-winning economist Joseph Stiglitz, the release a few weeks later of the latest official report on post-Cyclone Nargis reconstruction, and a series of "privatization" announcements for an array of hitherto state-owned enterprises have all drawn attention to economic conditions in one of the world's poorest countries.

So what is the state of Burma's economy in 2010?

In a word, it is grim. Among those old enough to remember, there is something of a general consensus among Burmese farmers, workers, civil servants—even former soldiers and favored entrepreneurs—that Burma's economy is at its lowest point since the end of the Second World War. Frustration, despair, and a feeling that something has to give in a country in which its natural endowment promises prosperity, all the while its political economy serves up destitution, are near enough to universally expressed sentiments.

The purpose of this paper is to examine Burma's economy at the cusp of 2010, and to briefly look at some of the basic reforms that will be necessary to restore economic security to the Burmese people. The paper is divided into two parts—part I taking up the question of Burma's current economic state of play, and part II addressing some of the reforms necessary for medium and long-term growth.

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BURMA'S ECONOMY 2010

Economic Growth and GDP

For the last decade, Burma's ruling military regime (known as the State Peace and Development Council or SPDC) has routinely claimed economic growth rates in double digits. This account of Burma's economic performance, if true, would suggest that the world's fixation with the achievements of China in recent times is misplaced—and that Burma, the real global economic star, has gone without recognition.

Unfortunately for Burma's generals, even more for the people they rule over, claims of double-digit growth rates for Burma's economy now or at any time in the country's recent past are without foundation. Greatly at odds with other proxy measures of national output (such as plausible import trends, credit aggregates, electricity generation, fertilizer use, and so on), Burma's true economic performance is a world away from what the official data suggests. Formal measures such as gross domestic product (GDP) have, in truth, probably been growing modestly (at around 2 to 3 percent per annum), the principal driver of which has been Burma's rapidly increasing exports of natural gas. Remove gas exports from the equation, Burma's economy is dismal and depressing. With true per capita GDP at less than one U.S. dollar a day, Burma is one of the poorest countries in the world, and by some margin, the poorest in Southeast Asia. The daily life of the average person in Burma is one of grinding poverty and a remorseless effort for survival.

The dismal state of Burma's economy is the product of nearly 50 years of willfully inept economic management under a military regime that took power in a coup in 1962 and soon after, instigated a program known as the "Burmese road to socialism." In the face of manifest failure, this road was abandoned in increments in subsequent years but the fundamental nature of the regime's prerogative over all important aspects of the economy has remained constant and unbending. Burma's military apparatus throughout its rule has claimed the largest portion of the country's output even as it simultaneously undermines basic market institutions. There are no effective property rights in Burma. The rule of law is scarcely honored even in pretense. Macroeconomic policymaking is arbitrary, erratic, and without expert input. The SPDC spends vastly in excess of its (declared) revenue and resorts to borrowing from the Central Bank of Myanmar (CBM) printing money, in short, to finance its spending, leading to entrenched inflation and monetary chaos. Burma's currency, the *kyat,* is widely distrusted and trades via wildly varying official and unofficial (market) exchange rates (currently at approximately $1 to 6 *kyat* ($0.92) and $1:1,000 *kyat* ($152.42) respectively). Apart from painting an image rightly associated with the most chaotic of economies, this twin exchange rate apparatus is a substantial barrier to foreign investment, creating an obvious incentive for corruption (for those able to buy dollars at the exponentially higher official rate in order to sell at the market rate).

Vital sectors of Burma's economy are deprived of resources especially for those related to social well-being and the formation of human capital. Burma spends little more than 1 percent of GDP on health and education as the only member of the Association of Southeast Asian Nations (ASEAN) with a defense budget greater than that of health and education put together. This has had (and will continue to have) grave consequences, with Burma becoming something of a hub for communicable diseases in recent years.

Meanwhile, Burma's education system has degraded to such an extent that little more than half of all Burmese children complete primary school. The country is one of the few places in the world where the present generation of children will be worse educated than their grandparents. Burma's schools, lacking the most basic resources, survive by levying all kinds of fees that only exacerbates low school completion rates. Teachers are so underpaid that most take on other work to survive (including teaching much of the set curriculum only to those who pay for it privately after formal classes). Moreover, the selling of exams is routine. The overtly political curriculum of Burma's government schools inflexibly set by the regime is taught, more or less, exclusively by rote. Higher up the education hierarchy, Burma's universities have become a travesty of what was once a beacon of quality. Deeply corrupt (the buying and selling not just of exams, but whole degrees is *de rigueur*) and under-resourced, Burma's universities are centers of surveillance and control routinely closed down by the regime at the first hint of unrest. Burma's ruling and business elite mostly opt out of sending their children to local universities, sending them abroad instead.

The SPDC's economic mismanagement means that even from non-sanctioning countries, Burma attracts little foreign investment. What does enter is strongly concentrated in the gas and oil sectors and other extractive industries. Employment generated from investments in these sectors is scarce especially in technology or skill transfer. The average citizen of Burma spends over 70 percent of their income on food—a significant indicator of their slim margin of survival—by far, the highest proportion so devoted among Southeast Asian nations.

The primitive state of Burma's economy is conspicuous in its structural makeup. Dominated by primary industries, the share of manufacturing and services in GDP (critical sectors of countries that have truly achieved transformational growth) remains extraordinarily small. Table 1 below contains the relevant structural indicators for Burma, and those of its peers and neighbors:

Table 1: Sectoral Structure of Burma's Economy–Contribution to GDP (percent)

Sector	Burma	China	Thailand	Vietnam	Cambodia	Bangladesh
Agriculture, Livestock, Fishing and Forestry	47	13	10	21	33	19
Manufacturing and Processing	13	42	35	21	22	16
Services: Trade, Communications, Finance	27	40	46	38	38	55

Source: Asian Development Bank (2007).

Burma's economy is decidedly dualistic, a partition manifested in separate spheres of what economists label "formal" and "informal" activity. Most Burmese live in the informal economy. Engaged in little beyond subsistence agriculture—in petty production, trade, and rudimentary services—the vast majority of people in Burma struggles to make a living in an economy that is overwhelmingly, if not exclusively, local. The family is the principal economic entity. The methods and organization of production are largely traditional. The vast majority of Burmese have no exposure whatsoever to the international economy or to industries and activities dependent on it.

Burma's formal economy including the country's state sector and much of the trade in energy, raw materials, precious metals and stones is, by contrast, dominated by the country's ruling military regime, and entities and individuals connected to it. Burma's military rulers have been extraordinarily inept in managing the country's macroeconomy but expert in ensuring that the economy's commanding heights, the trades that generate foreign exchange, and any new and profitable opportunities that occasionally emerge remain concentrated in their hands.[1] As we shall see later, this is true, above all, with respect to Burma's burgeoning exports of natural gas, the financial bounty of which is hidden and squandered by Burma's military leadership that could have been used to achieve much.

Famously, there is also a significant underground economy in Burma much of which comprises (objectively and internationally) as "illegal" activity which includes Burma's role as a substantial narcotics producer and distributor, and the source of smuggled gems, timber, and people. Some of this illicit activity is undertaken by Burma's military directly, and also in implicit collaboration with various ethnic ceasefire groups. As the U.S. Department of State's 2009 *International Narcotics Control Strategy Report* notes:

> … There are credible indications that mid-and-lower level military leaders and government officials, particularly those posted in border and drug producing areas, are closely involved in facilitating the drug trade. The Burmese regime closely monitors travel, communications and activities of its citizens to maintain its pervasive control of the population, so it strains credibility to believe that government officials are not aware of the cultivation, production and trafficking of illegal narcotics in areas they tightly control.
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> … Burma has failed to indict any military official above the rank of colonel for drug-related corruption. Given the extent of drug manufacture and trafficking in Burma, it is likely that other individuals with high-level positions in the Burmese regime, and

their relatives, are involved in narcotics trafficking or misuse of their positions to protect narcotics traffickers.[2]

Burma's economic performance is likewise undermined by all pervasive corruption. Burma is routinely ranked among the most corrupt countries in the world by Transparency International's annual *Corruption Perceptions Index* (in 2009, it was ranked third from the bottom, bettered only by Afghanistan and Somalia).[3] This corruption runs through all levels of society from the "tea money" demanded by petty officials to what amounts to nothing less than large-scale larceny on the part of Burma's regime and its business partners. As with teachers noted above, for the most part, civil servants in Burma are paid well below a livable wage, so the extraction of bribes for tasks that are ostensibly part of their employment is routine.

Cyclone Nargis

In May 2008, Cyclone Nargis struck Burma. Engulfing much of the country's most productive agricultural land in the Irrawaddy delta, the cyclone killed an estimated 140,000 people, made homeless another 800,000, and caused severe hardship for a third of the region's roughly 7.5 million inhabitants.[4] In its economic dimension, this hardship was manifested, above all, in a sudden and devastating fall in incomes, with surveys taken in the first few months after Nargis revealing that the poor (the vast majority) in affected areas had suffered an effective halving of their spending power. Much has been made post-Nargis of a recovery in paddy and food production in Burma (largely via the expansion of production in non-affected areas and good climatic conditions in 2009), but the loss of income is not without relevance in an emerging consensus that Burma is presently facing chronic food insecurity simply because it matters little what happens to a country's aggregate food production if the population has no money to buy it.

The human and physical destruction of Nargis understandably and appropriately captured the attention of much of the world. Less in focus were governmental and institutional failures revealed in the cyclone's aftermath. Prominent among these has been the near complete failure of Burma's otherwise impervious (and newly "cashed-up") state apparatus to provide the financial resources necessary for reconstruction, of physical infrastructure, and of that required for the rehabilitation of livelihoods especially with respect to the provision of rural credit. Early accounts in the wake of the cyclone revealed that most households in cyclone-affected regions had no access to credit of any kind. Traditional "informal" credit networks through which farmers paid advances to agricultural laborers in kind (mostly baskets of rice) had collapsed due to the destruction of rice stock.[5]

In 2010, almost two years on from Cyclone Nargis, the crisis in Burma's rural credit system is worse than ever. Credit remains in short supply. What is available via informal moneylenders comes at hefty interest charges that range from 5 to 20 percent *per month* for farmers and fishermen, and up to 50 percent per month for casual laborers without collateral.[6] Burma's formal financial institutions, including the state-owned banks supposedly dedicated to the rural sector, supply negligible credit. What they do provide (at subsidized rates that range from 1 to 3 percent per month) mostly ends up in the hands of the politically well-connected (who often then "on-lend" at substantially higher rates to the less fortunately linked). In the face of all this, the findings of the extensive surveys of the social impact of Nargis (carried out under the auspices of the Tripartite Core Group [TCG]) revealing that "many households are now in a debt trap, from which the prospects of escape are few," are hardly surprising.[7] Two other findings of these reports—pawnshops encountering increasing numbers of customers who "no longer have anything to pawn" and an acceleration in the rate of land loss by villagers to moneylenders—are ominous portents of what amounts to a crisis of great depth and persistence.

Of course, Burma's rural financial arrangements were defective well before Cyclone Nargis. A sector that provides over 70 percent of employment in Burma and around 50 percent of GDP, agriculture receives little more than 1 percent of Burma's formal credit. Burma's rural finance system suffers from willful official neglect, a destabilizing policy environment, inappropriate regulatory structures, a lack of individual institutional capacities, and a scarcity of financial expertise and training. Political interference in the regulatory structure of Burma's rural finance system is particularly damaging, among the most egregious of which is the (extraordinary) prohibition of commercial banks from lending for agricultural purposes. Other unhelpful government interventions include government-imposed interest rate ceilings on lenders and the perennial issue of the inability of farmers to fully use their land as loan collateral (since the state is the owner of all land in Burma).[8]

Burma's Fiscal Position and Financial Sector are Broadly Dysfunctional

Rural finance in Burma is just one aspect of a financial system that is more broadly dysfunctional especially and critically in terms of channeling funds to genuinely productive private enterprises. With little access to international capital, in the absence of functioning financial markets, formal finance for private enterprise in Burma is limited to that made available by the country's commercial banks (state and privately-owned). Even here, however, the circumstances are dire. Bank lending in Burma has recovered *somewhat* since a banking crisis tore through the sector in 2003, but it remains pitifully meager. In 2007, total funds lent by the banks were less than a quarter of that provided by the central bank to the state. Of course, as seen from Table 2, a substantial component of commercial bank lending itself (nearly 50 percent of the funds provided to the private sector) also went to the government. Burma's banking sector, in short, scarcely performs the intermediation function necessary for a country's economic development.

Table 2: State/Private Share of Burma's Financial Resources, Selected Indicators (*kyat* millions)

Year	Central Bank Lending to Government	Commercial Bank Lending to Government	Commercial Bank Lending to Private Sector
1999	331,425	12,460	188,149
2000	447,581	36,159	266,466
2001	675,040	40,985	416,176
2002	892,581	43,248	608,401
2003	1,262,588	35,546	341,547
2004	1,686,341	89,217	428,391
2005	2,165,154	100,358	570,924
2006	2,762,626	186,998	652,892
2007	3,534,687	389,398	795,227
2008*	3,880,765	620,875	907,177

**Data as of the end of December 2008.*

Source: International Monetary Fund (IMF), International Financial Statistics (Washington D.C., June 2009).

The irresistible financial exaction of the government is the most significant and damaging of the maladies affecting private sector finance in Burma, but it is not the only one. Burma's financial system is dysfunctional in other ways, vividly demonstrated in the country's aforementioned 2003 banking crisis. An event that gained little notice internationally—the collapse of Burma's leading banks in 2003—brought about at least two years of negative economic growth (notwithstanding official GDP numbers) and for a time, reduced Burma to a near barter-based economy.[9]

Both before and after the 2003 banking crisis, however, Burma's banking system has provided little of the finance desperately needed by truly *productive* private enterprises and loans to businesses unconnected to the banks or to the government have been expensive and hard to come by. Surveys conducted by the author of Burmese business owners reveal that private banks are generally wary of lending to new enterprises that can offer little in the way of collateral. Meanwhile, for those banks that can put up collateral, the requirements are testing. A rule of thumb adopted by many banks is a demand for fixed-asset collateral of between 200–300 percent of the value of a loan.[10] Such collateral can really only be offered by well-connected borrowers within larger business groups and/or parties with links to government and military enterprises. These same surveys reveal that unconnected borrowers are also typically asked to pay hefty establishment fees for loans (greatly increasing the "true" interest charged).

The high collateral requirements and other loan costs have created a circumstance in which private banks in Burma lend largely to enterprises that generate strong and rapid profits. Such enterprises tend to be engaged in highly speculative activities, in particular, hotel and real estate speculation, gold trading, jade mining, fishing, and logging concessions. In some cases, an extra "return" could be gained if the borrowers were so-called leaders of national races, many of whom enjoy extra privileges through special access to high-yielding natural resource sectors.[11] Of course, sometimes banks will partner especially well-connected individuals on no terms at all, writing off their losses as essentially the cost of a "political" insurance policy.

External Economic Relations

One potentially optimistic note to Burma's economy in recent years has been the apparent turnaround in the country's external trade. In place of the chronic deficits that hitherto have been a characteristic, there have instead emerged persistent surpluses and swelling foreign exchange reserves. By the end of 2010, these reserves will increase to an excess of $6 billion.

The reason for this trade turnaround is Burma's emergence as a major regional supplier of natural gas. Gas exports comprised around a quarter of Burma's exports by value in 2008–09, and their strength comes from a mixture of rising gas prices as well as increases in export volumes. Table 3 below reveals the story, along with that of Burma's increasing international reserves position as its corollary:

Table 3: Burma's Gas Exports, Indicative Prices, and International Reserves

Year	Gas Export Volumes (million Btu)	Gas Price ($US/million Btu)[12]	Burma's International Reserves ($US millions)
2004–05	344,919,700	7.43	873
2005–06	331,758,216	7.31	1,026
2006–07	472,970,464	8.45	2,503
2007–08	530,129,320	9.41	3,638
2008–09*	303,163,368	6.50	4,500

**Data as of December 2008.*
Source: Myanmar Central Statistical Organization (MCSO) (2010), IMF (2009a, 888–889).

Burma's gas export success story is attributed to its possession of large, exploitable fields of natural gas offshore in the Gulf of Martaban and in the Bay of Bengal. Cumulatively, these fields have confirmed recoverable reserves of around 600 billion cubic meters, with the potential of between 400 to 1,500 billion more in areas yet to be fully explored.[13] Two of the fields already in production, the Yadana fields off Mouttama and the Yetagun fields off the Tanintharyi coast, came on stream in 1988 and 2000 respectively, becoming the overwhelming source of Burma's current gas deliveries. Together, they currently yield Burma around $2 billion annually. Yadana was a joint venture between Burma's state-owned energy company, the Myanmar Oil and Gas Enterprise (MOGE), in partnership with

Total Oil (of France, which manages the project), Unocal (now Chevron, United States), and PTT Exploration and Production (PTTE, Thailand). The Yetagun fields were developed by MOGE, Premier Oil (UK, since replaced by Petronas of Malaysia), and Nippon Oil (Japan). The primary customer of the output from the Yadana and Yetagun fields is Thailand.

In a few years (likely in mid-2013), the export of gas from Yadana and Yetagun will be joined by new fields off Burma's coast in the Bay of Bengal. These fields, the most lucrative of which are collectively known as the "Shwe" fields, were explored and developed by a consortium comprised of MOGE, firms from South Korea (Daewoo International and the Korean Gas Corporation), and India (Gas Authority of India Limited, Indian Oil and Gas Corporation). The ultimate customer of the gas actually *delivered* from Burma's "Shwe" fields, however, will be China which in 2007, won a fiercely contested bidding war for the gas against India, South Korea, Bangladesh, and Thailand. China's Yunnan Province will be the recipient of the gas, courtesy of a 2,000-kilometer pipeline (constructed by a consortium of Chinese firms, as well as the aforementioned partners) that will run from Kyauk Phyu in Arakan State, and more or less, diagonally across Burma into Yunnan. Side by side with the gas pipeline, China will also build an oil pipeline that will deliver much of China's oil imports transported from the Middle East, eliminating the need for China's oil imports to move through the strategically sensitive Malacca Straits. Construction of this trans-Burma energy corridor commenced in September 2009 and with little in the way of labor or environmental considerations to get in the way, could be completed by mid-2013. Depending on prices, the "Shwe" gas will deliver annual revenues to Burma of over $1 billion for the next 30 years.

Burma's Gas Earnings Go Astray

Of course, the story of Burma's gas earnings outlined above should be transforming the country, making fiscal space for the spending on infrastructure, health, and education that the country so desperately needs. This is not occurring, however, and the foreign exchange revenues Burma is accumulating are currently making a negligible contribution to the country's fiscal position. The reason is as simple as it is disturbing. Burma's U.S.-dollar gas earnings are being recorded on the government's published accounts at the "official" exchange rate of the *kyat*.[14] This official rate (at around 6 *kyat* to

$1) over-values the currency by over 150 times its market value (as noted, currently around 1,000 *kyat* to $1), and correspondingly under-values the local currency worth of Burma's gas earnings by an equivalent amount. So, recorded at the official rate, Burma's gas earnings translate into less than 1 percent of budget receipts. By contrast, if the same U.S. dollar gas earnings are recorded at the market exchange rate, their contribution would more than double total state receipts, largely eliminating Burma's fiscal deficit. Appropriately brought back to Burma, the country's gas earnings could then allow substantial internally generated capital—more than that necessary, for instance, to eliminate the cash and credit crisis that is scarifying rural Burma and easily meet the needs for post-Nargis reconstruction.

Other Trade Patterns

Away from gas, Burma's international trade follows a pattern that has been in play for a number of years. Burma's largest trading partner is Thailand (courtesy of the gas exports above), ahead of China, which is Burma's largest source of imports and second largest export market. India has been an increasingly important market for Burmese agricultural exports, while both Japan and Singapore remain significant trading partners. Burma's trade with western countries, including the United States (but also those that have not levied sanctions) are negligible. Tables 4 and 5, which detail Burma's trading partners according to its export markets and import sources respectively, reveal something of this story:

Table 4: Burma's Exports by Source (*kyat* millions)

	China	Hong Kong	India	Singapore	Thailand	USA
2003–04	1343.2	475.5	2166.5	786.0	4676.1	582.7
2004–05	1658.8	656.1	1956.3	807.3	7219.2	1.5
2005–06	2125.2	1488.1	2841.6	1532.7	7868.6	0.8
2006–07	3530.4	2316.6	4217.2	1047.9	13,533.8	19.9
2007–08	3832.5	3573.0	4006.6	2210.1	15,530.0	12.2
2008–09*	621.0	1139.6	645.2	371.8	1238.1	0.1

**Data as of May 2008.*
Source: MCSO (2009).

Table 5: Burma's Imports by Source (*kyat* millions)

	China	Japan	India	Singapore	Thailand	USA
2003–04	2816.8	1579.3	652.4	4048.0	1143.3	141.7
2004–05	2819.0	920.4	480.1	3471.5	1054.2	165.7
2005–06	2716.0	610.7	465.2	3240.2	1376.2	478.4
2006–07	4185.8	896.3	916.5	5928.0	1749.4	248.1
2007–08	5472.5	1335.0	954.7	4489.8	2110.7	121.6
2008–09*	1174.8	109.1	109.2	762.9	318.6	15.4

**Data as of May 2008.*
Source: MCSO (2009).

The heavy-handedness of the state in Burma's external trade is very apparent, around 65 percent of which, in 2008–09, was undertaken via state-owned enterprises (SOEs). Although Burma imposes relatively low formal tariffs, non-tariff and non-formal trade barriers are substantial. Export and import licenses are required for the movement of most commodities in and out of Burma, the issuing of which usually come under the remittance of the trade committee of the SPDC and its head (the second-in-command of the junta), Vice-Senior General Maung Aye. Other barriers include restrictions on the repatriation of profits, a great array of impositions on foreigners working for international firms, and various limits upon access to foreign exchange.

A "Resources Curse" Plagues Burma

Burma is now earning substantial revenues from the sale of natural gas from its offshore deposits as noted. Such earnings, which could rise to around $3–4 billion per annum in the years ahead, offer the opportunity to change Burma's economic narrative. Alas, they are not doing so. So far, almost invisible in the country's public accounts, they seem to be earmarked for the type of wasteful and grandiose spending projects that have characterized Burma's military regimes for nearly five decades. In short, Burma's earnings from its natural gas exports seem primed to visit upon the country a "resources curse."

The notion of a "resources curse" refers to the seeming paradox of abundant natural resources in a country and its simultaneous economic underperformance. Initially, the idea was founded on the observed harmful effects on the manufacturing sector of real exchange rate increases via booming commodity exports (the so-called "Dutch disease"), but in recent times, attention has turned to the ways in which resource windfalls can undermine good governance, democracy, the rule of law, and other attributes and institutions conducive to economic growth. Resource revenues easy to distribute to well-connected insiders and others can promote corruption, under-investment in human capital, and allow governments the wherewithal to be unresponsive to the needs of their citizenry. Simultaneously, such revenues also increase the incentives to attain (and retain) political power from which the extraction of economic "rents" becomes the vehicle for wealth and prosperity for those able to access them, at the expense of enterprises and other virtues which otherwise might drive national wealth creation. Meanwhile, the creation of an effective democratic state itself is undermined, in favor of a political apparatus favoring repression, the doling out of rewards for regime loyalty, and the creation of self-celebrating "prestige" projects that unfortunately litter much of the developing world. The latter are manifested in a number of ways in present-day Burma, most spectacularly so in the construction of Burma's new administrative capital ("Naypyidaw," translated from Burmese as the "abode of kings"). Others include the recent ($570 million) purchase of 20 MIG-29 fighter planes from Russia, some dramatic increases in military salaries, a plan to create a vast biofuel industry in Burma by planting jatropha plants on almost every patch of available land, and perhaps most worryingly of all, the purchase of a nuclear reactor from Russia as well as materials of unknown kind and use from North Korea.

REFORM?

Burma's dire economic circumstances are the result of four decades of mismanagement under military rule. Despite the lip-service paid since 1988 to the primacy of the market economy, military rule in Burma has been characterized by an absence of meaningful economic reform—one that distinguishes Burma from the experiences of otherwise comparable countries such as China, Vietnam, Laos, and Cambodia. The prerogative of the state remains dominant in Burma, which together with a few oligarchic enterprises, controls the economy in every important aspect. Equally controlling, however, is a mindset of state planning manifested in the commands, rules, regulations, permits, and procedures familiar from the days when the "Burmese way to socialism" was the country's de jure as well as de facto ideology.

Meaningful economic change in Burma must commence with fundamental institutional reform that will embrace the application of:

- government policy-making that is rational, consistent, and informed by a reasonably honest and efficient civil service;
- effective property rights;
- certain indispensable freedoms (including at least, an approximation of the rule of law and a necessary degree of government accountability);
- basic functioning infrastructure;
- market-opening policies including the removal of remaining restrictions on private enterprise;
- genuine openness to foreign trade and investment.

With such institutional reforms in place, economic policies elsewhere and in Burma's own past that have proved successful in stimulating transformational growth can be implemented and pursued. These policies with the *specific* circumstances of Burma in mind should include:

Fiscal Consolidation

The claims of the state on Burma's physical and financial resources constitute the country's most important economic problem. Indeed, it has robbed Burma of the place it should enjoy among the "Asian tigers" that were once its peers. Reducing the role of Burma's state in the economy should be an urgent priority of any genuinely reforming government. Come political reform, however, this task may be made somewhat easier by a resultant reduction in the manpower of Burma's armed forces, the *tatmadaw,* whose task would no longer include internal political repression.

Burma's state-owned enterprises, notoriously inefficient even when used as patronage vehicles by the ruling regime, are a significant drain on government finances. Privatizing many of them in a transparent process that generates appropriate public revenues while introducing necessary competition should form a part of a program of fiscal consolidation in Burma. Of course, in early 2010, the SPDC itself has embarked upon a program of privatization of ports, airports, fuel filling stations, and various other entities. This process which seems to be inspired by the desire of the regime and parties connected to it to transfer state resources into their own hands before the mooted elections later in the year, however, has been conducted without transparency and seems to involve little more than the conversion of state monopolies into private ones.

Genuine privatization will raise funds for a reforming government in Burma, while creating space for a greater role for private sector actors who will be indispensable to (bona fide) transformational economic growth. But in terms of funds for the government at least, privatization will be a minor matter compared to reforming the way in which Burma's gas revenues are recorded and allocated in the public accounts. The sleight of hand by which the existing regime effectively expropriates and hides these revenues has been noted above. Exposing this accounting trick should be a first-order action of any government pursuing reform in Burma, closely followed by the creation of policies and institutions for better inoculating then profitably using Burma's gas revenues. Of course, on this, Burma has quite an array of other country experiences to draw from.[15]

Exchange Rate Unification

Unifying Burma's divergent exchange rates must be an immediate priority of any reforming government. Apart from painting an image rightly associated with the most chaotic of economies, Burma's dual exchange rate apparatus imposes costs. Creating an obvious incentive for corruption (for those able to buy dollars at the official rate and sell at the market rate) and an impediment to foreign investment, the dual exchange rates incur great costs to existing businesses within Burma seeking to export or import (that are forced to inhabit a gray area of legal vulnerability) and to those generally needing official approval in some form. Overall, the IMF estimates that economic losses associated with the inefficiencies of Burma's divergent exchange rates amount to as much as 5 to 10 percent of the country's GDP.[16]

Fortunately, this aspect of economic reform can be quite quickly and easily implemented since, in essence, unifying Burma's exchange rates simply requires abandoning the unrealistic official rate and allowing the *kyat* to legally trade at its market value. Formally, this means the adoption of a "floating" exchange rate for Burma (of the sort prevalent in many countries throughout the world, developing and developed alike).

Electrification

One of the most striking aspects of Burma's management of its gas resources is the policy of (almost completely) selling this energy source to neighboring countries at the expense of using it domestically as a direct fuel which can be used to generate electricity. With the exception of the new capital of Naypyidaw, electricity shortages throughout the length and breadth of Burma are legendary, constituting a significant impediment to investment especially in manufacturing.[17] The preferences of the regime for the quick cash from exporting Burma's gas in this context is in interesting juxtaposition to the policy of neighboring Bangladesh (with which Burma is engaged in a border dispute over certain new and potential gas fields in the Bay of Bengal). Despite being no less in need of foreign exchange, Bangladesh's hunger for energy is predicated on the understanding of its government that cheap gas-produced electricity is key to its industrialization and the improved living standards of its people.

Liberalization of Rice Trade and of Agriculture

The principal obstacle holding back Burma's agriculture sector, especially in the production of rice (in which Burma once ruled supremely as the world's largest exporter), is once again an overbearing state apparatus that for decades has commanded what, how, and when farmers produce, rather than letting them make the decisions they are best qualified to make. This, coupled with underinvestment and decades of state exploitation of Burmese farmers and the wholesale theft of their output at almost every level of authority, has been the primary culprit for the regression of Burmese agriculture into its present (globally) marginal and inefficient form.

Once again, however, the situation here is amenable to solution by a government genuinely dedicated to turning matters around. Such solution includes the restoration of a viable rural credit system (below), but more broadly, the liberation of agricultural markets (in particular, allowing Burmese rice cultivators to once again freely export) and granting Burmese farmers the freedom and incentives to do what they do and know best. Improving infrastructure in rural areas, the accessibility of credit, fertilizers and other inputs, distribution, storage, processing—all this is necessary too and involves the commitment of some resources. But the critical ingredients for the revival of Burmese agriculture—the allocation of freedoms and rights to property—come more or less without financial cost.

Recapitalizing Rural Finance

The shortage of credit provided to the Burmese cultivator, its high cost, the absence of formal institutions in its provision, and evidence of growing land alienation are features of what is clearly a crisis in Burma's rural credit system. Fixing this system, through what will amount to its recapitalization, will be another useful avenue through which Burma's gas export revenues could be dedicated.

Of course this capitalization can be achieved through the channeling of funds through existing institutions, a reformed agricultural bank, the microfinance operations that currently function, or also, the creation of new financial institutions drawing on the best methodologies employed elsewhere (from Indonesia's famed Bank Rakyat Indonesia, for instance) as well as Burma's own past. Regarding the latter, it is often forgotten that Burma was once the location for one of the most effective combinations of finance and agriculture the world has seen—a combination that, in the late 19th century, created the famed "rice bowl" of Asia and underpinned the country's relative prosperity for half a century.

CONCLUSION

Burma's economic future could and should be bright. As the potential beneficiary of a seminal shift in the global commodity price cycle and ideally situated geographically to exploit it, Burma in 2010 once more stands at a crossroad. In 1962, Burma's leaders stood at a similar junction but took a direction that dealt the country out of a process that, elsewhere in Asia, proved transformational. In 2010, Burma may get a chance to revisit the mistakes of the past, and create the institutions and policies that will deliver the prosperity promised by its natural endowment. In order to do so, however, broader changes to Burma's political economy must be enacted. That such changes point in the direction of greater freedoms for the people of Burma is not a coincidence, but a nexus of politics and economics that anywhere and everywhere has been indispensible for growth and development.

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NOTES

1. For more on this, see Alamgir 2008.

2. Available online at http://www.state.gov/p/inl/rls/nrcrpt/2009/vol1/116520.htm, accessed March 1, 2010.

3. See http://www.transparency.org/policy_research/surveys_indices/cpi/2009/cpi_2009_table, accessed March 4, 2010.

4. These numbers are drawn from the Post-Nargis Joint Assessment taskforce (PONJA), established under the Tripartite Core Group (TCG) that comprises representatives of Burma's government, ASEAN, the UN, and UN agencies.

5. United Nations Office for the Coordination of Humanitarian Affairs, "Preliminary findings of post-Nargis joint assessment confirm need for continued relief assistance," press release, June 25, 2008, available at http://www.reliefweb.int/rw/RWB.NSF/db900SID/AMMF-7FYBZL?OpenDocument>, accessed July 31, 2009.

6. For more on interest rates in Burma, pre and post-Nargis, see TCG (2010, 27–29) and Turnell 2009.

7. See Tripartite Core Group (2010, 25).

8. On the many issues surrounding landownership in Burma, see Hudson-Rodd and Sein Htay (2008).

9. For a comprehensive analysis of Burma's 2003 financial crisis, see Turnell (2009, 297–318).

10. The surveys from which these accounts derive were conducted by the author across 2006–2007, and again in early 2009, in the United States, Singapore, Thailand, and Burma itself.

11. Many of these leaders were those who had made ceasefire agreements between the groups they represented and the SLORC/SPDC. For more, see Lintner and Black (2009, 113–132).

12. Prices are a composite of those applying to the delivery of natural gas to a number of countries and regions. Gas export prices are typically quoted in British thermal Units (Btus), a measure that accounts for both volume and energy intensity.

13. See British Petroleum (2009). According to the U.S. Geological Survey, the "average" estimate of Burma's undiscovered gas reserves is around 700 billion cubic meters. See "Myanmar: Assessment Results Summary–Allocated Resources," at http://energy.cr.usgs.gov/WEcont/regions/reg8/r8myan.pdf, accessed March 1, 2010.

14. This finding is confirmed in the IMF 2009b confidential report on its Article IV discussions with Burma.

15. But for a discussion of the options for Burma on this front, see Turnell 2008 and Turnell, Bradford, and Vicary 2009.

16. See International Monetary Fund (2009a, 16).

17. According to one potential investor in correspondence with the author, the extra costs associated with the need for constantly having private (diesel-powered) generators on tap is sufficient to more than offset any benefit Burma offers in terms of lower labor costs.