Myanmar at the Crossroads: Rapid Industrial Development or De-industrialization

By Stuart Larkin, (stuart.larkin@yahoo.com),
1st January 2012.

Part I – Historical Background, Current Situation and Prospects

Part II – Thoughts on a Pro-Poor Industrial Development Strategy for Myanmar

Part III – Recommendations

Abstract: The purpose of this study is to identify potential agents of change in Myanmar society that can facilitate rapid industrialization and recommend ways the international community can support private sector development by aiding such groups. The historical enquiry in Part I suggests Myanmar"s lack of success in industrialization is largely due to an inward looking political elite with a predisposition towards State-led development rooted in nationalism stemming from the colonial period. The hybrid economy, which is neither socialist, mixed economy nor market oriented, created by partial economic reform and reversals since 1988 has two implications for the current situation. First, the new president in his promotion of the economic reform agenda is not constrained by policy formulation capacity: economists have had many years to consider ways to re-establish transition to market oriented economy. Second, the very existence of a hybrid economy reveals the presence of powerful interests vested in the status quo. Implementation capacity is the main issue and two prospective scenarios are outlined: de-industrialization should the president fail in his mission and the initiation of rapid industrial development should he succeed. Part II takes cognizance of current dynamics in the world economy as well as noting the development paths of successful economies in the region. Myanmar"s factor endowment is reviewed in the light of the „resource curse" and the economic reform agenda is outlined, with outward orientation and private sector-led development emphasized. Industrial development hinges on the Biz-15 (the country"s best-connected businessmen with their large family-owned conglomerates) aligning their interests with SMEs: they stand to vastly increase their fortunes by building and operating the modern infrastructure essential for a competitive and dynamic SME-populated manufacturing exports sector, and also by facilitating "anchor" FDI from MNCs. Such fortunes, commensurate with those in the region, would be justified if the Biz-15 can raise the rate of progressive change acceptable to their political patrons so Myanmar"s 60mn population can all prosper. In Part III, I recommend the international community support a major study by a supply chain manager working with Biz-15 members to explore strategies for the growth and integration of a nascent export processing sector in Myanmar into the China-centric Asian supply chains to rich country markets.

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ACRONYMS

ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
ASEAN	Association of South East Asian Nations
BOO	Build Own Operate
BOT	Build Operate Transfer
CBM	Central Bank of Myanmar
CMP	Cut, Make and Pack
CSO	Central Statistical Organization
DHSHD	Department of Human Settlement and Housing Development
FDI	Foreign Direct Investment
FEC	Foreign Exchange Certificate
GDP	Gross Domestic Product
GNP	Gross National Product
IAL	Irrawaddy Advisors Limited
ICT	Information and Communications Technology
IDC	Industrial Development Committee
IMF	International Monetary Fund
IPP	Independent Power Producer
ISI	Import Substitution Industry
JICA	Japan International Cooperation Agency
MADEI	Myanma Automobile and Diesel Engine Industries
MFI	Myanma Foodstuffs Industries
MEB	Myanma Economic Bank
MEC	Myanma Economic Corporation
MFTB	Myanma Foreign Trade Bank
MIC	Myanmar Investment Commission
MIDB	Myanmar Industrial Development Bank
MNC	Multinational Corporation
MNPED	Ministry of National Planning and Economic Development
MOD	Ministry of Defense
MTE	Myanma Timber Enterprise
ODA	Official Development Assistance
OGL	Open General License
PPP	Purchasing Power Parity
REER	Real Effective Exchange Rate
SCM	Supply Chain Manager
SEE	State Economic Enterprise
SEZ	Special Economic Zone
SLORC	State Law and Order Restoration Council
SME	Small and Medium sized Enterprises
SPDC	State Peace and Development Council
UMEHL	Union of Myanmar Economic Holdings Limited
UMFCCI	Union of Myanmar Federation of Chambers of Commerce & Industry
USDP	Union Solidarity Development Party
WTO	World Trade Organization

EXECUTIVE SUMMARY

The purpose of this study is to identify potential agents of change in Myanmar society that can facilitate rapid industrialization and recommend ways the international community can support private sector development by aiding such groups.

Myanmar‟s lack of success in industrialization is largely due to an inward looking political elite with a predisposition towards State-led development rooted in nationalism stemming from the colonial period. The introduction of laissez-faire economic principles during the British Colonial Era 1885-1942 exposed Myanmar‟s self-sufficient economy to the full force of global market forces and the power of capital. Soon most of the trading and industrial businesses were owned and managed by foreigners – British, Indian and Chinese – and the indigenous inhabitants were usually employed as laborers. Rice exports soared but the problems of landlessness and absentee landlordism increased. Economically marginalized and subject to the humiliation of occupation by an alien power, a strong Myanmar nationalist movement emerged which rejected the "laissez-faire" economic philosophy of the foreign imperialists and was drawn to the teachings of Karl Marx and the idea of socialism and State-led industrial development.

In the Early Independence Period 1948-62, government economic policies were quite successful and a diversified mixed economy with much higher indigenous ownership was established. Even as State-owned industries were set up, the private sector, including foreign investors, was permitted to play an active role. If the independence government had been about mild socialism and nationalism then General Ne Win‟s solution after the military coup in 1962 was to massively increase the doses of each. New State-owned factories were set up under import substitution industry (ISI) but production soon became constrained by shortages of raw materials and spare parts which could not be imported because of shortages of foreign exchange. Another serious setback was the wholesale nationalization of private industries. As no new resources, raw materials or capital were injected, many of these factories went bankrupt and the surviving ones were amalgamated as nationalized industries. The high degree of isolation of the country from the rest of the world that resulted from implementation of policies for autarkic development severely restricted the extent of the market, and domestic industries were denied the economies of large-scale production and qualitative improvement through competition.

The deteriorating economic conditions in the country, and in particular acute shortages of foreign exchange, came to a head in the mid-1970s (to be saved by ODA), and again in the late 1980s when the political elite had to abandon their mentor Ne Win and take steps to allow a greater role for the private sector in the economy. SLORC introduced a number of economic reforms 1988-92 such as permitting retention of foreign exchange earnings by exporters; promoting FDI under the Foreign Investment Law (1988); liberalization of agriculture, timber extraction and fisheries; and issuing licenses for private sector domestic banks under the Financial Institutions of Myanmar Law (1990). Inward investment occurred, private sector activity increased, agricultural production grew faster than GDP, and both exports and imports grew rapidly. But no wholesale embrace of outward orientation was made, multiple exchange rates were not unified, State monopolies on key export commodities remained, little privatization occurred, the bureaucracy was not reformed and rapid expansion of the armed services was undertaken.

After the onset of the regional financial crisis in 1997 the liberalization trend was reversed and a renewed program of expanding SEEs was undertaken. The partial economic reform and reversals since 1988 created a hybrid economy which is not socialist, mixed economy nor market oriented. Clear demarcation lines between State and non-State actors are absent and there is a wide array of players involved in industrial activities: these include SEEs, military holding companies, other semi-government organizations such as semi-government banks, rent seekers in the ministries (including inside the MOD), three ministries directly involved in industry (Ministries of Industry I and II and the Ministry of Myanma Industrial Development), the business leaders who head up the largest family-run conglomerates who enjoy privileged access to the ruling class (the „Biz-15"), small and medium sized enterprises (SMEs), and foreign investors.

The existence of this hybrid economy has two implications for the current situation. First, the new president in his promotion of the economic reform agenda is not constrained by policy formulation capacity: economists have had many years to consider ways to re-establish transition to market oriented economy. Second, the very existence of a hybrid economy reveals the presence of powerful interests vested in the status quo. Implementation capacity is the main issue and two prospective scenarios exist: de-industrialization should the president fail in his mission and the initiation of rapid industrial development should he succeed.

Neighboring China and Thailand are undertaking major transportation infrastructure investments in the country to facilitate the extraction of primary resources and to transship finished goods from their vibrant manufacturing exports sectors to the rich country markets. Deep sea ports are being constructed at Kyaukpyu on the Rakhine coast and at Dawei in Tanintharyi Division. From the former, two pipelines – one for gas and the other for oil – are being built to Kunming in Yunnan Province in Southwest China along with a service road and rail link to the border at Muse. At Dawei, road and rail links are planned to Kanchanaburi to link up with Bangkok. Another gas pipeline to Thailand (Zawtika) is also under construction. Special Economic Zones (SEZs) are also planned at Dawei and Kyaukpyu and at least at four other locations including Thilawa close to Yangon. These projects occur under both of the prospective scenarios mentioned above but two very different development outcomes are nonetheless possible.

Under the de-industrialization scenario, the „resource curse" plays out with the establishment of a rentier State and where the State and business sectors focus on extracting primary resources rather than on developing a manufacturing exports sector. Modest fees are collected from Myanmar"s booming neighbors for transshipment services. Kyat strength is unaddressed by the government and there are factory closures. In the absence of a realistic and competitive exchange rate and with the persistence of a hostile business environment private sector investment in industry, either domestically or from abroad, proves elusive. The focus on primary sector activity leads to "enclave" development where returns are concentrated into the hands of the few and the spoils from the expansion of gas, hydroelectric, timber, minerals and precious stones exports are carved up in the grand new capital of Nay Pyi Taw while the general population are condemned to eke out a meager living on a couple of dollars a day, festering in their discontent.

However, if the new president succeeds in his mission – with adoption of „outward orientation" and „private sector-led" development supported by macroeconomic stabilization and successful implementation of the appropriate monetary, fiscal, trade and industrial policies – he will initiate

rapid industrial development and illuminate the path for Myanmar to follow for the next several decades. The country still exploits its primary resources and fosters the development of transportation infrastructure with neighboring countries as valued partners but many other initiatives are taken as well. The government concentrates on improving the business environment for SMEs whose role in the expansion of manufacturing exports is given center stage in the country‟s future. Export processing and commodity processing sectors, and private sector businesses established under ISI in the 1990s, are all encouraged to exploit their full export market potential. The country‟s infrastructure is critically reviewed in the light of the new focus on export promotion.

Rapid industrial development hinges on the Biz-15 aligning their interests with SMEs since they stand to vastly increase their fortunes by building and operating the modern infrastructure essential for a competitive and dynamic SME-populated manufacturing exports sector, and also by facilitating "anchor" FDI from MNCs. Such fortunes, commensurate with those in the region, would be justified if the Biz-15 can raise the rate of progressive change acceptable to their political patrons so Myanmar‟s 60mn population can all prosper.

Myanmar can learn valuable lessons from studying the development paths of the successful economies in the region but it must also take cognizance of the changes in the world economy that have occurred since these countries first embarked on rapid industrialization, in particular „the two unbundlings‟. The first is the end of the necessity to produce goods close to consumers due to rapidly declining transport costs. The second unbundling is the end of the need to perform most manufacturing stages near each other because of rapidly falling costs of telecommunications and the possibility of codifying and digitalizing tasks. So both production and services are being off-shored to countries with lower labor costs. The major beneficiary of the first unbundling is China and for the second it is India. Myanmar should orientate itself to take advantage of the two great unbundlings and leverage its strategic location between China and India, and ASEAN, to integrate itself into global supply chains to become a product assembly center of international importance while developing backward linkages into local component supply capability and into its natural resource base.

Recommendations

Civil society is an important source of pluralism in society and arguably a critical element of democracy. The international community should therefore support civil society development in Myanmar. Civil society can monitor for harmful collusion in State business relations (SBR) that create wealth only for the few and advocate for developmental outcomes. Civil society also has a critical role to play in developing corporate social responsibility (CSR), for example, in business ethics and environmental responsibility. Civil society should also work for an improvement in the enabling environment for SMEs. One way of doing this with potential for a major impact is to commission a study by a major firm of supply chain managers (SCM) to inform on the policies and investments necessary for Myanmar to integrate into the China-centric Asian supply chain to the rich country markets. Biz-15 members with the ability to influence power-holders can be encouraged by civil society organizations to support the SCM study. The government which has declared an interest in industrial development should articulate a new vision that emphasizes "outward orientation" and "private sector-led" development, on which all other policy reform measures should hang.

PART I – HISTORICAL BACKGROUND, CURRENT SITUATION AND PROSPECTS

THE ROOTS OF MYANMAR NATIONALISM

Feelings of nationalism can be helpful to the task of nation-building by providing a common identity for a people and motivation for the cooperation and hard work necessary to develop an economy and build up its industry. Common achievements can then be a source of national pride. However, excessive nationalism can place national pride before pragmatic considerations for development and can also lead to xenophobia – the hatred and fear of foreigners – which can lead to an inward looking mindset and deprive a nation of critical sources of knowledge, capital and markets for its products. The two root causes of Myanmar‟s lack of success in industrialization can be found in its history, namely excessive nationalism and predisposition for State-dominated industrial development.

The Myanmar Kings 1044-1885

Myanmar is geographically isolated by the Indian Ocean and a horseshoe of mountains that form a natural boundary with its landward neighbors. Pre-history, inward migration occurred from the high tablelands of Central Asia to settlements in the great river valleys. Burmans predominate in the lowlands (around 70 per cent of the population today) and ethnic minorities are mostly in the highland and coastal strip peripheries).

Recorded history began when King Anawrahta founded the first dynasty in 1044 with his capital at Bagan. A clear historical pattern can be discerned for the four dynastic periods. A great king would emerge who, through his military and administrative prowess, would unite the nation, over-riding ethnic division. His successors would be lesser men and the kingdom would progressively decay and disintegrate. The dynasty would eventually collapse and another great king would emerge to establish a new dynasty, and the cycle would be repeated.

The economy under the Myanmar kings was predominantly agricultural but some local industries were present, such as handicrafts, textile manufacturing, weaving, jewel polishing, and lacqerware, and goldsmiths and blacksmiths also existed. But the technological level remained low with little indigenous innovation and negligible contact with foreigners. There was little inclination for international trade and the fact that all of the ancient capitals were located far from the sea suggests that political elites – the royal courts – were inward-looking. A high price was to be paid for this.

The first dealings that Myanmars had with Europeans were mainly with Portuguese pirates and slave traders in the period 1435-1635. From 1635-1795, dealings were with the trading posts of the Dutch, British and French East India companies at Rakhine, Syriam (the main port before it moved to Yangon) and Beik. The Myanmars were not particularly keen to trade and official relations with the British East India Company after 1795 did not significantly change matters although trade and border disputes increasingly occurred. Because of its insularity, the royal palace was unable to formulate effective strategies for engaging the foreigners and they also underestimated the technological superiority of the British imperial armies. After three wars the British finally resolved to take the capital at Mandalay and absorb Myanmar into the British

Empire. Yangon became the new colonial capital and was developed as a port. Some observers attribute the establishment of a new capital in 2005 at Nay Pyi Taw, far from the sea, as a conscious return to the tradition under Myanmar kings.

Myanmars may draw pride from the sack of the ancient Thai capital of Ayuthaya in 1767 but the Thais then moved the capital closer to the sea at Bangkok where they acquired an outward orientation that helped them retain their independence from European colonists, the only Southeast Asian country to do so.

The British Colonial Era 1885-1942

Although reluctant colonizers it wasn‟t long before the British took to the task of economic exploitation of its late acquisition. The introduction of laissez-faire economic principles suddenly exposed Myanmar‟s self-sufficient economy to the full force of global market forces and the power of capital. With free trade the domestic manufacturing industries could not compete with the cheap imports produced by the factory system of the mother country and centuries old domestic cottage industries, especially weaving, were wiped out. The only industries to survive were those involved in the processing of food and raw materials. Exports consisted mainly of primary products and the imports mainly of manufactures. Rice exports did dramatically increase, especially after the European market became viable when the Suez Canal opened in 1869, but the notorious activities of Chettyar money lenders led to problems of farmer indebtedness, landlessness and absentee landlordism[1].

Most of the trading and industrial businesses were owned and managed by foreigners – British, Indian and Chinese – and the indigenous inhabitants were usually employed as laborers. Manufacturing industry at the end of the colonial period consisted of agricultural processing plants such as rice mills, oil mills, consumer product plants such as match factories, soap factories, bottling plants and a few technologically more advanced industries such as oil refineries, some large foundries and machine tool factories for outfitting Myanma Railways, the Irrawaddy Flotilla and the port installations, (Kudo, 2002).

Not only did Myanmar people have to suffer the humiliation of occupation by an alien power – colonial administrators not removing their shoes when entering Buddhist temples was a famously provocative insensitivity, for example – but they were also economically marginalized in their own country. Unsurprisingly, a strong movement for independence emerged and nationalism remains a powerful sentiment within Myanmar‟s post-independence political elite to this day. Also, in rejection of the "laissez-faire" economic philosophy of the foreign imperialists the nationalists were drawn to the teachings of Karl Marx and the idea of socialism and State-led industrial development.

Japanese Occupation, British victory and Granting of Independence 1942-48

The "Thirty Comrades", a group of young nationalists who came out of the Thakin Party which included Bogyoke Aung San and General Ne Win, fled Myanmar to Japan in 1941 and onto Hainan Island where they received military training from the Japanese. They returned to Myanmar with the invading Japanese forces in 1942 tasked with raising guerrilla forces. Their

[1] Turnell in „Fiery Dragons‟ presents a revisionist view of the role of Chettyars suggesting their villainization was a State-sponsored act to take back control of land and financing.

units were known as the Burma Independence Army and later as the Burma Defense Army (BDA). In March 1945 the BDA switched to the British side and remained an army after British victory as the Peoples‟ Volunteer Organization (PVO), a factor critical to the early winning of independence. Although Bogyoke Aung San and several of his cabinet-in-waiting colleagues – the best and the brightest of his generation – were gunned down on July 19th 1947, the PVO formed the nucleus of the Tatmadaw, the post-independence national army of Myanmar whose serving and retired officers have constituted Myanmar‟s political elite for the last fifty years that followed the early independence period.

The Japanese army‟s defeat in Myanmar cost them more lives than in any other theatre and the toll on Myanmar‟s infrastructure was also very heavy. A group of former colonial administrators spent the war years in Simla meticulously planning Myanmar‟s post-war reconstruction. However, the nationalists feared the restoration of pre-war economic elites with their hegemony of trading and industrial firms and so went into a headlong dash for independence. Although suffering from war devastation and absent much help for post-war recovery the situation did not seem too bad. The economy was slightly larger than that of Thailand before World War II – its exports had reached US$ 175mn while Thailand‟s were only US$ 76mn – most economic development indicators show that it was not too far behind Thailand by 1950. And it was not unrealistic in the 1950s to be optimistic about Myanmar‟s economic prospects, including its rapid industrialization, (Kudo 1998).

The Early Independence Period 1948-62

Since capitalism was unfavorably associated with the former colonial rulers the new constitution, like the new independence government formed by the Anti-Fascist Peoples‟ Freedom League (AFPFL) and led by U Nu, had socialist leanings. Although government economic policies were quite successful during this period, and a diversified mixed economy with much higher indigenous ownership was established, the period is often remembered for other reasons. Today, the extra-parliamentary opposition led by Bogyoke Aung San‟s daughter, Daw Aung San Suu Kyi, look back on this period as a golden age of parliamentary democracy whereas the Tatmadaw remember it as a period characterized by multiple insurgency and a struggle to maintain national unity.

Even as the government set up State-owned industries under the long term industrial plan, the private sector, including foreign investors, was permitted to play an active role. After the war there was a fairly rapid development of consumer goods industries, some labor-intensive industries and reconstruction of old industrial plants. Myanmar rice export revenues soared during the Korean War and supported demand for consumer goods. The government focused on the agricultural and forest products processing industry, including textile and paper mills, but also introduced some more exotic industries such as pharmaceuticals and even steel mills. There was also a spate of nationalization in 1953 and 1954 which included trams, riverboats, a cement plant, a brewery and a sugar factory. The government also targeted and developed power generation through hydroelectric dams and oil-fired plants, in line with the needs of industrialization.

Most large scale industries were run by the State but the government provided incentives in the form of industrial loans and supply of raw materials to attract investments by the private sector.

The private sector mainly operated labor-intensive food, garment and consumer goods (noodle, vermicelli, biscuits, ice, weaving, blankets, towels, nylon, plastics, soap, slippers and cosmetics) businesses which satisfied local demand and often generated exports as well. And the level of indigenous ownership by the early 1960s was nearly 91 per cent, up from 86 per cent in 1953-54.

In 1951 the Defense Services Institute (DSI) commenced commercial operations financed by a loan from the MOD modeled on the British NAAFI. However, its privileged access to goods and services and its exemption from sales tax, customs duties and port fees soon led to large profits. Following a split in the AFPFL U Nu invited the Tatmadaw to come in and form a "caretaker government", 1958-1960, and the DSI, now able to operate free from civilian constraints, quickly became the largest and most powerful business organization in Myanmar. It had control over 38 different firms and five holding companies and the economic complex included banks, shipping lines, hotels, the country‟s largest import-export operation, fisheries and poultry distribution businesses, a bookshop, a bus line, a construction firm and the country‟s largest department store chain. It became a critical part of the Tatmadaw‟s logistical base and although nationalized by the Revolutionary Council after 1962 it remains as historical testament to the economic potential of parastatals and is the envy of the military holding companies of the current era.

Young idealists in the military caretaker government tackled some of the problems created by administrative decay in the civil service and although power was returned to civilians after 18 months the taste had been acquired. The prosperity created by a mixed economy open to international trade and investment was to be choked off as the sentiments of nationalism and socialism would be given full reign as the new political elite composed of serving army officers fully established itself.

SOCIALIST ISOLATIONISM

Revolutionary Council Period 1962-74

On 2nd March 1962 General Ne Win led a military coup ostensibly to prevent the disintegration of the Union of Burma as Shans and Kachins threatened to secede, as was their right under the 1947 constitution, now suspended. A year later the Revolutionary Council formed the Burma Socialist Program Party (BSPP). Under the "Burmese Way to Socialism" the economy would consist of a State sector which was to be dominant, cooperatives as the second sector and a private sector in much reduced form. If the AFPFL had been about mild socialism and nationalism then Ne Win‟s solution was to massively increase the doses of each.

Under the guise of a new industrialization policy, consumer goods industries such as electric appliance assembly plants, ceramic plant, glass factories, and also machine manufacturing industry such as tractor assembly plants, came into existence, all under State ownership. The main thrust of this type of development was import substitution industry (ISI) driven by the desire for national self-reliance and economic independence. Instead of emphasizing agro-based light and cottage industries, more capital-intensive ISI was given priority. Production soon became constrained by shortages of raw materials and spare parts which could not be imported because of shortages of foreign exchange. The quality of the products produced by the new

industries was very low because of the lack of competition and the low level of technical capability. Furthermore, the new factories and plants were mostly stand alone units catering to local demand, neglecting the chain or cluster of other supporting and supplying industries that was necessary to foster a whole efficient value chain, (Kudo 2002).

Another serious setback was the wholesale nationalization of private industries, whether owned by nationals or foreigners, consisting of large, medium, small including tiny family-run enterprises, which were taken over and placed under State supervision. As no new resources, raw materials or capital were injected, many of these factories went bankrupt and the surviving ones were amalgamated as nationalized industries. Likewise, State-owned industries themselves were starved of raw materials, new equipment, machines and spare parts because of the shortage of foreign exchange, and barely survived in spite of State subsidies, (Kudo 2002).

A new type of cottage industrialist sprang up to meet consumer needs which could not be met by the State sector. These cottage and small scale industries such as plastic molders, workshops, utensil makers, food processors etc., are currently reeling under the competition of foreign imports from China, India and Thailand which were at first smuggled in through the cross-border trade. They were particularly handicapped in competition because of restrictive government policies, the lack of financial resources and international contacts and the ageing or obsolescence of their machines. The high degree of isolation of the country from the rest of the world that resulted from implementation of policies for autarkic development severely restricted the extent of the market, and domestic industries were denied the economies of large-scale production and qualitative improvement through competition, (Kudo 2002).

BSPP Period under the New Constitution 1974-88

General Ne Win successfully grafted a civilian face onto military rule with the promulgation of a new constitution in 1974 which prescribed elections every four years with only candidates from the Burmese Socialist Program Party (BSPP) permitted to stand. By this time it was quite clear that economic policies for self-reliance were a cover for extremely inward-looking attitudes and did not lead to a vibrant industrial sector. On the contrary, it brought about import-dependent import substitution industries instead of self-reliant ones capable of standing on their own feet. Inefficient government factories devoured imports in the process of making expensive and low quality "Made in Myanmar" products. Private processing industries stagnated since 1962, demoralized by strict government regulation and control and with low investment and low investment returns.

Agriculture had been able to generate a trade surplus sufficient to support State-owned factories but with declining productivity in agriculture this became insufficient. The deteriorating economic conditions in the country, and in particular acute shortages of foreign exchange, came to a head in the mid-1970s, and the government accepted Official Development Assistance (ODA) again, especially from West Germany, and State industries were propped up until the mid-1980s. In 1987 the government suddenly gave up its monopoly over domestic trading in major kinds of agricultural produce but this was too little too late to avert major public protests against the regime in 1988. When ODA was suspended following the military coup on September 18th, the political elite had to abandon their mentor Ne Win and take steps to allow a greater role for the private sector in the economy.

DERAILED TRANSITION: CREATION OF A HYBRID ECONOMY

State Law and Order Restoration Council (SLORC) 1988-1997

SLORC announced the official abandonment of socialism and the intention to open up the country to foreign trade and investment and the intention to hold multi-party elections. All of the major economic reforms were carried out under General Saw Maung‟s chairmanship of SLORC from 1988-92 by Brigadier General Abel who was simultaneously the Minister of Commerce, Finance and Revenue, and National Planning and Economic Development. And by drawing on local experts like the respected public accountant, U Hla Tun, the early reforms were quite systematic.

The retention of foreign exchange earnings by exporters was permitted from 1988 for 60 per cent of export proceeds, and from 1989 for the entire proceeds. From 1987-91, agricultural liberalization was undertaken, allowing the private domestic trading of agricultural surpluses and the private exportation of all crops except rice. Private sector timber extraction was permitted in 1988 (until 1994). Licenses for foreign vessels to fish in Myanmar waters were granted from 1989 (until 1995). From 1988 onwards, steps were taken to legitimize border trade. The Central Bank of Myanmar Law was drafted with the assistance of the IMF and passed in 1990. The Financial Institutions of Myanmar Law was passed the same year, and the following year licenses were issued for private sector domestic banks. Perhaps the greatest initiative of all was the Foreign Investment Law passed in 1988 to promote foreign direct investment, (FDI), ending the country‟s isolation[2].

The result of these measures was that inward investment occurred, private sector activity increased, agricultural production grew faster than GDP, and both exports and imports grew rapidly. But no wholesale embrace of outward orientation was made. Multiple exchange rates were not unified into a single realistic and competitive exchange rate. No attempt was made to dismantle State monopolies on key export commodities. Industrial zones were created largely as part of urban planning and were not accompanied by Special Economic Zone (SEZ) legal status that would suggest export promotion as a policy. Privatization, apart from a few cinemas, didn‟t occur and the bureaucracy was not reformed. Hence no vested interests were impinged upon and the rapid expansion of the armed services was popular with the military establishment.

But opening up external trade to private enterprises greatly increased the number of exporters and importers from 1,000 registered in 1989, 2,700 the following year and reaching almost 9,000 in 1997[3]. Imported goods poured into the emerging consumer goods markets as a release from pent-up demand from when the country was isolated. Burgeoning private industries naturally targeted domestic rather than export markets and consumer goods rather than capital goods because they lacked the production facilities, technology or marketing channels for exporting their products. Heavy industries producing capital goods were entirely beyond their reach. Although facing competition from imports there was room for domestic businesses to enter into straightforward assembling, mixing and processing with gradual increase in local content. “3 in 1” Coffee Mix and bottled drinking water are two early examples. So private sector ISI was

[2] Unpublished research, Kerry Investment Management Ltd./Irrawaddy Advisors Ltd.
[3] CSO, *Statistical Yearbook*, various editions.

actually stimulated during this period and the consumer goods imports did not have displacement effects on local businesses and employment.

SLORC meanwhile weathered flak from the international community for the detention of the opposition leader, "the Lady", and for the non-implementation of the 1990 election results. As General Saw Maung‟s public behavior became increasingly erratic Senior General Than Shwe succeeded him as Chairman of SLORC in 1992. Content with the extent of the changes, Senior General avoided making reform initiatives (except for the introduction of Foreign Exchange Certificates in February 1993). A Securities Law had been drafted seven times but not promulgated. The Insurance Business Law, 1996, breaking the State monopoly, was not implemented. Other State monopolies remained unreformed and ministry power was as strong as ever. A complex system of subsidy within the public sector remained intact and no attempt was made to unify the system of multiple exchange rates. Senior General instead liked to consider issues on a case by case basis, taking particular interest in large individual projects such as those in offshore gas development in the Gulf of Martaban.

The economy was in the midst of a construction boom in Yangon and also FDI further fueled heady economic growth. But this masked a widening trade deficit as imports outstripped exports, creating shortages of foreign exchange even before the onset of the regional financial crisis in 1997 took the issue to crisis proportions. The renaming of SLORC to the less Orwellian-sounding State Peace and Development Council (SPDC) in November 1997 suggested a new focus on economic development rather than on law and order but hopes of a reinstatement of the economic reform agenda were dashed by a major retrenchment by the regime and policy reversal.

State Peace and Development Council (SPDC) 1997-2011

SPDC was established in November 1997 in a move that removed a number of SLORC ministers for corruption, including the Minister of Commerce, General Tun Kyi. The handful of remaining SLORC high-ranking generals were joined by the regional commanders; government ministers now served in a separate cabinet with much reduced power. These changes were preceded by the creation of an important new committee just a few months before.

In July, just as Myanmar‟s joining ASEAN may have heralded a significant further round of opening up and reform, and emulation of some of the very successful industrial development strategies of its core club members, the Trade Policy Implementation Council was formed. Chaired by General Maung Aye, Vice-Chairman of SPDC, the "Trade Council" laid down important policies not only on trade but also on other economic matters. These included an export-first policy whereby imports are allowed only against export earnings; limits on non-essential imports; a 10 per cent export tax; the advanced purchases of beans and pulses and cotton; import restrictions on motor vehicles and their taxation based on market prices; a monthly quota on palm oil imports; a lowered FEC limit on overseas bank transfers; and strengthened revenue collection from Myanmar Investment Commission (MIC)-approved projects.

Many of these measures may have been directed at capturing foreign exchange earnings for the government budget but they reversed the preceding liberalization trend. At a time when a second

generation of economic reforms was needed to address structural rigidities in the macroeconomic framework, in agriculture, in private sector development and in redefining the government‟s role, the authorities were instead responding to economic difficulties with ad hoc measures that were further distorting incentives, (Kudo 2005). The private sector slowdown they largely caused is confirmed in the registration figures for private industrial enterprises with Ministry of Industry I. The average annual growth rate in registrations was 8.2 per cent from 1992-96[4] but only 0.8 per cent 1997-99. This stagnation was followed by a moderate recovery of a 3.8 per cent annual registration growth rate 2000-04 but in 2005 there was a decline for the first time.

There was also a shift back to a State-owned factory strategy. State economic enterprises (SEEs) have a long history of inefficiency, poor management and susceptibility to rent seeking and corruption. Rather than being a source of revenue to the government, SEEs became a net drain on the treasury. SLORC had apparently given up ISI State-owned factories when they came to power but this was not an embrace of a private sector export-led strategy but was because they couldn‟t afford them. When the revenues became available from newly exploited natural gas they returned to the original policy. The number of public industrial enterprises did not decrease throughout the transitional period toward a market economy; their number increased from 597 in 1985 to 1,132 in 2002. Moreover, the establishment of new public industrial enterprises accelerated. The number of such enterprises increased by only 19 for the five years 1985-90, by 92 for the next five years 1990-95, and by around 20 to 30 every year until 2000. Thereafter there was further impressive growth: 53 public industrial enterprises were set up in 2001 and 231 in 2002. The timing of this surge in construction suggests that the government launched a massive State-owned factories program in 2000 and 2001, (Kudo, 2005). At the same time, Myanmar became progressively more inward looking after 1997 in spite of joining ASEAN that year, with the government placing emphasis on domestic provision of essentials - food, shelter and clothing.

Ministry data confirms the SEE expansion trend. Ministry of Industry I reported operating a total of 154 factories in 2001, (textile, 33; foodstuff 43; pharmaceutical, 18; ceramics, 23; general services and maintenance, 28; and paper, 9). And 53 new factories were opened 2001-05 and it was projected the total number would reach 230 by the end of 2005. Similarly, factories and buildings under Ministry of Industry II increased from 10 in 1988 to 22 in 2002. Despite this expansion, SEEs were being operated with financial deficits throughout the period. However, figures from the ASEAN-Japan statistical pocketbook 2007 show that the level of industrialization of the country did not change significantly: Myanmar‟s manufacturing sector contribution to GDP increased from 6.8 - 9.8 per cent 1993-2003, much less than in Cambodia which increased its industry share in GDP over the same period by 12 percentage points, Laos by over 7 and Vietnam by almost 6 percentage points. The strategy of State-led industrialization combined with the drive for self-sufficiency was no more likely to succeed then than further in the past and important lessons were missed.

[4] The years for statistics are for the financial year beginning April 1st unless otherwise stated.

Consistent with SEE expansion, there has also been an increase in economic activity by parastatals[5] since 1997 when a second military holding company, Myanmar Economic Corporation (MEC), was established, wholly owned by the MOD. MEC‟s focus is on basic industries such as building materials and commodities, including "heavy" industry. The first military holding company, Union of Myanmar Economic Holding Limited (UMEHL) was established in 1990 and has wholly owned interests in banking, trading, tourism and jade and precious stones as well as a number of joint ventures with foreign and local companies that span a range of industries.

Another characteristic of SPDC‟s economic management style was the way "national entrepreneurs", private sector business leaders, were co-opted to participate in "policy projects", of which the first large ones involved land reclamation in the delta. The construction of the new capital, Nay Pyi Taw, also relied on private sector cooperation. The goodwill earned with the government by participating in favored projects would be repaid by opportunities granted elsewhere but such an approach makes it impossible to ascertain the stand-alone financial feasibility of any major project in the private sector. All investment projects of a significant size, whether proposed by locals or foreigners, are reviewed by the high authorities on a case-by-case basis. Stifling regulation is another factor that drives businesses into the informal sector or into patron-client relationships to acquire exemptions to rules and regulations necessary for basic operation.

All of these developments taken together have resulted in "stunted and distorted Industrialization in Myanmar"[6]. Myanmar has not made a successful transition from socialist isolationism to a "Proper evolution of the market-oriented economic system", its officially stated objective since 1988. The discontinuation of the reform agenda after the 1987-92 period and the policy reversals after 1997, combined with the "control" mentality of military leaders and their "lead from the front" management style, has resulted in an economy that is not socialist, mixed or market oriented but one that is unique to Myanmar – a hybrid.

And more recent developments have not fundamentally altered the nature of this hybrid economy. The removal of subsidies on diesel and gasoline to take pressure off the budget and the privatization of filling stations, for example, are steps in the right direction but privatization has been limited in scope. Some State-owned factories have been sold off as going concerns to well-connected individuals, such as many of the sugar mills around Mandalay, but the main thrust of the privatization has centered on Yangon real estate made surplus to requirements following the government‟s relocation to Nay Pyi Taw. (This hybrid economy is described in greater detail in Part II of this paper under „Industry Structure by Ownership and the Principal Players‟.)

Conclusion

The creation and maintenance of the hybrid economy has two distinct implications for future economic policy. First, economists have had many years to study the situation and formulate the

[5] Organizations not easily categorized as either public or private sector and which contain elements of both. In addition to military holding companies the term includes "semi-government" banks like Myawaddy Bank and Co-operative Bank.

[6] This is the title of Toshihero Kudo‟s much respected paper on industrial policy, 2005. I draw extensively on Mr. Kudo‟s substantial body of work produced over many years for Part I of this paper.

remedies – to put the hybrid economy back on track to becoming a market oriented one – so policy formulation capacity in Myanmar is adequate and is not regarded as a major impediment to progress. However, the very existence of a hybrid economic system suggests that very powerful interests exist to maintain and perpetuate it. This means that policy implementation capacity for a progressive agenda (such as „liberalization") is probably weak and lacking and will be the main challenge for the new government and for the country.

CURRENT SITUATION

The New Constitution

The new constitution was adopted in 2008 although not officially promulgated until the two new assemblies met for the first time. In the elections conducted on 7th November 2010, the first in twenty years, the military government-backed Union Solidarity and Development Party (USDP) won a huge majority of the seats – 80 per cent of lower house elected seats and 77 per cent of upper house elected seats. With the 25 per cent bloc of reserved military seats factored in, the USDP still has a majority of almost 60 per cent in both houses. Elections were also held for regional assemblies. The USDP did not publish an election manifesto setting out its program in government should it win the elections.

The new form of government is best described as "pre-determined winner democracy", of which there are many examples in Asia: the Liberal Democratic Party (LDP) in Japan, the Peoples" Action Party (PAP) in Singapore, United Malay National Organization (UMNO) in Malaysia and, historically, the Golkar Party in Indonesia and the Kuomintang (KMT) in Taiwan. (However, it must be noted that all of the abovementioned parties enjoy[ed] "performance legitimacy" and widespread popular support.) China, ASEAN and South Asian countries have declared their support for the new political arrangements in Myanmar while the western powers (and Japan) have been rather more guarded in their endorsement and have indicated their desire to observe further changes before removing sanctions and lifting the donor boycott. Ironically, sanctions that seek to isolate the country play into the hands of the ultra-nationalists in the Myanmar government who wish to preserve the status quo of "national self-reliance".

Consisting largely of recently retired senior army officers who had held cabinet rank under SPDC, the new government led by President Thein Sein took over on 1st April 2011. The cabinet of thirty ministers and the president and two vice-presidents was informally selected by Senior General Than Shwe, now retired, and represents a spectrum of military opinion and interests from ultra-nationalists to economic reformers. The president is not leading his own hand-picked team but rather presides over a cabinet which includes divergent views and he has to broker compromises. Since there is a gulf between the status quo and the economic reform agenda there is a pronounced risk that compromise will lead to contradictory policies, half-measures and weak and inconsistent implementation.

Poverty Assessment

A "Forum on Poverty" held in Nay Pyi Taw 20-21st May 2011 revealed that the proportion of the population living in extreme income poverty defined as those living on less than US$1.25 a day

(PPP[7]) had fallen from 32 per cent in 2005 to 25 per cent in 2010. However, this reduction is not associated with raising the economic growth rate which averaged 5.1 per cent over the period[8], and so inferences regarding the effectiveness of economic policies cannot be drawn. But clearly the incidence of poverty in Myanmar remains very high and is a major challenge for policymakers. For a government of Myanmar to admit to the existence of poverty and openly discuss it was something of a first and provides grounds for optimism that the country‟s economic and social problems will be finally addressed.

In 2010 UNDP ranked Myanmar for human development at 132 out of 169 countries. This places Myanmar lowest in the ranking of countries in ASEAN, (see Table 1 below), trailing Cambodia and Laos, let alone Vietnam. Myanmar has the lowest per capita income on a PPP basis and the gap continues to widen as these other countries enjoy growth rates, and rates of industrial development, considerably higher than in Myanmar. The severe deficiency in provision of average years of schooling also stands out. Given Myanmar‟s known economic potential it is hoped that nationalists in the government will want to raise Myanmar‟s status within ASEAN and show greater policy flexibility to that end.

Table 1: Human Development Index 2010 – ASEAN

HDI Rank	Country	HDI Value	Life Expectancy At Birth	Years of Schooling	GNI Per Capita PPP US$
27	Singapore	0.846	80.7	8.8	48,893
37	Brunei	0.805	77.4	7.5	49,915
57	Malaysia	0.744	74.7	9.5	13,927
92	Thailand	0.654	69.3	6.6	8,001
97	Philippines	0.638	72.3	8.7	4,002
108	Indonesia	0.600	71.5	5.7	3,957
113	Vietnam	0.572	74.9	5.5	2,995
122	Laos PDR	0.497	65.9	4.6	2,321
124	Cambodia	0.494	62.2	5.8	1,868
132	Myanmar	0.451	62.7	4.0	1,596

Source: Human Development Report 2010, UNDP

The Economic Inheritance

President Thein Sein‟s government inherits a backward economy highly dependent on the primary sector for its output and exports. Table 2 below shows that Cambodia, Laos and Vietnam have all established solid trends in growing secondary industry as a proportion of GDP

[7] Purchasing Power Parity

[8] The growth rate is a revision of official figures. A full explanation of the causes of the decline in extreme income poverty in the period can be found in „Poverty, Food Insecurity and Vulnerability: Issues and Strategies (Myanmar), Background Paper for the Development Policy Options, Myanmar 2011, Bishwa Nath Tiwari, Shafique Rahman, Khine Tun, 5th July 2011.

since 1990 and that by 2007 they have all attained a much higher degree of industrialization than Myanmar.

Table 2: GDP by industry (%)

	Primary Industry				Secondary Industry			
	1980	1990	2000	2007	1980	1990	2000	2007
Myanmar	47	57	57	44	13	11	10	19*
Cambodia	…	56	38	32	…	11	23	27
Laos	…	61	53	43	…	15	23	32*
Vietnam	50	39	25	20	23	23	37	42

*Based on 2006 figures.

Source: ADB, *Key Indicators*.

Table 3: Export of Primary Products and their Shares in Total Exports (US$ mn)

Commodity	**1990/91**	**2000/01**	**2004/05**	**2007/08**
Gas	0.0	165.7	985.1	2488.9
Timber	181.6	119.9	380.0	529.3
Precious Stones	14.7	54.0	104.4	635.5
Exports of above 3 Items	196.3	339.6	1469.5	3653.7
Marine Products	30.0	139.4	175.6	295.2
Pulses and Beans	93.6	247.5	217.5	618.4
Exports of above 5 Items	319.9	726.5	1862.6	4567.3
Total Export Value	536.6	1901.8	2830.7	6299.7
%T first 3 Items in Total Exports	36%	18%	52%	58%
%T all 5 Items in Total Exports	59%	38%	66%	73%

Source: CSO, Statistical Yearbook 2008.

During the 1980s Myanmar"s secondary industry actually declined as a proportion of GDP. This was because of a declining State industrial sector under socialism and the dramatic boost given to agricultural output after price liberalization in 1987. During the 1990s both agriculture and industry grew quite strongly so their respective portions in GDP did not change much. Industry growth was mainly import substitution industry (ISI) in the private sector. The spectacular growth in secondary industry from 2000-07 is not so easy to explain. During this period, (and in fact since 1997), the private sector has been subject to a stifling increase in regulation and taxation and administrative controls such that its growth has slowed considerably. At the same time the government has invested extensively in SEEs. In spite of SEEs recording financial deficits there is a probability that they have reported generous increases in output to please their political masters (and to help meet the 30 Year Plan goal of industry comprising 20 per cent of GDP by 2005/06). But even if the 19 per cent for secondary industry in Myanmar in 2007 is a

reliable figure it reveals a much lower level of industrialization than in Cambodia, Laos and Vietnam which with Myanmar constitute the ASEAN sub-group known as the CLVM countries. The dependence of the Myanmar economy on primary industries is also revealed in the export structure. Table 3 above shows that in 2007/08 almost 60 per cent of exports consist of just three items – gas, timber and precious stones – and almost three-quarters of exports are accounted for by just five commodities. Even then gas exports are omnipresent at around 40 per cent of the total and are set to continue their rapid growth as new fields come on-stream in 2013.

Thein Sein‟s government has signaled acknowledgement of the need to diversify away from dependence on primary sectors in favor of greater industrialization by modifying the first of the four economic objectives: „Development of agriculture as the base and all-round development of other sectors of the economy as well‟ has become „Building of modern industrialized nation through the agricultural development, and all-round development of other sectors of the economy‟. During the time of write-up for this report, all the previously stated national objectives have been removed from the State-owned newspapers‟ front and back pages.

Industrial Policy (IP)

Table 4: 18 Industrial Zones

State/Division	Industrial Zone
Yangon (4)	Yangon (East) Industrial Zone
	Yangon (West) Industrial Zone
	Yangon (South) Industrial Zone
	Yangon (North) Industrial Zone
Mandalay (3)	Mandalay Industrial Zone
	Myingyan Industrial Zone
	Meiktila Industrial Zone
Magway (2)	Yenangyoung Industrial Zone
	Pakokku Industrial Zone
Bago (1)	Bago Industrial Zone
Ayeyawady (3)	Pathein Industrial Zone
	Myaungmya Industrial Zone
	Hinthada Industrial Zone
Sagaing (2)	Monywa Industrial Zone
	Kalay Industrial Zone
Mon (1)	Mawlamyine Industrial Zone
Yaninthayi (1)	Myeik Industrial Zone
Shan (1)	Taunggyi (Ayethaya) Industrial Zone

Source: New Light of Myanmar, (6/1/2006)

SLORC emphasized the importance of agriculture in development but it also promoted industrial development, particularly of agro-based industries. Law no. 22/90 authorized 18 industrial zones to be established around the country under the Department of Human Settlement and Housing Development (DHSHD) and most were completed by 1997, (see Table 4 above). (Mingaladon and Thanlyin are private industrial zones). Industrial zones are areas designated for factory development and site preparation allowed for special features such as access for heavy goods

traffic, additional power transmission stations, special drainage etc. But they are not Special Economic Zones (SEZs) with bonded warehouses or other concessions to the easier clearance of international trade.

In 1995 the Myanmar Industrial Development Committee (MIDC) under Ministry of Industry II was formed to give greater impetus to the industrialization process: overseeing industrial zones, formulating the industrial development plan in accordance with the present 5 Year Short Term Plan, establishing a private bank in 1996 – Myanmar Industrial Development Bank (MIDB) – to extend loans to industrial enterprises, and a company that traded inputs and industrial raw materials, and organizing exhibitions and conferences.

Around 2003-04 SPDC announced its vision of industrial development: a 30 year Industrial Development Plan for 2000 to 2030 with 5 year benchmarks that projects Myanmar to be at the same level of industrialization as other ASEAN countries by 2015, and at the same level as industrialized countries by 2030. These targets on shown below, (Table 5).

Sector	30 year period						
	Base yr 2000/01	1st 5 yr 2005/06	2nd 5 yr 2010/11	3rd 5 yr 2015/16	4th 5 yr 2020/21	5th 5 yr 2025/26	6th 5 yr 2030/31
Agriculture	57.6	47.3	40	30	20	19	19
Industry	11.4	20.0	25	30	35	37	37
Services	31.0	32.7	35	40	45	44	44
Total	100.0	100.0	100	100	100	100	100

Source: 30 Year Plan (2001/02 – 2030/31): MNPED, "Myanmar's Economic Development", December 2006.

Note: The timelines refer to end years of successive five year plans

The basic approach appears to be to develop import substitution industries to satisfy domestic demand and later to develop them further for export promotion. In other words, the inward looking stance of the past socialist era with emphasis on self-reliance remains unchanged. As in the past, no consideration seems to be given to what is happening in the region or the world. No attempt is made to prioritize industries on the basis of dynamic comparative advantage. The document contains no indices of revealed comparative advantage (RCA) or the international competitiveness coefficient (ICC). In an era of globalization (including proliferation of free trade agreements) the desirable balance between ISI and export promotion should have been addressed at the outset. And the possibility of leapfrogging other nations amid global technological innovation should have been considered. Instead, targets are set for the share of the industrial sector in GDP when the creation of linkages – between SEEs and SMEs[9] and amongst SMEs – is probably of greater significance than combined GDP shares. The new president has not repudiated the 30-Year Plan and its continued existence suggests the survival of "socialist era" thinking in the military and civilian bureaucracies that could impede implementation of his economic reform agenda.

[9] A small and medium sized enterprise is defined in this paper as a business operating in the private sector which employs up to 100 workers and where ownership and control are not separated; and it shall not be a subsidiary of any holding company or institution.

Although unmentioned in the 30-Year Plan, on 27th January 2011, in one of its last important acts, SPDC passed the "Myanmar Special Economic Zone Law" to set up SEZs in the country to attract foreign direct investment. It defines three specific zone types: special economic zones, export processing zones and sub-trading zones. Six SEZs – at Mawlamyine, Pa-An, Kyaukpyu, Dawei, Thilawa and Pyin-Oo-Lwin – have been announced. (A more detailed analysis of industrial policy and SEZs is provided in Part II under „The Economic Reform Agenda".)

So President Thein Sein has inherited something of a mixed bag regarding policies for industrial development and he has not wasted any time in taking some important initiatives. The MIDC has been replaced by the Industrial Development Committee (IDC) which itself is the consolidation of three previous committees. There are 12 sub-committees – each consisting of 6-9 persons of whom 3-5 seats are reserved for private sector people – for various sectors such as electronics, automotive, agricultural machinery, housing and construction materials, SME development etc. The IDC is still under the Ministry of Industry II but the minister, U Soe Thein, also becomes the Minister of Industry I, (while that minister, U Kyaw Swar Khine, becomes a Minister in the Office of the President). So there has been a consolidation of responsibility for industrial development policy characterized by arrangements for some consultation with the private sector.

The new government is following up on the Workshop on Rural Development and Poverty Alleviation held in May with a series of workshops and seminars addressing all the important areas of economic policy, such as budget, trade, monetary, fiscal and industrial policies, drawing on the expertise of technocrats inside the government as well as on expert outside sources such as national economists and members of the business community. Since the hybrid economy has existed for so long now there has been plenty of time for economists and others to formulate the reform agenda that will put the economy back on track to being market oriented for rapid growth led by agricultural and industrial development.

In 1997, national economists held a symposium with Military Intelligence, (under Lt. Gen. Khin Nyunt who was purged in 2003), sponsored by the Tun Foundation Bank where Dr. U Myint, the economic advisor to the current president, presented an outstanding paper entitled „Thoughts on a development strategy for Myanmar". In 2000 the World Bank sent a major study mission to the country, shortly followed by one from the Asian Development Bank (ADB). From 2000-03 the Japan International Cooperation Agency (JICA) established four working groups with the Myanmar government – on Fiscal and Monetary Policy, Trade and Industrial Policy, Information and Communications Technology and Agriculture and Rural Economy – to conduct in-depth research on Structural Adjustment of the Myanmar Economy with provision for a fund to assist with implementation under certain conditions. UNDP undertook a policy research initiative in 2002-03 with five pillars: (i) a pro-poor growth strategy for Myanmar, (ii) agricultural sector review, (iii) national household income expenditure survey, (iv) participation for Myanmar in a regional study on the Macroeconomics of Poverty Reduction, and (v) establishment of a Poverty Advisory Unit in the Country Office[10].

[10] I authored the pro-poor growth strategy paper with assistance from top international economist, Terry McKinley, and I arranged for a summary paper to be presented by a back channel to Senior General Than Shwe in person. He dismissed it with one sentence: "I don't want to hear anymore about the economy.".I also wrote the trade policy paper for the regional study and set up the Policy Advisory Unit in the UNDP country office.

The current seminars are a useful tool for presenting updated research on economic reforms and for creating a consensus in government and outside concerning the urgent need for such reforms to be implemented. In addition, the IMF will visit the country in the second half of October to discuss exchange rate unification and structural adjustment with the government. So policy formulation capacity is not considered to be a major issue at this stage. („The Economic Reform Agenda" in Part II of this paper summarizes the consensus that exists amongst reform advocates). However, "talk is cheap" as the old saying goes and the real challenge will be in implementation when the political will for reform is not universal, that there are very powerful interests vested in the status quo and State capacity is weak in many areas.

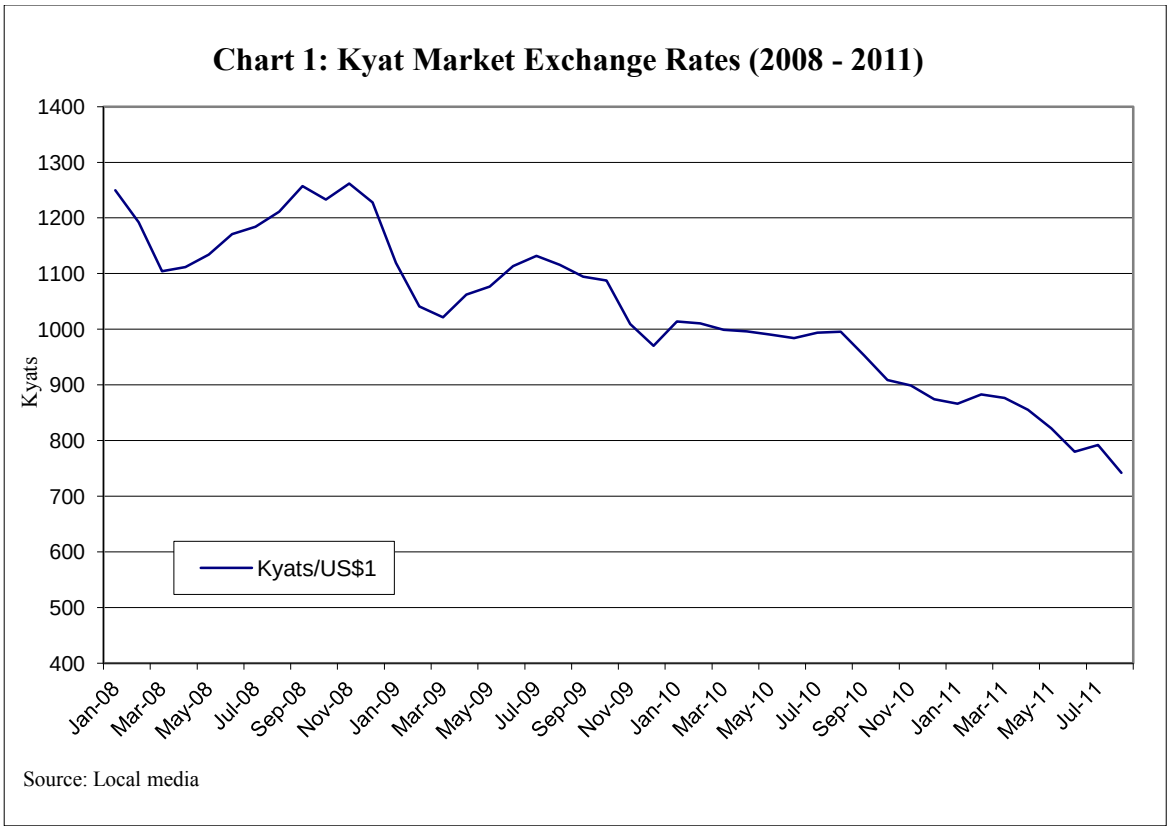
PROSPECTS

As a retired military officer leading a civilian government, the new president does not have the reliability of a military chain of command for the unquestioned implementation of policy. He must work with a diverse set of people and interests to be found in the Cabinet, the party (Union Solidarity and Development Party, USDP), the military high command and bureaucracy, the civilian bureaucracy, two national legislative assemblies as well as the regional assemblies and executive branches and military commanders. The perceived need to maintain unity, a challenge even within the Cabinet, may lead to compromises that undercut decisive action and economic rationality and militate against choosing the tough but necessary options.

Myanmar is at a crossroads such that if the president succeeds then the payback in terms of nation-building and the welfare of the people is substantial, indeed historic, as the path to follow for the next several decades is illuminated. However, the price to be paid for weak and inconsistent implementation will be equally great as the country sinks into a malaise of even deeper poverty for the general population while the elite enjoy unprecedented wealth. The two scenarios are outlined below.

The Downside Risk: the De-industrialization Scenario

As the new president assumes office the government faces many challenges – internal unity, renewed insurgency as ceasefire agreements break down over the issue of establishing border guard forces under Tatmadaw command, economic challenges of both an immediate and medium term nature and, not least, familiarization with a brand new political system. The greatest immediate economic challenge is the strength of the Kyat that undermines exporters, threatens import substitution industries and results in reduced incomes in both the rural and urban sectors, (See Chart 1 below). The medium term challenge, although not really any less urgent to initiate, is to implement reforms that establish higher growth paths for agriculture and industry. However, if decisive action is not taken early on hard won gains in industrialization will be lost and „the resource curse" will play out as the elite preside over de-industrialization and ossify around extracting „rents" from the primary sector. The status quo is not an option.



Over the last three years, there has been a substantial increase in the value of the real effective exchange rate, (REER), (the exchange rate adjusted for inflation differentials with trading partners), for the Kyat. In the last year alone the Kyat has appreciated against the US$ by up to 30 per cent when inflation in the USA is less than 2 per cent versus 8 per cent and rising rapidly in Myanmar. This represents a very severe loss of external competitiveness for Myanmar goods and services. (See Monetary and Fiscal Policy under „The Economic Reform Agenda".) Export sectors such as marine products and garments are at the sharp end and there are reportedly factory closures. However, the real threat is from imports of consumer goods that become cheaper with the strong Kyat. During the 1990s much industrial development occurred in ISI in the private sector – and all of this progress can be undone by an influx of cheaper imports. Under this scenario, efforts to establish a single competitive exchange rate falter as resistance to greater transparency in public accounts manifests and complex negotiations with the IMF prove to be problematic and drawn out.

ASEAN Free Trade Agreement (AFTA) compliance by 2015 is also a threat to domestic industry. Import tariffs need to be further reduced to the 0-5 per cent band by this rapidly approaching deadline. Companies in the region, long exposed to global competition, are much more efficient than Myanmar companies, producing higher quality products for a lower price, and they will quickly displace the weaker Myanmar companies in the domestic market when they get the chance, especially when protection through import permits becomes less and less politically feasible.

Another channel by which Myanmar de-industrializes is that the primary and services sectors increase in relative importance to the economy. This is already happening with the gas export bonanza – itself a major cause of Kyat strength – but high world commodity prices provide an additional incentive to exploit the nation‟s other natural resources at a more rapid rate too. In any event, for well-connected businessmen obtaining permits for resource extraction is a much simpler way of making money than betting on export manufacturing where global competition is cut-throat.

Foreign direct investment in 2010/11 was a massive US$ 20bn[11], concentrated in the oil and gas, mining and hydroelectric power sectors. While the political elite, their families and friends can enjoy lucrative subcontracts during the construction phase, such projects generate few jobs during operations, usually only for highly trained foreign engineers. But not only are Myanmar‟s trading partners solely interested in purchasing energy and other primary commodities to sustain their industrial development but they are also interested in investing in Myanmar‟s transportation infrastructure for transshipment purposes – not only to bring raw materials in but to ship out containers of finished products to lucrative markets in Europe and North America.

A deep sea port is under construction in Kyaukphyu Township on Ramree Island on the Rakhine coast. Oil and gas pipelines are under construction to go to Kunming in Yunnan Province, scheduled for completion in 2013 along with the service road. A rail link is also planned. Of course, a gas pipeline already exists to transport gas from the Gulf of Martaban to Thailand but a massive new project led by Thailand‟s largest construction company, Ital Thai, involves building a deep sea port at Dawei and a road to Kanchanaburi. There are also plans for a rail link. In both cases access to the Indian Ocean creates substantial transport savings for China and Thailand. Of course, both countries would also like to be major investors in Myanmar‟s manufacturing sector to further utilize the massive transportation infrastructure investments but under this scenario, even with SEZs at Kyaukphyu and Dawei, and at least four other destinations, smaller scale private sector investment will not be feasible due to the erosion of Myanmar‟s external competitiveness due to the strong currency, and other factors prejudicial to the development of SMEs. Meanwhile, China and Thailand with professional macroeconomic management will have increased the competitiveness of their export sectors through the achievement of important transport economies.

Many more manufacturing jobs will be created in Thailand and China as a result of their infrastructure investments in Myanmar. In Myanmar the much enriched Nay Pyi Taw elite will only have a very limited appetite to consume Myanmar-produced goods and services while the general population, in the absence of the feasibility of a labor-intensive export processing sector, will struggle to eke out a meager living in the small and restricted domestic sector. In failing to deliver widespread prosperity and in enriching only the lucky few, the government will lack legitimacy and social discontent will fester. Also, resource extraction is concentrated in ethnic minority areas, and transshipment also occurs through these areas, so that feelings of ethnic injustice will intensify if local peoples are excluded from benefits. This situation can give rise to "security rents" whereby armed persons‟ which border on criminal gangs can extort economic rents by offering protection for the secure extraction of resources.

[11] CSO, Selected Monthly Economic Indicators, March 2011.

And so it can be seen that the de-industrialization scenario in the medium term includes the undermining of the general security situation in the country which further undermines economic development. But prospects for the Myanmar people do not have to be bleak.

The Upside Potential: the Rapid Industrialization Scenario

Under this scenario, the new government rapidly demonstrates its competence in economic affairs by tackling the immediate problem of Kyat strength. It temporarily (although it becomes permanent) suspends the "export first" import policy which allows private sector traders to meet unsatisfied import demand by gaining access to foreign exchange reserves previously reserved for use by the State which has been hoarding them. Also, the Central Bank of Myanmar (CBM) cuts interest rates and uses the proceeds from new Kyat bond sales to intervene in the market to purchase US dollars to add to reserves. Later, US dollar reserves can be used to buy back the Kyat at lower prices (and so make a profit) in order to stop the Kyat overshooting on the downside.

The president articulates the main precepts of his vision for the country‟s economic development of both agriculture and industry, namely the adoption of "outward orientation" and "private sector-led development". He stresses that this is in contrast to the stance of his predecessors who favored national self-reliance and (de facto) State-led economic development.

Talks with the IMF regarding exchange rate unification and structural reform go well and a program is implemented swiftly that establishes a single, realistic and competitive exchange rate that trades within a pre-established band and macroeconomic stability is restored. The government tackles SEE losses and seeks to moderate budget deficits through more concerted efforts at revenue collection and with a simplified tax structure. All taxes on exports are categorically abolished. Reforms in the financial sector are made.

A plan is drawn up for the eventual virtual elimination of import and export permits[12], perhaps initially behind limited and temporary resurrected tariff walls. And procedures for clearing international trade are simplified. Foreign trade and investment is to be encouraged and steps are taken to make it easier for foreigners to work in the country.

The country still exploits its primary sector resources and fosters the development of transportation infrastructure with neighboring countries as treasured partners but many other initiatives are taken as well. The government concentrates on improving the business environment for SMEs whose role in the expansion of manufacturing exports is acknowledged as being critical to the country‟s future. Export processing and commodity processing sectors are encouraged. Also, private sector businesses established under ISI in the 1990s are encouraged to also explore export markets. The country‟s infrastructure is critically reviewed in the light of the new focus on export promotion. The best-connected business leaders with their large family-owned conglomerates (hereon referred to as the Biz-15) take on more and more responsibility in the provision of key infrastructure (with their long experience of working with senior government officials) and also play a greater role in guiding in critical "anchor investments" made by multinational corporations (MNCs) that form the nuclei of new industries, around

[12] Exceptions can be made to regulate imports of a few items such as arms and rare goods as part of consumer protection.

which SMEs can develop capacity as component suppliers. Also, with the help of supply chain managers (SCMs), SMEs are integrated into the China-centric Asian supply chain to the rich country markets. Indeed, under the rapid industrialization scenario, The Biz-15-SME alliance is a defining feature of the new prosperity in Myanmar.

The government concentrates on creating the enabling environment for SME development, improving governance through deregulation, better regulatory frameworks, strengthening institutions and establishment of the rule of law. With careful management of their patron-client relationships the Biz-15 play a key role in lifting the rate of change that is acceptable to the ruling class of serving and retired military officers without precipitating disastrous reversals. In doing so they make prosperity possible for all of Myanmar‟s 60mn people and hence justify the great fortunes they make.

Through rapid industrial development, annual growth rates are lifted to double digits and sustained for several decades. This creates jobs for millions of people who progressively acquire higher skills and higher wages. The resource curse is thwarted and the situation whereby a small minority get very rich and the vast majority are left to subsist on less than US$ 2 a day is substituted for rapidly increasing living standards for all. And the country catches up with its ASEAN partners to become a proud and equal member of the club.

PART II – THOUGHTS ON A PRO-POOR INDUSTRIAL DEVELOPMENT STRATEGY

THE EXTERNAL ECONOMIC ENVIRONMENT

In formulating an industrial development strategy for Myanmar first consideration needs to be given to the external environment. There are lessons to be drawn from the experience of the successful East Asian economies but also cognizance must be taken of how conditions in the world economy have changed since those countries began their rapid industrial development.

Key Global Trends

The key global trends that are changing the competitive context and therefore the possibilities for Myanmar include: increasing speed in the creation and dissemination of knowledge; trade liberalization, globalization, and physical disintegration of production; increased importance of integrated value chains; increased role of multinational corporations (MNCs) in production and distribution; changing elements of competition; and the direction of international capital flows.

Increasing speed in creation and dissemination of knowledge

Advances in science combined with the IT revolution are accelerating the creation and dissemination of knowledge. Codifying and digitizing scientific knowledge permits modeling and simulation that shortens the time between basic scientific discovery and commercial application. The product life cycle of most manufactured products is also shrinking. The importance of new technology can be seen in the increasing variety of goods and services produced and their growing importance in international trade, from 58 per cent in 1965 to 77 per cent in 2004[13]. Developing countries that do not have the capability to move into production of manufactured products therefore lose out on the possibility of benefiting from the most dynamic part of merchandise trade. And the technological intensity of trade in manufactured goods is also increasing. Myanmar has to find effective ways of tapping into the rapidly growing stock of global knowledge.

Trade liberalization

Since GATT there has been a trend towards increasing liberalization in trade policy among most countries. In developing countries average tariff levels have fallen from 34.4 per cent in 1980 to 12.6 per cent in 2001[14]. Myanmar"s simple average submitted to the WTO is 5.8 per cent which is very low tariff protection compared with other ASEAN countries. AFTA (ASEAN Free Trade Agreement) requires tariffs to be in the 0-5 per cent range. Non-tariff barriers have also fallen in many countries. There is also a trend towards greater openness in trade in services, not only financial and business services but also education. The world is moving closer to free trade in manufactured products but the same does not apply to agriculture.

[13] As cited by Carl Dahlman, Technology, globalization, and international competitiveness: Challenges for developing countries, 2007.
[14] Ibid.

Many services areas that were once considered non-tradable have now become tradable to the extent that they can be digitalized and provided remotely, across national boundaries, through the internet. Also, trade rules have been strengthened and protectionist trade and industrial policies used by Asian high performers in the past are not now allowed under WTO rules, although enforcement is weak. And the TRIPS[15] mechanism of the WTO makes it much harder now for developing countries to use some of the policies that helped some countries acquire more advanced technology. The main challenge for Myanmar is to determine how to be open to international competition while at the same time nurturing the development of its own production capabilities. Liberalizing too early risks domestic industries being wiped out by well established and stronger foreign competitors. (We return to trade policy issues later.)

Globalization

The two trends described above have led to a dramatic expansion of globalization – the greater integration of economic and social activity around the world. The reduction in communication and transportation costs combined with trade liberalization has led to a dramatic expansion of trade. The reduction of communications cost and spread of the mass media has virtually created a "real time world" where events that happen in one place are instantly known worldwide. Moreover, the formerly inward oriented economies of China, India and the former Soviet Union have increased their participation in the international trading system so that the global labor force has effectively doubled. This has increased the marginal productivity of capital, that is, the share of value added that is going to capital has increased while that which is going to labor has decreased. The principal beneficiaries of this are the MNCs which are the most effective agents at intermediating and taking advantage of differences in global factor prices.

As Myanmar emerges from isolation the country is more exposed to everything that is happening worldwide. And everything happens faster so in addition to facing more competition it has to develop greater capacity than before in order to respond rapidly and adequately to new threats and opportunities. The UK took 58 years to double its per capita income from 1780 while it took China only 10 years from 1977 to achieve the same objective[16]. And the pace of change has even accelerated since then.

Physical disintegration of production and increased importance of integrated supply chains

The reduction in transportation and communication costs combined with digitalization of information has led to the physical *disintegration* of production. Because of lower transaction costs, different components of a final product are now manufactured in several different countries. The product may then be assembled in yet another country and then distributed worldwide. The same applies to some services. To get products to market it is now more important to tap into global supply chains. Even R & D is being commoditized and outsourced to specialized centers in different countries.

This process is called the two great "unbundlings"[17]. The first is the end of the necessity to produce goods close to consumers. Rapidly declining transport costs, particularly the widespread

[15] Trade Related Intellectual Properties

[16] Dr. U Myint quoting figures from the World Bank Development Report in „Thoughts on a Development Strategy for Myanmar", 1997.

[17] As cited by Carl Dahlman, *op cit*. His reference is not available.

use of containers and bulk carriers, has meant that much manufacturing production, especially of the more standard and labor-intensive goods, is being transferred to developing countries with lower labor costs. The second unbundling is the end of the need to perform most manufacturing stages near each other. This has been made possible by the rapidly falling costs of telecommunications and the possibility of codifying and digitizing tasks. Thus many service tasks supporting manufacturing as well as other services have been off-shored to countries with lower labor costs. The major beneficiary of the first unbundling is China and for the second it is India. Developing countries without the critical mass in the skills base, English language or the advanced telecommunications and other physical infrastructure do not benefit as much and have trouble in competing.

Myanmar should orientate itself to take advantage of the two great unbundlings and leverage its strategic location between China and India, and ASEAN, to do so. A study by a major firm of supply chain managers (SCM) can inform on the policies and investments necessary, as well as provide essential contacts, for Myanmar to integrate into the China-centric Asian supply chain to the rich country markets. Myanmar‟s location gives it the potential to become a product assembly center of world importance.

Traditional trade and product cycle theory postulates that labor-intensive manufacturing would move to labor abundant countries. And developing countries would stay ahead by moving into more skill and technology intensive sectors. This is sometimes referred to as the "flying geese" pattern of development. However, the second unbundling is a newer phenomenon not foreseen by traditional trade theory. It was not anticipated that services could be traded virtually thanks to advances in IT. Off-shoring has been referred to as the third industrial revolution and the dividing line between jobs that can be outsourced and those that cannot is not related to skills. Many highly skilled and knowledge intensive jobs can now be outsourced. With foreign partnerships there is a great opportunity for Myanmar to accelerate along the normal development path by rapid knowledge transfer and the acquisition of service skills that can be sold worldwide through establishing itself as an off-shoring destination for business process outsourcing (BPO). However, private sector provision of telecommunications infrastructure would be essential for providing the necessary capacity and reliability.

Increased role of MNCs in production and distribution

MNCs are key drivers of globalization. They are the key producers and disseminators of applied knowledge. They are estimated to account for at least half of global R & D and more than two thirds of business R & D[18]. They disseminate knowledge directly through their operations in foreign countries and through licensing agreements. They are often the first to introduce new products, processes, or business and management methods in many foreign countries, providing examples and ideas for imitation by domestic companies. They also train workers, managers and researchers who may disseminate some of the knowledge and experience acquired while working for the MNC when they leave to work for another company or set up their own. It is estimated that the value added by MNCs in their home countries plus in their foreign affiliates represents 27 per cent of global GDP and one third of world exports. Myanmar‟s recorded GDP is about US$ 32bn whereas the worldwide sales of Apple Inc. are over US$ 55bn.

[18] Ibid.

MNCs have a much larger impact when you take into account the forward and backward linkages and their role in demonstrating new technologies and putting pressure on domestic firms to upgrade production processes. Probably more than half of the remaining trade is done through supply chains controlled by MNCs as part of vertical chains or through distribution chains. Increasingly, MNCs act independently of their home countries‟ interests as they advance shareholder value through shifting even high value, high skill jobs and functions out of their home base (and from host country as one location is pitted against another). Many MNCs also abide by higher standards of corporate social responsibility (CSR), potentially raising the bar for business standards where they go.

The implication for Myanmar is that policymakers need to pay attention to how to attract and make the most effective use of foreign direct investment (FDI). FDI goes to where it finds the most attractive profit opportunities, either to supply local markets, or to use those locations as export platforms for others. Most evidence shows that offering special tax and other incentives is usually not sufficient to offset major economic disadvantages perceived by foreign investors. Myanmar must pay attention to its enabling environment, which consists of the government regulations and institutions that facilitate the operation of business and the economy. It includes the basic institutions such as government, rule of law, efficiency of capital and labor markets, ease of setting up or shutting down businesses. It also includes the ability of the government to create consensus and the ability to help people who fall through the cracks in the system. The enabling environment is also important to increase domestic private sector investment.

Another implication for Myanmar is that it has to become integrated into global supply chains normally controlled by multinational producers or distributors (like Wal-Mart or other large retailers). Entry into supply chains is normally at the simpler levels such as making simple manufactured goods, producing simple components, or assembling subcomponents. Both getting into and moving to higher value added activities in vertical supply chains can be difficult. For the first, the supplier must demonstrate capability to produce to high standards of quality and timeliness in delivery; for the second, strengthened technological capabilities are required. It should be noted that only a few companies from developing countries have managed to create and sell globally under their own names. This indicates how difficult and expensive it is to develop own brand and distribution systems. But entering supply chains controlled by distributors like Wal-Mart is also difficult because large order size is required. Wal-Mart sources US$ 25bn of goods from China – not so much less than Myanmar‟s entire GDP – but they exert relentless pressure on the suppliers to reduce costs and improve quality and speed of delivery.

Changing elements of competition

Today, competiveness does not just depend on the cost of factors of production, or on specific technological advantage. Rather it depends on continuous innovation, high level skills and learning, an efficient communications and transport infrastructure, and a supportive enabling environment.

Firms have to be constantly innovating or at least be fast imitators and adopt, use and improve new technology to avoid falling behind. Technology advance is very complementary with higher skills and more education so the latter have become more important in international competitiveness and increasingly influence MNCs‟ location decisions. The Myanmar

government needs to think of education and training as integrated systems for lifelong learning and to start designing systems that will have multiple providers and multiple pathways to different levels of certification and qualification. They also have to make more effective use of distance learning technologies including internet-based education and training services which can be delivered anywhere, anytime at any pace.

In the new context of increased globalization, rapid technical change, and shorter product life cycles, modular production and outsourcing, and the need to get components to the customer quickly logistics (transportation, distribution channels, and warehousing) which connects manufacturing and retailing is becoming another crucial factor for competitiveness. Therefore, transportation infrastructure – roads, railways, airports, seaports and transport companies, with coordination enabled by IT – is critical to participate effectively in the global market. China and Thailand appreciate this as they plan and implement their transportation projects in Myanmar – their pipelines, roads, rail links and deep sea port projects are all designed to enhance the international competitiveness of their respective manufacturing sectors. It would be strategic for the Myanmar government to develop an enabling environment for foreign investors and the domestic SMI (small and medium sized industries) to develop export capability through piggy backing off the core infrastructure investments from these countries and also integrating with their supply chains. If not, transshipment fees will be modest and a great development opportunity will have been missed. However, to do this the Myanmar government will have to significantly raise the level of their game.

ICT is a critical part of what enables the organization and coordination of global production networks and the integration of global supply chains. It is also an essential element for monitoring what the consumers are buying and what they want, and passing that information seamlessly along to production units. Real time information on the changing needs of the market, (even direct interaction with the consumer like Dell Computers), as well as internal electronic exchange and management between different departments and divisions within firms and among firms, their suppliers and distributors, are becoming essential new ingredients of the global economy. Myanmar needs modern and low cost communications systems as well as good training in the skills necessary to use these networks. The nation can no longer afford to be held hostage by the powerful coterie of engineers who run MPT and the Ministry of Posts and Telecommunications who have successfully defended their monopoly for so long.

Direction of International Capital Flows

Most international capital flows in the form of FDI, equity portfolio investment (listed and unlisted), and corporate and sovereign bonds trading and bank loans, are between the rich developed countries, for example, cross-border M & A (Mergers and Acquisitions) in the EU and European and US companies and financial institutions investing in each other. Developing countries do receive significant inflows of capital, mostly FDI, and the lion‟s share goes to China but the other BRIC countries (of Brazil, Russia and India) are also attracting significant FDI.

However, in recent years two major trends have emerged that will have a major impact on the future structure of the world economy. First, there is a major step-up in capital flows from the rich countries to the developing world because the outlook for growth in rich countries is dismal for the next several years. The 2008 crisis on Wall Street that led the world into the first

recession and the recent market turmoil that now anticipates a "double dip" largely predicated on problematic sovereign indebtedness in rich countries is shifting investment asset allocations in favor of emerging markets. This has caused most developing country currencies to appreciate against the US dollar in recent years. It also contributes to the build-up of asset valuation bubbles in developing countries, such as in real estate in China and elsewhere. And even small and isolated Myanmar is not immune – its currency has appreciated against the US dollar over the last year by more than any other country in the world. The second major recent trend is for the BRIC countries themselves to become major foreign investors. China, for example, has invested significantly in Africa in recent years to secure minerals and energy supplies essential to its continued rapid industrialization. And China now has a war chest of over US$ 3tr in foreign exchange reserves that will over time be redirected from dismally performing sovereign bonds (mainly US Treasuries) to other higher yielding assets worldwide.

Myanmar is well placed to benefit from these trends in international capital flows. Of the extraordinary US$ 20bn of FDI approvals last year in Myanmar around US$ 14bn was from China. Myanmar has an enormous task in upgrading its infrastructure and with the right policies and investment proposals it has the potential to internalize the much improved external financing environment for emerging markets. However, to make the most of the development opportunity for the country the focus should be on developing the infrastructure necessary to supporting a dynamic manufacturing exports sector rather than just on the extraction of commodities (which would be much more localized and narrower in impact).

The China (and India) Factor

The speed, scale and scope of China‟s economic growth are unprecedented in economic history. China has critical mass and economies of scale as well as a government with a long term strategic vision with the ability to orchestrate and implement long term plans. It is well integrated into the global trade system. It gets modern technology embodied in capital goods and components and its export firms are forced to compete with the best abroad. It has also used FDI to rapidly modernize its economy. Through the lure of its very large internal market and the potential to serve as an export platform as well, it attracts MNCs willing to bring the most modern technology into the country. Because of its rising supply of scientists and engineers, over 700 R & D centers have been set up by MNCs in China.

Although China use to export some commodities and fuels, its exports are primarily manufactures and their share in the total has been increasing – 72 per cent in 1990 to 91 per cent in 2004. Its exports started primarily as labor-intensive goods (particularly textiles and clothing), but the technology intensity of its exports has been increasing very rapidly. China doubled the share of high technology exports in manufactured exports from 15 per cent in 1998 to 30 per cent in 2004. China is also increasing its imports. Thus it is opening up the opportunity for many countries to export to China, or even to set up manufacturing facilities there. China‟s imports are primarily natural resources, and machinery and components. Therefore developing country exporters of commodities, like Myanmar, are likely to benefit from increased exports and higher prices, and this is already happening. The same goes for exporters of capital goods and components. Component exporters include many countries in East and South East Asia, as China has become the final assembler and exporter of many finished goods based on components from neighboring countries.

However, it should also be noted that China‟s rapid expansion of manufactured exports has helped to drive the price of many manufactured products down. While this increases the welfare of consumers worldwide it has also diminished markets and profits for producers of those goods from other countries, with some even driven out of business. But developing countries in South East Asia have been benefiting from China‟s growing trade. The poorer natural resource rich countries are supplying China with natural resources and primary commodities. The more advanced economies, including Japan, Korea and Taiwan, are supplying it with capital goods and components for its expanding higher technology manufacturing in special high-tech export processing zones. Middle income countries of South East Asia face perhaps the biggest competitive challenge from China in their export markets for manufactures, though they have also enjoyed increased demand for their components from Chinese assembly plants as well as increased demand for their natural resource based exports. The labor rich low-income countries (such as Myanmar, Vietnam, Cambodia and some South Asian countries, particularly India) may find that as China‟s wages rise, some of the labor-intensive production that is still done in China will be transferred to them).

India is a rising economic power but one which has not yet integrated very much with the global economy. Its key strengths are its large domestic market, its young and growing population, a strong private sector with experience in market institutions, and a well developed legal and financial system. Its main weakness is poor infrastructure – in terms of power supply, roads, ports and airports – which increases the costs of doing business as does its excessively bureaucratic and regulated environment. But India has a strong global position in IT exports and its presence in manufactures will be increasingly felt.

With the rise of China and India in general, and where in particular low labor cost industries can coexist with production of high tech goods and services, the traditional advice to developing countries to focus on labor intensive manufacturing exports and climb the technology ladder may be wearing a bit thin. Certainly many African and Latin American countries are feeling the pinch of Chinese competition in manufactures, (especially in garments and electronics), and cannot compete with India in BPO (business process outsourcing). Myanmar is benefiting from primary sector exports to China (in both volumes and prices) – gas is most significant but timber, copper and other metals, jade and other precious stones also – but Myanmar should not give up on the idea of developing a manufacturing exports sector of its own. Myanmar must exploit its proximity advantage, that is, its strategic location at the juncture of South Asia, China and ASEAN, to integrate with the supply chains of those countries and regions in tandem with transportation infrastructure development. Indeed, it is the principal recommendation of this paper that stakeholders commission a major study by a firm of supply chain managers (SCM) to explore the ways and means that Myanmar can achieve this.

The Experience of Successful East Asian Economies

In addition to understanding the current trends and factors in the world economy, Myanmar can learn from the development strategies and experiences of the successful economies within its region. All the successful Asian countries have been outward oriented in their trade strategy while Myanmar has been inward looking. Inward orientation is when a country tends to protect the domestic market from outside competition and when it also generally tries to develop its own

technology. An outward orientation does not necessarily mean low tariff and non-tariff barriers. It means that the countries have generally been open to outside ideas and promote exports but they have used imports as a way to put pressure on domestic firms to improve their capabilities even while there may have been some degree of protection. It is also useful to distinguish between countries that have been relatively passive in their openness to FDI and those that have been more strategic in using industrial policy extensively to induce FDI to develop backward linkages and increase its contribution to the economy.

The first wave of high performing East Asian economies

The *Republic of Korea* is an example of autonomous technological development. Like Japan, it relied very little on FDI. Instead, initially it acquired a lot of its technology through trade, copying, reverse engineering and technology licensing. The government had a strong role in industrial policy. It used success in the export market as the yardstick by which to measure performance. This also led to the creation of large industrial conglomerates known as chaebols who acquired deep pockets to cross-subsidize risky ventures in new areas out of the profits of their more competitive "cash cows". Only after the 1997 financial crisis did Korea open up to foreign investment to get foreign exchange into the economy and to get access to more advanced foreign technology and to put pressure on domestic firms to perform better. Myanmar‟s largest family owned conglomerates (referred to in this report as the Biz-15) have not been export oriented. Their future growth will be associated with provision of the necessary infrastructure for a dynamic export sector populated by SMEs and as facilitators of MNC FDI as the latter make "anchor" investments, which develop backward supply linkages with SMEs for their export platforms.

At the other extreme to Korea, *Hong Kong* is an example of a „laissez-faire‟ economy with complete integration into the global trading system. Along with Singapore, it was one of the places most dependent on trade and FDI for access to knowledge. Hong Kong was quick to outsource labor-intensive manufacturing activity to mainland China. It also developed extensive links with foreign buyers and became a transportation and logistics center for trade in the region. As the gateway to China it also leveraged its privileged position to become a major financial and service center. With China‟s explicit strategy to support Shanghai after 1990, the Hong Kong local government has engaged in more pro-active policy making, investing more in R & D, higher education and infrastructure, for example, ICT and the new airport. Most of Hong Kong‟s most powerful family conglomerates are founded on real estate development and the owner-operation of key infrastructure. In this way they serve as a model for Myanmar‟s Biz-15 whose future prospects hinge on being able to persuade the ruling class (of serving and retired military officers) that they alone are the ones capable of building and operating the modern infrastructure necessary for an internationally competitive SME- and MNC-populated export sector and that SEEs and military holding companies will never be able to deliver to the required international standard. If the Biz-15 can pull this off they will join the Asian billionaires‟ Club[19].

[19] See Appendix I: Richest South East Asian People Ranked by Net Worth in 2010.

Singapore also has an open trade regime that depended very much on FDI for its technology. It had, however, a much stronger and activist government role than Hong Kong. While generally working with market principles, the government was heavily involved in attracting the kind of foreign investment it thought would contribute the most to economic development. The story of Singapore is one of moving quickly from cheap unskilled labor to becoming a knowledge-based economy. Prime Minister Lee Kuan Yew opted for attracting outward oriented foreign investment based on cheap and disciplined labor. Wage rates rose rapidly as the foreign firms came in. The government invested heavily in secondary and technical tertiary education and in upgrading the skills of Singapore workers in order to remain competitive. They also invested heavily in the port and airport in order to become an efficient transshipment point for trade between South East Asia, Europe and the US. In the 1990s, Singapore invested heavily in ICT to improve trade logistics and further reduce transaction costs, and then later in R & D to position itself as a major educational hub for Asia. It has now become an important regional hub for finance, education and regional corporate headquarters for MNCs and for medicine – all knowledge-based services. In recent years Singapore has become an offshore financial center for Myanmar‟s business and political elites but the real potential in the relationship is in Singapore helping Myanmar develop its transshipment capabilities for China and Thailand, not only in facilitating the financing of physical transport infrastructure but also in developing knowledge-based logistics and other business services.

Taiwan was in between the strong industrial policy approach of Korea and the more open trade but still government directed approach of Singapore. In the 1950s the key development strategy was import substitution under high tariff walls but at around the same time that Myanmar adopted State-led ISI, in the early „60s, Taiwan switched to export orientation. It made extensive use of tariff and non-tariff barriers and selective credit to favor specific sectors and to develop new industries. Also, the government was very strategic toward the use of FDI and actively encouraged the development of backward linkages and technology transfer. The government set up industrial parks in the vicinity of universities and a large public research institute to stimulate technology development and the creation of new high technology enterprises. Taiwan also very successfully drew on the Chinese diaspora working in the high-tech industry around the world. And so the electronics industry was able to move from simple assembly of electronic products, often for foreign companies, to developing its own chip-making capability and becoming an important own-brand player in the global industry. Unlike Korea, the industrial sector has been made up of SMEs with the government developing a strong supportive technological infrastructure such as technical information services and specialized public research institutes. While some technocrats in Myanmar advocate a similar role for government in their country‟s industrial development they overlook the serious capacity constraints of government and the public sector arising from the country‟s long period of isolation, the absence of a large educated diaspora eager to return home, and systemic corruption. Instead, the necessary infrastructure for SME development must be built, owned and operated (BOO) by the private sector, with the Biz-15 playing a leading role.

Strategies of the second wave of high performing East Asian economies

The second group of high performing East Asian economies (*Indonesia, Malaysia and Thailand*) has been more similar in their industrial and technological strategy. *Vietnam* has been added to this group, although it has not always been able to match their growth rates, because it is

following in their footsteps, albeit from a lower human capital and institutional base as a transition country to a market economy. They have all been export oriented, although Malaysia, Thailand and Vietnam more so than Indonesia, (the share of trade to GDP has been over 100 per cent for all but Indonesia). The first three also have had higher investment to GDP rates than Indonesia[20]. In all of them FDI played a critical role in export growth, in Malaysia and Thailand more so than in the others. Malaysia and Thailand are also more advanced than Indonesia and Vietnam in investments in R & D and in education, particularly tertiary education. Malaysia is the most industrialized of the four and has the highest share of manufactured exports as well as the most technology-intensive manufactured exports.

Especially over the last ten years, *Cambodia* and *Laos* have enjoyed high rates of economic growth by allowing trade openness and each has attracted FDI. Cambodia has established good garments and tourism sectors amongst others and Laos has attracted investments in mining and hydro-electric power. By working with foreigners, both countries have established much more advanced provision in telecommunications and in financial services including capital markets than in Myanmar. And their transition to market economies is much more advanced than in Myanmar. Correspondingly, per capita incomes in Cambodia and Laos once below those of Myanmar are now higher, (see Table 1: Human Development Index 2010).

Distribution of Economic Power in the World Economy

Table 6: GDP 2010 (US$ bn)

Countries/Trading Blocs	US$ Bn
ASEAN	
Laos	7.5
Cambodia	11.3
Myanmar*	32.0
Vietnam	103.6
Philippines	199.6
Singapore	222.7
Thailand	318.9
Indonesia	706.6
Brunei	n/a
Rich Countries	
European Union	16,250.0
USA	14,582.4
Japan	5,497.8
BRIC	
Brazil	2,087.9
Russian Federation	1,479.8
India	1,729.0
China	5,878.6
World	63,048.8

Source: World Bank *IMF estimate

[20] As cited by Carl Dahlman, *op cit.*

Table 6 above shows in US dollar terms at market exchange rates the value of GDP generated by selected countries and trading blocs. It can be seen that just the USA and EU together account for almost half of global GDP. Myanmar‟s recorded GDP is around US$ 32bn out of world GDP of US$ 63,048.8bn. It is statistically insignificant. But Myanmar does have considerable growth potential, albeit from a very low base, although it is clear that domestic demand is insufficient to drive industrial development. Instead, a focus on manufacturing exports is essential. To rapidly industrialize, Myanmar needs to integrate with supply chains in the region, which have become China-centric, and access the large rich country markets, leveraging its geo-strategic location to do so. In addition to the USA and EU, export market potential is also substantial within the Asia Pacific region.

THE MYANMAR ECONOMY

The Factor Endowment and the Resource Curse

Myanmar's abundance of natural resources

Myanmar is the largest country in mainland South East Asia, with a total land area of 676,000 sq km, just under three times the size of Britain. Much of the country is under-populated, mountainous or forested. The subtropical climate and rich soil provide very conducive conditions for the cultivation of over 60 crops from paddy and sugarcane in the central belt to vegetables in the more temperate zones in the Kachin and Shan States. Arable land represents about a quarter of the country‟s total land mass and only about half, around 23mn acres, is cultivated. Apart from the agricultural potential, only around half of the land area has been geologically surveyed. The country has a long history of mining in gold, silver, copper and gemstones, stretching back to the 15th century.

Myanmar has substantial forest resources at around 80mn acres, ranging from the more temperate forests in the Himalayas in the north to the tropical rain forests in the south. These lush forests are home to more than 8,500 different plant species, including 2,300 tree species and 850 types of orchid. The country has a 1,760 mile coastline, an extensive delta region and a large inland flood plain area which make fisheries one of the country‟s most important primary sectors which dominate the country‟s economy.

With its mountains and rivers Myanmar is also developing its hydro-electric power generation capacity, (see later under infrastructure development). But of greater significance are the hydrocarbon energy resources, some onshore oil but most significantly offshore gas. The country at present produces more than one billion cubic feet of gas a day from its two offshore projects in the Gulf of Martaban. Myanmar is one of the leading producers of natural gas via pipeline in the Asia-Pacific region, and the 11th largest exporter worldwide. Of the two offshore fields, Yadana produces 700mmcfd (million cubic feet a day) while Yetagun produces 400 mmcfd. As Shwe and Zawtika gas projects begin commercial production in 2013, total gas production will reach about 1.5 billion cubic feet of gas a day.

So the most intriguing question to ask is how is it that a country so abundant in natural resources could be accorded least developed country (LDC) status by the United Nations, is one of the

poorest countries in the Asia Pacific region and has the lowest per capita income in ASEAN? Is it that having an abundance of natural resources is far from being a blessing for the country but is in fact a curse, and if so why?

The Resource Curse

It was originally thought that resource abundance helps the poorest countries overcome factor imbalances, particularly the shortage of capital and surplus labor, because commodity exports and the FDI that they attract makes it easier for governments to collect revenue and provide public goods. And yet it seems that Myanmar‟s case is far from being unique. There is strong evidence which states that countries with abundant resource wealth perform less well than their resource-poor counterparts. Certainly the most successful economies in the Asia Pacific region are resource-poor: South Korea, Hong Kong, Singapore and Taiwan just to name the original four „Asian Tigers‟. But there is no agreement on why this occurs.

The international research that examines how exports of minimally processed natural resources, including hard rock, minerals, oil and gas, timber and agricultural commodities, influence economic growth can be grouped into seven categories, four of which are economic explanations and three of which are political:

Economic explanations:

i. Decline in terms of trade for primary commodities
ii. The instability of international commodity markets (price fluctuations) that makes revenues to government unreliable and private investment too risky
iii. Poor economic linkages between resource and non-resource sectors which leads to "enclave" development
iv. "Dutch Disease" – a strong exchange rate that renders other sectors uncompetitive

Political explanations: (why resource export governments seem unable to take corrective action to manage the effects of the above economic factors):

v. Cognitive: resource booms produce a type of short-sightedness among policy makers
vi. Societal: resource exports rend to empower sectors, classes, client networks or interest groups that favor growth-impeding policies.
vii. State-centered: resource booms tend to weaken State institutions. Some researchers attribute the resource curse to SEEs which typically govern resource extraction in developing countries. Others suggest the State‟s inability to enforce property rights directly or indirectly leads to a resource curse

The terms of trade for most primary commodities tumbled since the early 1980s because of an increased volume of commodity exports (a symptom of the debt crisis and structural adjustment programs of the 1980s and the collapse of international commodity agreements, as well as the fall of the centrally planned economies of the Soviet Union and Eastern Europe after 1989). There has been some recovery in commodity prices since around 2005 which is demand-led by China and India but studies show there has been a long run decline in the terms of trade for agricultural commodities since the beginning of the last century.

Under vi. above, resource rich Latin American countries clung to ISI long after it was useful while South Korea and Taiwan quickly moved to export promotion in the absence of powerful ISI interests. Under vii., the compromised ability of the State to extract and deploy resources, enforce property rights, and resist the demands of interest groups and rent seekers, weakens the institutions necessary for long term development. Resource rents often lead to myopic sloth or paradoxically myopic exuberance in policy makers. It can foster a get-rich-quick mentality amongst businessmen and the "boom and bust" cycle lends to excessive optimism and frenetic retrenchments by policy makers. There are also theories about the rentier State that address the causal links between resource rents and poor economic governance: for example, after resource windfalls policy makers become risk averse and focus on policies to maintain the status quo rather than those that promote development. Or the idea that policy makers freed from the need to levy domestic taxes because of resource rents become less accountable to the societies they govern. All of the above explanations may have some resonance in the case of Myanmar but none more so than "Dutch Disease".

Dutch Disease

Dutch Disease is so named when in the 1960s in spite of Holland enjoying the bonanza of natural gas from the North Sea the country did not enjoy a major boost to prosperity and in fact some sectors, particularly non-energy export sectors, began to contract. Dutch Disease has two effects: first, an appreciation of the real exchange rate due to a sharp rise in exports; second, the tendency of a booming resource sector to draw capital and labor away from the country‟s manufacturing and agricultural sectors with the effect of raising their production costs. The two effects together reduce the exports of manufactured and agricultural goods and inflate the cost of goods and services that cannot be imported (non-tradables).

We have already noted that gas exports account for 40 per cent of total exports and this proportion is set to increase considerably in a couple of years time when gas output is augmented by the Shwe and Zawtika fields coming on-stream. Certainly the super-competitive gas exports have contributed to the strength of the Kyat in recent years. Unless the exchange rate issue is addressed then some existing factories may close as they lose their international competiveness or are undercut by cheaper imports in the home market. Certainly Kyat strength is the greatest challenge currently facing the new government. Taking adequate corrective measures is an early test of their capacity. At the time of writing, taxes on exports have been reduced but import repression through pervasive licensing has not been relaxed much. If the government fails to devise policies to counter the effects of the resource curse, including Dutch Disease, the country faces the prospect of de-industrialization.

Addressing factor imbalances – labor, enterprise and capital

Arguably Myanmar‟s greatest resource, its most abundant factor, is labor (human resources), the workforce that stems from having a population of around 60mn. But much of the working population is underemployed in low productivity activities. This surplus labor is available to the modern sector where it could be employed more productively. The modern sector can grow rapidly through the targeting of export oriented labor-intensive industries populated by a large number of small and medium sized firms (SMEs). Agro-based industries also have the potential to create jobs if conditions are created to attract FDI that can help introduce know-how and modern production plant and provide access to export markets. Since labor is a factor of

production in abundance in Myanmar it should be placed at the center of any industrial development strategy. The more inclusive industrial development is, that is, the more jobs it creates and the spur it provides to skills acquisition and higher wages, not only will the type of industrial development result in greater poverty reduction but in higher overall rates of economic growth.

Myanmar is not short of entrepreneurial talent. In 1989, there were 174 private limited companies registered but this increased to 10,844 in 1997, to then peak at 15,418 in 2000 to then go into decline the following year to 9,596 and then go into a long recovery to culminate to 16,656 in 2008. The same trend can be seen in the total number of private sector business organizations, (including importers, exporters, partnerships, JVs etc.): 1,776 in 1997, 29,868 in 1997, peaking at 42,262 in 2000 but slumping to 20,431 with a steady recovery to 26,847 by 2008[21]. Entrepreneurs responded very positively to the market opportunities created by reforms of the late 1980s and early 1990s but they were inevitably knocked back by the onset of the regional financial crisis and the government‟s heavy handed reactionary response to it. It is testament to the ability of Myanmar entrepreneurs that they survive and have even staged something of a recovery in the face of one of the most hostile business environments in the world.

As a low income country Myanmar has a shortage of capital. The domestic savings rate is very low at around 13-15 per cent of GDP (although it is on a slight upward trend in recent years); in China the savings rate is very high at close to 50 per cent and successful East Asian countries have had savings rates at least twice that of Myanmar‟s. The savings rate can be increased by a more active monetary policy and by financial sector development including reducing the restrictions on private sector banks. The country can also seek to rectify its shortage of capital by creating the conditions conducive to attracting FDI, which effectively draws on savings abroad which are virtually unlimited.

Industry Structure by Ownership and the Principal Players

In Myanmar‟s hybrid economy which is not socialist, mixed nor market oriented, clear demarcation lines between State and non-State actors are absent and there is a wide array of players involved in industrial activities: these include State Economic Enterprises (SEEs), military holding companies, other semi-government organizations such as semi-government banks, rent seekers in the ministries (including inside the MOD), three ministries directly involved in industry (Ministries of Industry I and II and the Ministry of Myanma Industrial Development), the business leaders who head up the largest family-run conglomerates who enjoy privileged access to the ruling class (the „Biz-15‟), small and medium sized enterprises (SMEs), and foreign investors. These principal players can be found operating across the economy – in the primary sectors such as agriculture, fisheries, forestry, construction, energy and mining; in the secondary sectors of manufacturing and processing; and in the service sectors of trade, transportation and communications, and financial services.

State Economic Enterprises (SEEs)

The State-owned Economic Enterprises Law, 1989, stipulates 12 areas that SEEs monopolize and although there has been some relaxation the most important of these today are: electric

[21] MNPED, Review (various issues); CSO, Statistical Yearbook (various issues).

power generation, posts and telecommunications, banking and insurance services, oil and gas exploration and production, teak extraction, jade and precious stones, air, port and rail transportation, television broadcasting, and the extraction of metals. The scope of activities SEEs undertake in Myanmar is very wide and below are just some instances.

A tight monopoly in telecommunications is maintained by MPT. This is critical infrastructure for industrial development and the sector should be run by the private sector for capacity and efficiency reasons; (see infrastructure development under „The Economic Reform Agenda"). There are a couple of independent power producers (IPPs) but the private sector has not been permitted much of a role in solving the electricity supply problem. State banks retain a monopoly in legal foreign exchange transactions and insurance services are still monopolized by the State. MTE monopolizes teak extraction and export (at least *de jure*). The monopoly on air transportation ended when Myanma Airways International was sold off and also Air Bagan was established – the buyer of the former was a client of Vice-Senior General Maung Aye (Rtd) while the latter is closely associated with Senior General Than Shwe (Rtd). Myanma Port Authority (MPA) operates the ports but some facilities have been privatized. Well-connected business people have secured mining concessions in recent years. Myawaddy TV was created under the Directorate of Signals under the MOD. SEE involvement in agriculture and in the export of soft commodities has largely ended but SEEs still exist in many other sectors, particularly in heavy industry, which is considered below.

SEEs have a far more debilitating impact on the economy than their less than 10 per cent share of GDP[22] would suggest. SEEs as a group, if excluding Myanma Oil and Gas Enterprise (MOGE) which has foreign JVs for gas extraction, are inefficient, rent seeking and loss-making in spite of enjoying many privileges such as access to exclusive permits and licenses. They are the main cause of Kyat budget deficits. SEEs need to be incorporated and given greater financial autonomy with their managers incentivized to restructure them for profitability and privatization. Otherwise they will continue to act as a drain on the economy and crowd out the private sector. They can be expected to provide very stiff resistance to reform unless key individuals are identified and brought onside.

Military Holding Companies

Since 1988 a number of organizations have been created to facilitate the Tatmadaw"s commercial operations as opportunities for the private sector were created, of which the largest and best known are Union of Myanmar Economic Holdings Ltd. (UMEHL) and Myanmar Economic Corporation (MEC). UMEHL, established in 1990, is owned by the MOD, serving and retired army personnel, and related organizations such as regimental funds and veterans" associations. Management comes from the Directorate of Procurement. Through wholly owned companies and local and foreign JVs, UMEHL"s activities span a broad range of industries: trading, hotels and tourism, banking, property development, car assembly, iron and steel, cement, cigarettes, brewing, paint, garments, jade, precious stones and jewelry. UMEHL consider projects in any area except telecommunications where their participation is prohibited, but they seek large scale. Vehicles they have imported can be seen on the streets of Yangon without vehicle registration numbers.

[22] IMF, Myanmar – Staff Report for the 2009 Article IV Consultation, 2010.

MEC was established in 1997 by decree under the auspices of the Special Company Act of 1950 and is wholly owned by the MOD. MEC owns Inwa Bank and is an investor in the Dagon Brewery which produces the Skol brand, and has various interests in the building materials and mining sectors. It is in iron and steel production, importing the steel billets to make finished products for export. MEC is also involved in cement production, and granite slab and marble production. They are also in coal mining and container transportation, and also in ruby mining.

A very rough demarcation line for the two military holding companies is that UMEHL is focused on the lighter industrial end and MEC on the heavier end. In practice, neither has a particularly focused commercial strategy and they are both broad-based industrial holding companies. But with the private profit motive they are generally more efficient than SEEs and they leverage their connections to secure deals the big family conglomerates cannot get. They are thought to be good at „monetizing" monopoly privileges although their financial accounts are official secrets. At one stage the rivalry between the two holding companies – nobody else could ever hope to compete against them – became so intense that the two respective generals who headed them up, Win Myint and Tin Hla, were both placed under house arrest for corruption.

The military holding companies are the most visible aspect of the hybrid economy. In China the Peoples" Liberation Army (PLA) was ordered out of business by the Chinese Communist Party (CCP) because their power position in the State apparatus had permitted them a free reign in the economy that was anti-competitive and unchallengeable. In Myanmar, the existence of military holding companies clearly reveals the absence of free and fair competition in domestic markets and so deters private sector investment. They can be expected to defend their interests to the utmost but well provisioned and institutionalized pensions for retired army personnel linked to the investment performance of the private sector, as exists in most of the rest of the world, can be expected to soften resistance to reform.

Semi-government banks

Table 7: Private "Semi-Government" Banks

Bank Name	Operating under	Estab.
1. Co-operative Bank*	Ministry of Co-operatives	Aug-92
2. Inwa Bank	Myanma Economic Corporation	Nov-97
3. Myanma Industrial Development Bank*	Ministry of Industry 2	Feb-96
4. Myanma Livestock & Fisheries Development Bank*	Ministry of Livestock & Fisheries	Feb-96
5. Myanma Citizen Bank*	Ministry of Commerce	Jun-92
6. Myawaddy Bank	Union of Myanmar Econ Hdgs	Jan-93
7. Sibin Tharyar Bank	Ministry of Border Areas	Jul-96
8. Yadanabon Bank	Mandalay City Development Committee	Sep-92
9. Yangon City Bank	Yangon City Development Committee	Apr-93
* *Public company*		

Source: National Consultants

In Myanmar there are the State-owned banks such as Myanmar Economic Bank (MEB) and Myanmar Foreign Trade Bank (MFTB) and there are also some twenty odd privately owned banks but almost as if just to demonstrate that Myanmar is a hybrid economy, that it goes its own way, there are a number of private „semi-government" banks. These institutions have a blurred ownership status and with little transparency to their operations there would be anti-competitive implications affecting private investment in the sector if they had proved to be more dynamic.

Rent seekers in the Ministries

Rent seekers in the ministries should be considered just as much economic actors as SEEs or businessmen in the private sector, albeit illegitimate ones. (See Table 8 below for a list of the ministries). Not only do rent seekers directly raise the cost of doing business but they also introduce a further element of unpredictability for investors which increases risk and deters investment. President Thein Sein referred to the need to curb corruption in his first speech. Corruption in Myanmar occurs at all levels of government and is systemic.

Table 8: List of Ministries

Defense	Cooperatives
Home Affairs	Transportation
Border Affairs*	Hotels and Tourism*
Myanmar Industrial Development*	Sports*
Foreign Affairs	Industry I*
Information*	Industry II*
Culture*	Rail Transportation
Agriculture and Irrigation	Energy
Forestry	Electric Power I
Finance and Revenue	Electric Power II
Construction	Education
National Planning and	Health
Economic Development*	Religious Affairs
Livestock and Fisheries*	Science and Technology
Commerce	Immigration and Manpower
Posts and Telecommunications	(Ministers of the) President"s Office
Social Welfare, Relief	
and Resettlement	*Sharing a minister with
Mines	another ministry.

Source: Ministry of Information (under the new government)

Widespread or systemic corruption undermines the legitimacy of government. Simplified regulations reduce the discretionary power of officials and so reduce their ability to extract bribes while the creation of an ombudsman to investigate complaints of corruption may improve enforceability of the law, and deter wrongdoers. But rent seekers in the ministries can be expected to offer stiff resistance to reforms.

Transparency International defines corruption as the abuse of entrusted power for private gain. By conducting annual surveys they produce an annual Corruption Perceptions Index. In 2010

Myanmar was ranked 176 out of 178 countries, equal with Aghanistan and above Iraq but only Somalia fared worst. Table 9 below shows Transparency International‟s rankings for ASEAN countries. The score is on a scale of 0 (highly corrupt) to 10 (highly clean).

Table 9: Corruption Perceptions Index 2010

Country	Rank	Score
Myanmar	176	1.4
Laos	154	2.1
Cambodia	154	2.1
Philippines	134	2.4
Vietnam	116	2.7
Indonesia	110	2.8
Thailand	78	3.5
Malaysia	56	4.4
Brunei	38	5.5
Singapore	1	9.3

Source: Transparency International

Ministry of Industry I

The largest SEE under the Ministry of Industry I is Myanma Foodstuff Industries (MFI) which operates factories producing rectified spirit, denatured and methylated spirit, alcohol, biscuits, noodles, wheat flour, soya bean sauce, soya milk, vinegar, cigarettes, ice, soft drinks and purified water. MFI has two joint ventures with foreign investors, Myanma Glacier Tobacco and Myanma Yaung Chi Oo, manufacturing cigarettes and beer respectively. Singapore United Tobacco was a JV partner in the Duya cigarette factory for five years, but sold its interest back to MFI in 1996. MFI collaborates with private investors in JVs, in leasing of its factories and by contract manufacturing, mainly on a consignment basis. All of MFI‟s eleven ice factories have been leased to private entrepreneurs. MFI has four manufacturing agreements to produce biscuits and one each in soya sauce, monosodium glutamate and alcohol. Most of the regulation of the food and beverage industry is undertaken by the Ministry of Health so the Ministry of Industry I is not known for conflicts of interest and anti-competitive activities in defense of MFI and it is a relatively benign part of Myanmar‟s hybrid economy.

Other SEEs under Ministry of Industry I are Myanma Ceramic Industries, Myanma General & Maintenance Industries, Myanma Paper & Chemical Industries, Myanma Pharmaceutical Industries and Myanma Textile Industries. Along with MFI, all could be expected to perform better in the private sector. Industry I is a relatively progressive ministry and has long favored privatization of its factories.

Ministry of Industry II

We have already mentioned the industrial policy formulation role of the Industrial Development Committee (IDC) that has been established under this ministry. Regarding SEE activities, Industry II supposedly focuses on the heavier end. But the best known SEEs under Industry II – Myanma Machine Tools and Electrical Industries (MTEI) and Myanma Automobile & Diesel Engine Industries (MADEI) – exemplify the inefficiencies of SEEs in manufacturing.

MTEI‟s Machine Tools Factory No. 1, established in 1981 with technical cooperation from the Japanese, produces transformers for the local market. Machine Tools Factory No. 2, established in 1984 with technical assistance from the German Fritz Werner Company makes 12 types of PVC-insulated wiring cable. The Electrical and Electronic Factory was established in 1964 with technical co-operation from the Japanese and produces a variety of electrical goods for the local market including lamps, rice cookers, radios, hot plates, batteries and miscellaneous electrical accessories. But production has ceased in some items, output is low and has stagnated in most, specification is basic and the local market can only be satisfied by imports. MTEI has been handicapped by slothful management, a lack of production and marketing expertise, and shortages of foreign exchange for imported inputs and the up-grading of capital equipment. A MTEI JV with Daewoo to assemble TV sets has not been very successful.

In contrast, MADEI, has been a goldmine for ministry employees although perhaps less so for the national budget. MADEI, formerly known as Myanma Heavy Industries, produces jeeps and trucks. Government departments receive priority for delivery and private individuals have to join a long waiting list to get their cars. Although the annual production target is for 1,200 jeeps (2,000 cc), only around 5-600 are produced each year. However, because it is very difficult to import cars, vehicles in Myanmar uniquely appreciate in value each year and so these jeeps can fetch very high prices in the secondary market. There are therefore substantial economic rents to be collected by officials who determine who the lucky buyers are.

It is not terribly obvious what this ministry has to offer to Myanmar‟s industrialization but its capacity to block the implementation of reforms should not be underestimated, especially by secretive officials at below-minister level.

Ministry of Myanma Industrial Development

This is a new ministry whose activities were formerly undertaken under the Ministry of Defense (MOD). The minister has already declared that he does not wish to become involved in the formulation of industrial policy. Instead, he will focus on the operations of his ministry. The armaments industry is now under this ministry and, because of the arms embargo, the ministry also has links to a network of private firms to assist in the procurement of components. The armaments industry principally has an ISI strategy but export potential where feasible is explored. This ministry is concerned with the heavier end of industry, so-called “mother industries”, and has more clout than Ministry of Industry II and MEC. It will design, build and supply plant on a large scale and funded from the State budget. It mines coal and iron ore and operates steel rolling mills to produce sheeting from steel billets. It also produces rebars for construction of concrete buildings and fabricated beams for bridges. The private sector has requested that the ministry leaves them the downstream activities of producing steel tube and steel furniture.

The Ministry has no foreign JVs but it works with the Russians and Italians for provision of materials and equipment and in the design of technology. They have many privileges such as an open general license (OGL) for importing which guarantee profits so that the private sector cannot compete with it.

Business leaders with their large family-owned conglomerates – the 'Biz-15'
The most successful family-owned conglomerates in Myanmar have been built up since the late 1980s after the abandonment of socialism. They have been built up by men who have had close relations to the military ruling class for many years. Although they get roped into "policy projects" like land reclamation in the delta which they don‟t much care for, they receive ample compensation in the form of exclusive licenses and permits, lucrative government construction contracts and first bite of the choicest business opportunities in the country and the chance to strike "sweetheart deals". Also, their high level connections allow them to be free from the rest of the military and civilian bureaucracies armed with their parasitic and choking array of laws, rules and regulations that entangles potential competitors.

These diversified conglomerates span many sectors of the economy and they typically own businesses in civil engineering construction and real estate development, trading, banking, hotels, manufacturing, transportation and more recently mining. Some have ISI businesses and some even have businesses in export oriented industries such as garments but in focusing on the most profitable areas and with the highest investment returns they are naturally drawn to protected domestic sectors.

The 15 or so largest of these private conglomerates, referred in this study as the Biz-15, are important enough to secure access to the power salons of Nay Pyi Taw under almost all scenarios. Some have multiple patrons while others are close to just one or two top power-holders. They control organizational structures which because of their size have access to capital on a large scale and can afford to employ professional managers and technicians. These factors give them a pivotal role to play at this juncture of the nation‟s history. However, their continued membership of the Biz-15 is not guaranteed: no individual regardless of wealth is a match for State power. Biz-15 members recall the fate of General Ne Win‟s businessman son-in-law, U Aye Zaw Win who, with his three sons, made the transition from considerable wealth to Insein jail, albeit for non-corruption related offences. So while nurturing patron-client relationships the Biz-15 also have an interest in promoting more rule of law to consolidate existing gains. Also, under the new political arrangements patrons will be less permanent.

Of course, the Biz-15 are wealthy people – they can be likened to the 30 families in Thailand, the 10 in the Philippines, the 6 in Laos or the 300 that Morgan Stanley have identified in China – but their wealth is in almost all cases nowhere near that of their counterparts in the region. (See Appendix I for a ranking of the richest people in the region). If the Biz-15 want to make the really big money they are going to have to promote as well as adjust to the new era. The really big fortunes of the next 10-15 years in Myanmar are going to be made by those of the Biz-15 with the capabilities to (i) build, own and operate (BOO) the key modern infrastructure that makes a flourishing export sector populated by SMEs dynamic and internationally competitive and (ii) be able to guide in some of the world‟s most powerful MNCs into Myanmar to make "anchor investments" which facilitate backward supply linkages to SMEs to support their export platforms. Also, for (i), the big winners amongst the Biz-15 will be those sophisticated enough to tap international sources of project finance commensurate with the new requisite scale of operations. Those members of the Biz-15 uninterested or unable to make the transition face the risk of being marginalized by fast moving events.

And so it is, the Biz-15 shall have to use their privileged access to power-holders in the first instance less for securing specific project opportunities, (many of which are not really feasible in the current mediocre growth environment), but rather to promote a generalized improvement in the business conditions for SMEs. Capital intensive infrastructure and "building block" industries like petrochemicals require high utilization rates to be financially feasible. The Biz-15 need a flourishing SME export oriented sector in their lifetimes if they are to make the really serious money, and they will have to be proactive in bringing this about. It is the principal recommendation of this report that a major supply chain manager (SCM) be brought in to study the Myanmar situation, and advise the Biz-15 on what is needed from them – and from the government that they can influence – to commence the integration of Myanmar into the world economy.

Small and medium sized enterprises (SMEs)

A SME can be defined as a business operating in the private sector which employs up to 100 workers and where ownership and control are not separated; and it shall not be a subsidiary of any holding company or institution. It is estimated that 99 per cent[23] of all business establishments in the private sector fall into this category. Apart from SEEs, military holding companies and other semi-government organizations, the large family conglomerates (admittedly a group larger than the Biz-15 that enjoy privileged access to power-holders), and foreign investors, SMEs account for the rest of productive enterprises. They account for around 83 per cent[24] of the establishments in all of the industrial zones in Myanmar. The largest number of enterprises are micro, (less than 10 employees), but these are not located on the industrial zones.

In order to encourage coordination among businesses in the private sector, the Union of Myanmar Chamber of Commerce and Industry was formed in January 1989. It was restructured and upgraded as the Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI) in 1999. The UMFCCI became a focal point of private business interests and by 2007, its membership reached a total of 16,363, consisting of 10,854 Myanmar companies, 1,656 enterprises, 770 foreign companies, 185 cooperatives, and 2,898 individual members[25]. The institutional members include 16 state/division chambers of commerce and industries, nine border trade associations and 19 other associations[26]. The Myanmar Industrial Association (MIA) is an association of private business representatives who are primarily engaged in manufacturing industry. They are consulted by the IDC under the Ministry of Industry II. The MIA is a member of the UMFCCI and its chairman sits on the latter"s committee for agro-based industries.

The early investments in manufacturing were in consumer goods production substituting for imported products. The next preferred was agro-based that provided immediate access to domestically produced agricultural raw materials such as paddy for rice mills, pulses and beans for processing plant, fish for fish processing plant, timber for saw mills, sugarcane for sugar mills, horticulture and vegetable products for juice and fruit canning/bottling etc. Construction and building materials also offered opportunities in line with increased demand for houses, hotels

[23] Aung Kyaw, Financing Small and Medium Enterprises in Myanmar, IDE Discussion Paper No. 148, 2008.
[24] Ibid.
[25] Wikipedia.org
[26] Tin Maung Maung Than, State Dominance in Myanmar, The Political Economy of Industrialization, 2007.

and offices. But the food processing industry remains the largest for SMEs and accounts for 63 per cent of all industries by number of enterprises. With the main exception of garments most SMEs produce for the domestic market, with business categories being non-diversified and processing technologies remaining at low levels.

With the highly complex international trade and exchange regime supporting the desired goal of the previous government of national self-reliance, few SMEs have attempted to develop manufactured exports markets and the export of agro-based products has generally involved minimal processing. But the limited size of the domestic market has not been the only constraint that SMEs face: they often cite weak infrastructure (particularly power shortage), lack of formal financing sources, lack of training and technology advancement, outdated machinery and other equipment, poor product knowledge and market development, lack of inter-firm linkages, and heavy reliance on imported material as constraints on their development. They also say they need lower tax rates, clearer administrative procedures such as the easing of licensing and import/export procedures, and would benefit from improved transportation and ICT services.

Because SMEs share the biggest part in the Myanmar economy in terms of number, contribution to employment, output and investment their development – which is therefore synonymous with „private sector development" – is critical to the future growth trajectory of the country and its progress in poverty reduction. But SMEs in Myanmar operate in one of the most hostile business environments in the world and, unlike the other principal players described above, they lack the connections necessary to afford some protection against its most pernicious effects. Many SMEs have been driven into the informal sector but there they face other problems such as the need to continuously conceal production from predatory officials and official financing sources are inaccessible.

The Heritage Foundation publishes an Economic Freedom Index which ranked Myanmar 174th freest in 2011 with a score of 37.8 (with 0 the least free and 100 the most free), and ranked it 40 out of 41 countries in the Asia Pacific region. Historically scoring far below the world average, Myanmar"s economic freedom has deteriorated over the past decade.

Table 10: Myanmar's World Rankings for Economic Freedom 2011

Business Freedom	175	Investment Freedom	172
Trade Freedom	112	Financial Freedom	172
Fiscal Freedom	64	Property Rights	176
Government Spending	1	Freedom from Corruption	178
Monetary Freedom	172	Labor Freedom	176

Source: Heritage Foundation

Foreign investors

The last fiscal year was a bumper year for overall FDI approvals, almost US$ 20bn in 2010/11, and a closer examination of the breakdown reveals which foreigners currently have influence in the country"s economy: mainland China and Hong Kong accounted for over US$14bn and Thailand accounted for US$ 3bn of approvals. Of the total, US$ 10.2bn was for oil and gas, US$ 8.2bn for power (mainly hydro-electric) and US$ 1.4bn for mining. The preceding negotiations were mainly conducted at the G-to-G level and many of the investment proposals were put up by

SEEs, predominantly Chinese. Clearly China and Thailand, and at the government level, are taking the lead in Myanmar‟s future development. Their approach is centered on the extraction of primary resources, (two new gas pipelines are under construction to Thailand and to Kunming in Southwest China for completion in 2013 and there is also a lot of interest in Myanmar‟s mineral deposits and electricity exports), and on the transshipment of their manufactured products to deep sea ports on the Indian Ocean which are under construction.

To increase utilization of these important infrastructure investments, and for the provision of other related infrastructure investments that support SME development, this report recommends a supply chain manager (SCM) is funded by international donors to research and advise the private sector in Myanmar, represented by the UMFCCI and members of the Biz-15, on how the country can develop its export processing sector. This initiative will include identifying how SMEs can be integrated into the China-centric Asian supply chain and what role FDI from MNCs can play in Myanmar‟s industrial development. The SCM can also suggest to business leaders ways that their government might improve the general investment and business climate in the country.

THE ECONOMIC REFORM AGENDA

The economic reform agenda is well understood in Myanmar by national economists and many senior business people so therefore only a summary is necessary here although I expand in areas that are topical and/or have particular relevance to the principal recommendation of this report. However, two precepts for rapid industrial development need to be stated at the outset: adoption of "outward orientation" and "private sector-led development". These precepts are given more detailed treatment in the following section – „The Key to Successful Reform Implementation‟ – but should be borne in mind now.

Table 11: The Economic Reform Agenda

Measures to restore macroeconomic stability:	-Unification of exchange rates -Independence for the CBM to manage monetary policy -Fiscal reform -Full budgetary review of spending priorities
Measures necessary to ensure that the public sector is not permitted to crowd out and inhibit proper private sector development:	-Phasing out of remaining subsidies -Privatization of SEEs -Legal, regulatory and judicial reform -Competition policy -Civil service reform
Sectoral reform:	-Agriculture, trading, financial services, industry and infrastructure development (transportation, telecommunications and electric power).

Source: Irrawaddy Advisors

Monetary and Fiscal Policy

The principal responsibility of the government is to establish macroeconomic stability – that is, price and exchange rate stability – which is a necessary although not sufficient condition for raising the rate of investment essential for higher rates of economic growth. The most important reform for Myanmar is unification of its multiple exchange rates into a single, realistic and competitive exchange rate[27]. This is necessary to establishing outward orientation for the economy, to facilitate international trade and investment, through the dismantling of complex administrative procedures that also promote rent seeking. But it is also necessary for making the nation‟s monetary and fiscal policies more effective and stable. The IMF‟s Article VIII Mission is mandated to study exchange rate unification and visited the country in October, and legal issues in particular were explored concerning this fundamental and long overdue reform. An Article IV Mission in January 2012 explores other matters associated with structural adjustment.

The new single unified exchange rate should, at least initially, be free floating because it is very difficult to predict the level that will clear trade given the pervasive trade restrictions that are in place. Once Myanmar‟s external competitiveness is established through a single stable exchange rate a flexible peg arrangement may reduce uncertainty for investors and traders about future currency stability.

Myanmar‟s reclusive ruling class was forced to open up the country to foreign trade and investment in the late 1980s because of chronic shortages of foreign exchange and this situation has persisted until recent years. This, combined with the consistent running of budget deficits that are monetized causing high inflation, has meant that the authorities have long had to grapple with a weak Kyat, depreciating in the parallel market. However, the long anticipated gas bonanza which materialized in the mid-2000s has transformed the government budget[28] and the trade balance.

Table 12: Gas Export Revenues

Financial Year	Export Value (US$)
2005/06	1,140,070,113
2006/07	2,094,903,982
2007/08	2,594,137,697
2008/09	2,416,816,417
2009/10	2,967,226,380

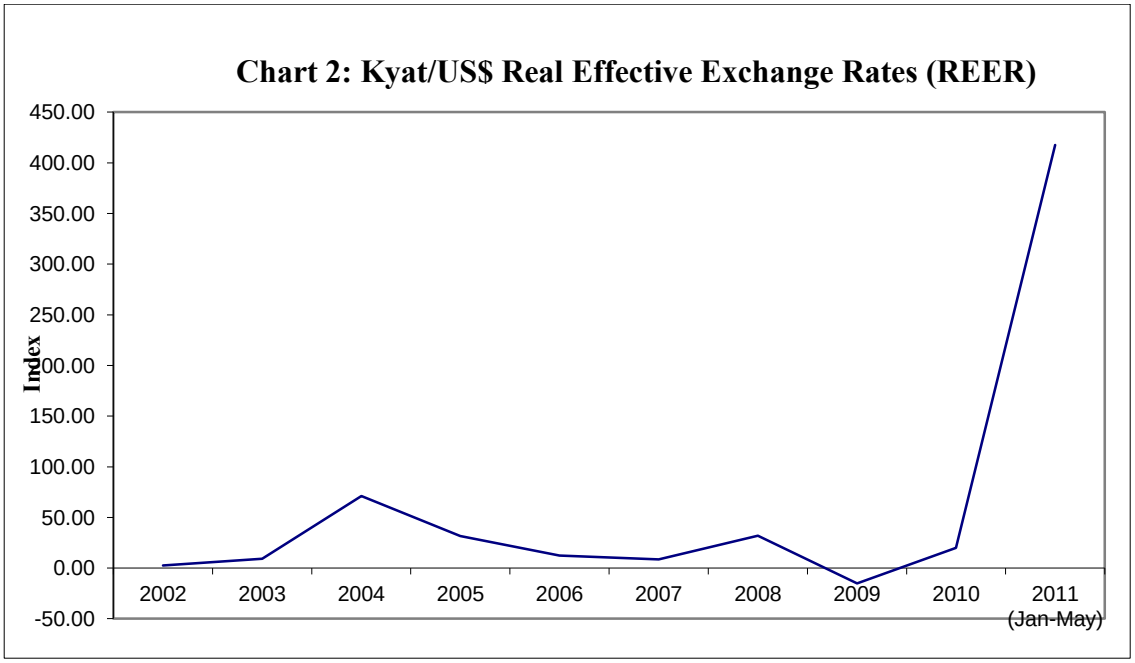
Source: Government departments

Paradoxically, this has contributed to a much greater threat to the wellbeing of the Myanmar economy, namely Kyat strength, albeit a problem easily solved if the government takes appropriate corrective action. The Kyat has appreciated by up to 30 per cent against the US dollar over the last year and is the best performing Asian currency. And it remains strong. There are people within the government who interpret Kyat strength as a sign of a healthy economy but

[27] See Larkin, Stuart and U San Thein, Trade and Exchange Rate Policies to Develop Agriculture, unpublished mimeograph, 2010.

[28] This is not shown by official government figures because hard currency revenues are consolidated into the national budget at the official exchange rate of around Kt5.5/US$ 1 rather than at the market exchange rate (which was Kt 785/US$ 1 on 14th December 2011).

in fact soft commodity export sectors are severely impaired and this is feeding back into lower procurement prices reducing domestic incomes further, and even ISI are battling with cheaper imports as they penetrate non-tariff barriers.



Source: National consultants

Longer term, a strong Kyat will deter foreign and domestic investment in export sectors, and in some domestic sectors as well, since it raises production costs in Myanmar compared to her competitors abroad. Industrial development requires a realistic and competitive exchange rate and the most important measure and determinant of a country‟s external competitiveness is the real effective exchange rate, (REER). This is the market exchange rate adjusted for inflation differentials with trading partners; chart 2 above reveals the recent sharp appreciation of the Kyat REER that demonstrates a severe loss of external competitiveness.

The economic advisor to the President, Dr U Myint, recommended measures to curb Kyat strength to the high authorities on 25th June 2011[29] which included suspending the 10 per cent tax on exports, the removal of import and export licensing requirements, the CBM and other players to use Kyats to purchase US dollars in the domestic market, reducing interest rates and reducing the frequency of jade and gem emporia. The Kyat went as high as Kt 680/US$1 during the last week of August and, at Kt 785/US$ 1 on 14th December, although off the top it nonetheless remains strong. With this critical test of State capacity, the government‟s response so far is not encouraging. The export tax was reduced first from 10 per cent down to 7 per cent (as the Commercial Tax component was cut from 8 to 5 per cent but leaving the 2 per cent Profit Tax), and later Commercial Tax on agricultural exports was suspended altogether for a six month period, leaving a 2 per cent levy on those exports. The other recommendations have not been

[29] In a paper entitled „Myanmar Kyat Exchange Rate Issue‟ later presented to the National Workshop on Reforms for Economic Development of Myanmar, 19th-21st August, 2011.

implemented at the time of writing and the government‟s response can be deemed wholly inadequate.

Fiscal responsibility is another challenge for the government. The segregation of hard currency in the State Fund Account from the Kyat budget will end after exchange rate unification and will make the overall picture clearer for policy makers. At the moment there are Kyat deficits mainly caused by SEE losses but if hard currency revenues are consolidated at the market rate then the budget is in surplus, which effectively gives rise to a monetary position that is too restrictive to maximize growth. But in any event the government needs to raise more revenue from taxation by simplifying the tax structure and with more consistent collection. More expenditure needs to be allocated to health and education.

Financial sector development is also a priority. Myanmar has a low rate of savings and greater flexibility in setting interest rates would boost savings and stimulate growth in the banking system so that savings are efficiently intermediated into investment. Private sector banks would benefit from less onerous regulation, such as a relaxation in reserve requirements. The potential role for international bank branches should be reviewed. A microfinance law needs to be promulgated. The securities law should be passed to establish the long awaited capital market. Insurance could be liberalized.

Trade Policy

The complexity of trade licensing and settlement procedures and regulations is an obstacle to outward orientation and expansion of Myanmar‟s international trade, and is hence a major constraint on industrial development. It also gives rise to rent seeking behavior.

In compliance with international treaty obligations Myanmar has a very low level of tariff protection and relies on pervasive non-tariff barriers to maintain its low level of trade openness. The government has signed up to rapid trade liberalization for international acceptance in the community of nations but if real benefits from greater trade openness are to be enjoyed trade liberalization should be undertaken selectively and gradually, and non-tariff barriers should be dismantled behind a resurrected tariff wall in order to give agriculture and industry plenty of time to develop and adjust to the formidable international competition.

As a member of the General Agreement on Tariffs and Trade (GATT) Myanmar was a founding member of the World Trade Organization in 1994. As a member Myanmar has signed up to rapid trade liberalization and Myanmar‟s simple average tariff submitted to the WTO is 5.8 per cent, which is very low tariff protection compared to other countries. Myanmar joined ASEAN in 1997 and had until 2008 to comply with the Common Effective Preferential Tariff (CEPT) which stipulates a 0-5 per cent tariff range on all sectors within the ASEAN Free Trade Area (AFTA). Under the ASEAN-China Framework Agreement on Trade in Goods, 2004, Myanmar has until 2015 to eliminate tariffs on 90 per cent of its products. If Myanmar fully implements these agreements the viability of industry could be undermined, and the incidence of poverty could rapidly rise. But since export oriented industry needs ready availability of imported inputs and capital equipment, if comprehensive import and export licensing is not dismantled then industrial development will remain stunted.

One option for the government is to invoke Article XI, Original Membership, No. 2, of the Agreement establishing the WTO. This states: "The least-developed countries recognized as such by the United Nations will only be required to undertake commitments and concessions to the extent consistent with their individual development, financial and trade needs or their administrative and institutional capabilities". As the least developed country in ASEAN Myanmar can reasonably make a case of special pleading in that forum too. Citing Article XI, Myanmar should consider resurrecting a tariff wall to protect its industry – so that it can develop and become internationally competitive – for a pre-stated time before a phased reduction of tariffs. During this period non-tariff barriers, mainly pervasive licensing, are dismantled. Myanmar‟s trade partners will hopefully respond supportively to such a demonstration of genuine commitment to attaining free trade in reality rather than the theatre of signing trade agreements with outward compliance while not subscribing to their true spirit.

Institutional Development

With its hybrid economy and wide array of economic players – with all the conflicts of interest, influence peddling and anti-competitive practices that that entails – Myanmar must develop institutions to create an enabling environment for business development characterized by free and fair competition. Exceptions could be considered where competition is wasteful and unnecessarily duplicative (as in certain utilities and infrastructure) but even in these cases good regulation of private monopolies often leads to greater efficiency than State provision.

As a low income low technology economy regulation of the private sector can be rudimentary and this can contribute to international competitiveness and so stimulate investment from at home and abroad. Regulation can also be after the fact – mistakes can be made provided remedies are provided – rather than regulating for every possible eventuality which stifles business development. Deregulation is also the principal channel for liberating the bureaucracy from its capture by rent seekers. And the saying "less can mean more" can be applied to government in general. For example, although an improvement on earlier conditions it still takes 3-6 months to register a company in Myanmar when this technically could be done over the internet in a few minutes.

Industrial Policy

Industrial policy (IP) is a government-sponsored economic program in which the public and private sectors coordinate their efforts to develop new technologies and industries. Government provides the financial support and capital to the private sector by direct subsidies, tax credits, or government-run developmental banks. Industrial policy emphasizes cooperation between government, banks, private enterprise, and employees to strengthen the national economy. Many successful Asian economies have used IP to increase their rate of industrial development.

In Myanmar, however, there are many limits to State capacity which mainly arise from the country‟s long period of isolation and the inward looking and State-led approach to development pursued for most of the time over the last half century. This has had severe deleterious consequences for both national administrative and economic capacity. The problem is that the government has been too overbearing and control-oriented so that private sector development has been arrested. The idea, for example, that the government is equipped to pick winners and give these industries special promotion is not credible for at least two reasons: first, that they lack

people with the international experience that would qualify them to make those strategic calls and, second, favoritism and nepotism trump merit most of the time.

In the short term, the government must take a back seat if it wants rapid industrial development, permitting a private sector-led approach while adopting a supportive role based on developing the enabling environment that promotes private sector investment. Even the provision of essential infrastructure should be placed in the hands of the private sector for greater efficiency, unimpeded by SEEs. The State should only be in areas not feasible for the private sector. Only after success with "making markets work", should the government consider more interventionist policies and even then taking their cue from the private sector. For example, the areas of manufacturing that attract the most FDI may reveal something about the country"s comparative advantages and these industries could then be targeted by government for special assistance that will further strengthen their international competitiveness.

Special Economic Zones (SEZs)

The Myanmar Special Economic Zone Law was promulgated by SPDC on Jan 27th 2011 to attract more foreign investment to the country with an unprecedented package of benefits. The new SEZ law defines three specific zone types: special economic zones, export processing zones and sub-trading zones. According to Chapter Five, Article 17 of the law – "Special Privileges of Investor" – investors will benefit from income tax exemptions for five years after starting an export business and pay just 50 per cent of taxes for the following five years. Investors who reinvest export profits in the zone can apply for a further five years of 50 per cent tax relief. Moreover, after the expiration of the previous tax exemptions, large-scale businesses that are able to export more than 50 per cent of their products within a year can apply for tax exemptions for that year under Article 18 of the law. (Medium- and small-scale businesses must export 60 and 70 per cent of their goods, respectively, to qualify for the same exemption.)

Export-oriented enterprises can also apply for exemptions from commercial taxes and value-added tax (VAT) for their export items, while imports of raw materials, machinery and equipment are eligible for exemptions from customs duties under Articles 23 and 24 of the law.
Companies importing machines and motor vehicles will be exempt from paying customs duties and other revenues for the first five years, and will receive a 50 per cent reduction for the next five years. The law also gives enterprises set up outside of export processing zones the right to apply for tax exemptions, but only if they are operating within an SEZ. Also, the law allows business enterprises within the SEZ to open bank accounts in any bank without specifying whether the bank is national or foreign. Chapter Eight, Article 38 of the law – "Banks and Finance Management and Insurance Business" – states: "The businesses which operate in foreign currency in the Special Economic Zone shall have the right to open foreign accounts with any bank and carry out the matters of receipt and payment in foreign currency in accord with the stipulations."

Although the law gives a number of benefits and rights to the business entities operating in the SEZ, they are entitled to exercise them only within the specified area. The law carefully distinguishes between SEZs and the rest of the local market through separate administrative procedures as well as income tax and revenue walls. The last chapter of the law guarantees that the government won't nationalize businesses in the SEZ "within the permitted period." Three

levels of administrative bodies – a Central Body, a Central Working Body and Management Committees – will be formed to govern and manage the SEZ. SEZs are planned for Dawei, Kyaukpyu, Thilawa, Mawlamyine, Pa-An and Pyin-Oo-Lwin.

The new SEZ law raises a number of issues. While it provides favorable terms for foreign investment, foreign investors will also be concerned about the general conduct of policy, particularly on the exchange rate. Foreign investors will also need to feel confident that the law wonʻt suddenly be amended and the rules changed. Repatriation of profits is a particularly important issue for them. Also, the question of backward linkages to the economy is ambiguous and foreign investors will want to feel confident that government will approach these issues in a pro-business way. Many foreign investors will want to develop some production for the local market and also develop backward supply linkages with local companies to develop local lower cost sources of components and other inputs. The foreign investors will also want to be reassured that these relationships will not be subject to predatory intervention by government officials.

While the new law gives advantages to foreign investors it does little or nothing for local companies who still have to endure a hostile business environment. It also puts existing foreign investors in the 18 or so industrial zones at a distinct disadvantage unless they bear the expense of relocating to a SEZ. Local companies will be unable to compete with the foreign companies in the SEZs in regional and world markets and instead will be consigned to the limited local market. The SEZ law is clearly a positive step but the government needs to give priority also to the improvement of conditions for its own SMEs who should be encouraged to focus on exports for growth where possible. The government should have the goal that the favorable environment enjoyed by companies in the SEZs, particularly regarding import-export and financing and international payments, should quickly be extended to *all* companies, domestic and foreign, that operate in Myanmar.

Having established terms and conditions for foreign investors to enter Myanmar, the government needs to identify the type of foreign investor it most wishes to attract and think how such firms can be attracted. It particular it should identify and target world class MNCs that can make "anchor investments" that provide the nucleus of new industries around which clusters of other foreign and local firms can locate. For example, Toyota could be courted to invest in the Mandalay area where a rudimentary pool of automotive skills already exists and they could establish the beginnings of a competitive car industry that one day could match that which exists in Thailand and Indonesia. And so it could be in many other industry sectors such as consumer electronics or household products. With the right policies and infrastructure provision there is no limit.

Infrastructure Development

In the modern supply chains where production is dispersed across national boundaries transportation and ICT infrastructure is at a premium. Electric power is also considered again below since it is also critical to manufacturing operations.

Information and Communications Technology (ICT)
To entrust ICT provision to a SEE monopoly the country is committing *hari kari*[30] in terms of establishing international competitiveness for rapid industrial development. Myanmar has only one million installed fixed lines (2009) and coming into 2010 the country‟s fixed-line penetration is still less than 2 per cent. Mobile subscriber growth at 25 per cent is from a low base and the reported 450,000 mobile subscribers early in 2010 still only constituted a penetration of 0.9 per cent. Mobile markets in Asia continue to experience rapid growth despite many countries being close to or over the 90 per cent penetration mark and the region has a combined total of close to 1.9 billion mobile subscribers. Internet penetration also continues to be disconcertingly low in Myanmar with accurate figures hard to obtain. Certainly, internet penetration was below one subscriber per 1,000 of population in 2010 whereas the region is leading the world in provision of broadband internet.

MPT apparently has plans to install 4mn new „lines‟ in the year from October and 30mn new „lines‟ over the next five years. However, extravagant targets set in the past have not been met. There is talk that two members of the Biz-15 are about to sign joint ventures (JVs) with MPT. Given the importance of the sector, clearly Myanmar needs a good telecommunications strategy for it to catch up with its neighbors, with a new regulatory framework for overseeing private firms working in the sector.

Transportation
Important transportation infrastructure is currently under construction. Construction of the deep sea port at Kyaukpyu on Ramree Island in Rakhine State and the construction of two pipelines, one for oil and the other for gas, and a service road, to Kunming in Yunnan Province in China, should be completed by 2013. A rail link should be finished by 2015. The Zawtika gas pipeline from Tanintharyi Division to Thailand will be completed by 2013. Construction of the deep sea port at Dawei – a 60-year Build-Operate-Transfer (BOT) concession granted to Ital-Thai, Thailand's largest construction conglomerate, complete with road and rail links to Thailand, does not have a completion date yet since reportedly only US$ 270mn of the US$ 8bn Phase I financing is currently in place. SEZs are also planned for Kyaukpyu and Dawei. To make the most of these major transportation infrastructure investments, and to make other complementary projects feasible, the government must give attention to improving the general business environment to boost investment from both domestic and foreign sources.

In time, once international relations are normalized, Myanmar can expect much more support from the International Financial Institutions (IFIs) in the provision of transportation infrastructure. ADB has advanced plans for such development in the greater Mekong sub-region (GMS) which includes the East West Economic Corridor (EWEC) which extends all the way from Danang in Vietnam to Mawlamyine in Mon State. While Myanmar is currently only granted observer status in this grand regional project once the donor boycott is lifted there will be significant funding made available which will in turn facilitate funding from the big international banks.

[30] Japanese ritual suicide by sword.

Electric Power
The total electric power generating capacity in the power grid system of Myanmar is now 2,255.9 megawatts (mw), generated from coal, natural gas and hydroelectric power plants. Nonetheless, Myanmar industrial users of electric power, and residential users, have long been plagued by brown outs (reduced voltage) and blackouts. This has badly hit industry since costs soar when diesel generators are used. However, the considerable improvement in the electric power supply to Yangon over the last year is because of completion finally of a gas pipeline from the Yadana field to Yangon that permits operation of a gas turbine at Hlawga.

Myanmar has invested heavily in hydroelectric power generation in recent years. Among the seven Maykha-Malikha valley projects at the confluence of the Ayeyawaddy River, the 4,100 mw Myitsone project and the 2,800 mw Chibwe project commenced in late 2009 are expected to be completed by 2016. And the construction of Myanmar's biggest hydroelectric power plant, Yeywa, has entered its final phase and one of its four turbines could start generating power soon. However, these hydroelectric power plants are predominantly FDI projects from China who build them, supply the generating equipment and take the electric power output to China. While it is good for the country to export electric power for hard currency revenues ample provision needs be made for domestic users if national industrial development is not to be impeded.

Industrial Development Strategy
Industrial development strategy can be considered with reference to the following four categories of industry: (i) export processing, (ii) import substitution industry (ISI), (iii) commodity processing and (iv) heavy industry.

Myanmar has an abundance of cheap labor and export processing is labor-intensive and will create many jobs. The trend that cheap labor from Myanmar is migrating to the benefit of other countries in the region should reverse as jobs are created domestically and Myanmar labor can then be put to the cause of national development. Export processing also places Myanmar on the first rung of the technology ladder. Export processing usually includes such industries as garments, fashion accessories, furnishings, gifts, handicrafts, home products, promotional merchandise, toys, sporting goods and travel goods. Such products are well within Myanmar‟s technological capability to produce and therefore make sense to be tackled first. Later, more technologically advanced production such as electronics can be targeted.

Drawing on the country‟s rich endowment of natural resources, commodity processing for value added rather than just exporting raw materials, for example, producing sawn timber or making furniture instead of just exporting logs, is another area of likely international comparative advantage. Also, the government needs to negotiate better agreements with foreign trade and investment partners where more value added is retained domestically (when such partners of course want to extract raw materials and let their own workforces add the value).

Industries established in the private sector under ISI in the 1990s can also explore export market opportunities once the complex trade and exchange regime which discourages exports is dismantled. These three categories of industry are populated by SMEs whose main strength is their flexibility to quickly respond to changes in market conditions, an attribute that gives them the potential to prosper in the often rapidly changing global market. These three sectors can also

entertain a smaller investment size. As discussed earlier, SME development is practically synonymous with private sector development. (The private sector non-SME group is „the Biz-15", the large scale family conglomerates with access to top power-holders. Some other large private businesses exist but are placed outside this biz-15 category because they lack privileged access, sometimes purposefully avoiding it.)

In contrast, heavy industry (and here including large scale infrastructure and utilities) because of its capital-intensive nature is not accessible to SMEs. The Biz-15, military holding companies and SEEs are therefore to be found in this sector, and mentioned in descending order of operational efficiency. Heavy industry is important for industrial development for the industrial foundations they provide for other industries, for example, domestic oil refining and other chemical industries can support the local development of engineering and household products. But they require high levels of investment and technical expertise. And such industries must meet international standards: the most efficient outcomes will stem from Biz-15 tie ups with foreign investors while the State takes a back seat.

So in all four categories the domestic private sector should play the leading role, supplemented by FDI from MNCs who bring technical knowledge, management know-how and systems, capital and access to foreign markets. Although SMEs account for the greatest contribution to manufacturing and processing GDP their large number, and their geographical and industry sector dispersal precludes them from exercising influence with policy-makers. However, their fortunes may be about to improve as the Biz-15 realize that their own interests are aligned with those of the SMEs, and they do have access to power-holders.

THOUGHTS ON SUCCESSFUL REFORM IMPLEMENTATION

Articulation of the Vision: Outward Orientation and Private Sector-led Development

There are apparently over 400 laws that existed under SPDC which need to be reviewed by the upper and lower houses of the new legislature. Also certain critical laws are being rationalized, for example, the Foreign Investment Law (1990) will be consolidated with the Myanmar Citizens Investment Law (1990). This is obviously a major task and under this huge burden errors in drafting are inevitable. Even once the new laws are passed they will have to be interpreted by numerous ministries and government departments who will add their own layers of rules and regulations. Thus in spite of the president"s best intentions to implement an economic reform agenda, there is the risk that the private sector will be buried under a morass of new rules and restrictions. With often overlapping and contradictory stipulations that render compliance impracticable, the new rules could give rise to even more rent seeking as "exemptions" granted by officials become even more necessary for business survival.

To help combat this, the president should articulate clearly the new vision. This is necessary for building consensus and support for the changes within the State bureaucracies and to encourage flexibility amongst administrators so that they can act in line with the spirit of the changes and not be obsessed with the letter of the law in all its details. So what should the most fundamental message be?

The message should be that the economy is now the top priority and that to achieve success it is necessary to adopt "outward orientation" and a "private sector-led" approach. And it should be stressed that this is in contrast to the emphasis placed in the past on national self-reliance and State-led development. Yes, the country is going to "open up" and yes, the State is going to get out of the way of private business development. Unlike investment by the State, investment in the private sector is voluntary and the president needs to pay attention to the need to build business and investor confidence, both domestically and internationally. This is what will determine future rates of investment which determines the rates of economic growth achieved. And building public credibility for the new government and for its economic reform program is an essential part of that process.

The Winning Coalition: Private Sector Big Businesses and SMEs

After the new president made his first speech when he mentioned the need to combat corruption and business cronyism there were people in and close to the government who felt that the president was a little premature to speak out in public on these issues. There were even members of the Biz-15 who thought he was talking about them!

We have already established that the president‟s greatest challenge does not arise from policy formulation capacity for the economic reform agenda but from implementation capacity. Myanmar‟s economic success is predicated on SME success, particularly in the export sector, and that hinges on a general improvement in the business environment, as well as of course on supportive monetary, fiscal, trade and industrial policies, and on infrastructure investments. However, the very administrators charged with the task of creating an enabling environment for SME development are required to reduce the scope of their role in government when it is not in their immediate personal interests to do so. While some can be won over by the intellectual arguments there are others who will not be impressed. These same factors also apply to State and quasi-State economic agents – the SEEs and the military holding companies. By holding various seminars the president is demonstrating the fact that the political will for change exists at the top of government but to what extent will that permeate downwards? Not only that, but there are elements at the top of government who do not apparently share the president‟s desire for fundamental economic reform and far-reaching changes. For example, the vice-president, U Tin Aung Myint Oo, is thought to have very different priorities to the president. So, in short, the president is faced with a gargantuan task and he needs all the friends he can get. In particular, he needs to win over powerful people who have the ability to undermine him and derail his progressive program.

Enter the Biz-15. These wealthy and powerful men have long-standing relationships with key members of the country‟s ruling class. They understand that the way to make the really big money, and to "walk tall" in the region, is to build, own and operate important infrastructure essential to establishing international competitiveness for the SMEs in a new and vibrant export sector, and that they also have a lucrative role to play in guiding in the MNCs‟ FDI. They know that if this is going to happen they have to support the establishment of a greater degree of rule of law and that their affinity for "sweetheart deals" in the short term needs to be tempered in favor of positioning themselves for "the big win" just around the corner when the country opens up. Not only this, but the Biz-15 must carry their patrons with them as well. The Biz-15 are important potential agents for change.

Implementation of the economic reform agenda will take time, but at the same time reform momentum needs to be built up and sustained otherwise the forces of inertia in the State bureaucracy will overwhelm all initiative. Through their agile mobility around the power salons of Nay Pyi Taw, the Biz-15 can raise the rate of change that is acceptable to the ruling class without triggering damaging reversals. It is this that provides the economic justification for the Biz-15 to vastly increase their personal fortunes because their efforts will allow the country‟s 60mn people to *all* come up. (Biz-15 readers should see Appendix I again).

A dynamic private sector consisting of a Biz-15-SME alliance with clearly demarcated responsibilities – the SMEs growing rapidly in a flourishing export sector while the Biz-15 enable them through efficient provision of infrastructure and astute management of power-holders and MNCs – may prove to be the defining characteristic of Myanmar‟s new found and sustained prosperity.

The Government's Role Redefined

The new civilian government has already demonstrated that it has quite a different style from the military government that preceded it. For one thing, it has demonstrated the desire to consult with the people who would be impacted by its policies. Civilian politicians in a democracy subject to regular elections know that they will be judged on results. Delivering results will be less about show-casing localized achievements and more about making real changes that deliver broad-based prosperity.

The government needs to pay more attention to the enabling environment, which consists of government regulations and institutions that facilitate the operation of business and the economy. It includes the basic institutions such as government, rule of law, efficiency of capital and labor markets, ease of setting up or shutting down businesses. It also includes the ability of the government to create consensus and the ability to help people who fall through the cracks in the system. The enabling environment is also important to increase domestic private sector investment.

The government will play less and less a direct role in the economy but will act as an enabling agent for others to generate wealth, which they then tax. They will focus on providing a regulatory environment that produces the most economically beneficial and equitable outcomes. In their role as guardians of the public interest they will build institutions that do not rely on the exercise of personalized power in order to be effective. And they will provide services to those people who cannot be profitably served by the private sector, such as the provision of affordable transportation, health and education in rural areas.

PART III – RECOMMENDATIONS

SOME RECOMMENDATIONS TO KEY STAKEHOLDERS

The Government of Myanmar

1. If the government is to avoid the perils of the „resource curse" rapid industrial development needs to be prioritized in national economic strategy and backed up by talk (see 4 below) *and* concrete action.
2. In the national interest, the government and the political establishment must temper their nationalism since foreigners have an important role to play in national economic development. The nation needs their knowledge and expertise, their technology, their goods and services, their capital and access to their markets.
3. Although the successful economies of the Asia Pacific region have varied in their economic strategies, for example, in their utilization of FDI or in their openness to imports, there are two precepts that underscore all of their approaches: adoption of "outward orientation" and "private sector-led" development.
4. The government needs to articulate its vision for rapid industrial development through "outward orientation" and "private sector-led" development for three reasons: first, to distinguish itself from the unsuccessful policies of earlier governments that have favored national self-reliance and State-led development; second, to establish credibility for its program when success hinges on increasing private sector investment which is voluntary; and, third, to provide an overall conceptual framework within which all subsequent policies are formulated and to help citizens understand the new program.
5. Monetary, fiscal, trade and industrial policies along with a review of national infrastructure requirements all need to be consistent with each other and the new vision.
6. Outward orientation and success with manufacturing exports requires the establishment of a single, realistic and competitive exchange rate. So the government needs to address Kyat strength and unify multiple exchange rates as a priority as part of macroeconomic stabilization as well as to establish greater openness to foreign trade and investment. In talks with the IMF in the second half of October, the government should seek early initiation of a program for exchange rate unification, that is, not to procrastinate by citing the need for stabilization funds that come with political strings attached that the government can"t meet, because delays on this economic issue will severely damage government credibility.
7. Kyat strength can be addressed by suspension of the "export first" import policy, the elimination of all levies on exports, by reducing interest rates and by CBM intervention in the market by buying US dollars with Kyats which are supplied either by monetary creation or by using the proceeds from Kyat bond sales, so adding to foreign reserves which can subsequently be used to defend the Kyat if it later overshoots on the downside.
8. The government needs to draw up a plan for phasing out import and export permits on most items, perhaps behind temporarily resurrected tariff walls, and AFTA compliance by 2015 needs to be reviewed.

9. To moderate Kyat budget deficits, SEE losses need to be curbed. SEEs should be incorporated and granted greater financial autonomy so they can be run on a more commercial basis and prepared for privatization.
10. The tax structure needs to be simplified and revenue collection made more consistent.
11. Financial sector development, particularly of the private banks, needs to be prioritized to raise the savings rate and increase the efficiency of intermediation of savings into investment. Capital adequacy ratios could be relaxed and restrictions on numbers of branches lifted. Capital markets development and the role for foreign banks also need attention. The State banks monopoly on foreign exchange transactions must be relinquished.
12. To foster "private sector-led" development the government must focus on improving the business environment for SMEs; (SEZs do little for them, at least in the short term). This includes addressing the "enabling environment" which includes fostering free and fair competition, institutional development and the establishment of the rule of law.
13. The government needs to target FDI from the world‟s leading corporations that have the capability to establish the nuclei of new industries. As the MNC seeks to develop backward supply linkages for their export platforms to source more components more cheaply locally, clusters of SMEs can develop their capabilities and new industries of local firms can flourish.
14. In the light of export promotion there must be a critical review of infrastructure requirements. The government should allow the private sector to build own and operate (BOO) infrastructure. ICT infrastructure is far too important an area to entrust to the MPT State telecommunications monopoly and a regulatory framework for private sector participation needs to be drawn up. Reliability of electricity supply is essential for local industrial development and only surpluses should be exported. The benefits to Myanmar of infrastructure investments by China and Thailand can be maximized if the business environment for SMEs is transformed and higher capacity utilization rates will improve the feasibility of other infrastructure investments as well.
15. The government needs to focus on creating sustainable jobs so labor-intensive export processing should be targeted. However, encouraging commodity processing and reorienting ISI to export markets makes sense as well. But the government should resist temptation to pick winners – it does not have the capacity – but it can later take its cue for industrial policy from the industries that attract the most FDI.
16. The government should make it easier for foreigners to work in the country or to visit. The reintroduction of visas on arrival for tourists – currently only available to customers of the privately owned Myanmar Airways International (MAI) on the Siem Reap-Yangon route – should be unproblematic.
17. With the military having withdrawn from many aspects of government they should now aspire to becoming a professional army and consider their withdrawal from economic activities.

The Private Sector

1. SMEs should take full advantage of the new government‟s willingness to consult with the business community in the formulation of policy and the drafting of laws by working with civil society organizations such as the UMFCCI, MIA and other trade associations.

2. More members of the Biz-15 should take on civil society responsibilities so the nation can take advantage of their talents. They can become leaders of the business community as a whole rather than merely patriarchs of family owned conglomerates. They have a role to play in establishing good institutions and governance and a better business climate.
3. Biz-15 members can benefit from having a policy perspective that positions them for "the big win" when the country opens up. It is in their own financial interest to see beyond the short term "sweet heart" deals.
4. Biz-15 members should never forget that their prosperity takes place within a social context. Just as the Wall Street and City bankers in the world economy are discovering, actions have consequences and the abuse of wealth and position is only tolerated by society to a finite degree.
5. Biz-15 members need to consider the skill-set they will need to prosper in the new era. They will need to establish relationships with giant international banks to fund their major infrastructure projects and they will need to work with some of the world‟s finest MNCs to facilitate high quality FDI into the country.
6. Biz-15 members should discuss together how they may benefit from a supply chain manager undertaking a major study to identify the policies, processes and investments necessary for the development and integration of a nascent export processing sector in Myanmar into the China-centric Asian supply chain to rich country markets. The study would include a review of the major infrastructure projects needed which they would likely undertake. Biz-15 members would have to show some enthusiasm for such a study and commit to making themselves available to visiting researchers so that international donors can justify the funding.
7. Biz-15 members may wish to consult with their political patrons and assuage them of the concerns they may have about a quantum scale-up of Myanmar‟s economy by tapping global sources of capital and expertise.

Civil Society[31]

1. Under socialism the government proved to be inept in promoting citizen welfare. Under "private sector-led" development the government will play a reduced role in the creation of wealth but correspondingly an enhanced role is required of civil society to safeguard the public interest and promote general welfare.
2. Civil society has a critical role to play in developing corporate social responsibility (CSR) when business ethics and environmental responsibility, for example, can suffer in the headlong dash for modernization and growth.
3. Civil society also has an important role to play in State business relations (SBR). When the State and business fail to cooperate, or engage in harmful collusion, economic activity centers on wealth creation for the few rather than the many. Civil society can monitor and

[31] Civil society refers to those institutions and groupings composed of individuals banded together for a common purpose with the objective and capacity to act or advocate autonomously from government for the common good, however defined and over how large a clientele – national, local or specialized. These organizations are generally not for profit but they include those that support the business sector such as chambers of commerce and trade associations. This is a narrow working definition suitable for the Myanmar situation drawing on David Steinberg, A Void in Myanmar: Civil Society in Burma, 1999.

promote better SBR that lead to a more efficient allocation of resources and help remove obstacles to growth so that wealth creation is both more efficient and equitable.

4. Civil society should work together with government to develop institutions to create an enabling environment for business development characterized by free and fair competition.
5. The UMFCCI, the MIA and other trade associations should continue to help SMEs lobby for the removal of SME growth constraints and they should not be reticent about calling on international civil society for assistance.
6. Through policy advocacy civil society organizations may contribute to more efficient institutions, rules and regulations which could reduce the costs and risks faced by firms and enhance productivity. They can also work with the media to understand when SBRs are of the collusive type and when they are developmental. Civil society can lobby for further relaxation of media censorship.
7. The UMFCCI and MIA can also provide a bridge between the Biz-15 and SMEs whose fates are intertwined. They can inform the Biz-15 about SME needs; the Biz-15 can then use their intimate access to power-holders to influence policy in favor of an improved business environment for SMEs from which they themselves will be beneficiaries.
8. The supply chain manager‟s study is about demonstrating the potential in a Biz-15-SME alliance: the creation of a dynamic export processing sector populated by SMEs integrated into the China-centric Asian supply chain while the Biz-15 provide the necessary modern infrastructure. So UMFCCI and MIA should use their access to Biz-15 members to enlist their support for, and participation in, the study. The Biz-15, for their part, can ensure that power-holders receive a full briefing on the policy recommendations of the study.

The International Community

1. Civil society is an important source of pluralism in society and arguably a critical element of democracy. The international community should therefore support civil society development in Myanmar.
2. More specifically, the international community should support local civil society working for an improvement in the enabling environment for SMEs.
3. The international community should fund the study by the supply chain manager because it promotes SME development which is virtually synonymous with private sector development. This will promote rapid industrial development in Myanmar that will produce high rates of economic growth and poverty reduction and introduce new dynamics such as growth in an educated middle class that will be supportive of democratic development.
4. More generally, the international community needs to take cognizance of how economic development and improvements in governance, including democratic change, go hand in hand and are mutually reinforcing. The new government assuming power in Myanmar under a new constitution has prompted a divided response. Asian countries for the most part have expressed their support for the new arrangements while the western powers have withheld judgment pending further developments. Sanctions and the donor boycott remain in place. A detailed analysis of the new political dynamics in Myanmar is beyond the scope of this paper but failure to appreciate that a real change has occurred is erroneous. Clearly, the international community needs to develop a better informed and

more nuanced view of Myanmar. And all stakeholders need to work together to break out of the stasis that has characterized the country‟s politics, both internal and external, for the last twenty years.

5. Last year the USA moved to a coercive foreign policy approach to Myanmar + engagement, clearly a step in the right direction, but the abandoning of the coercive approach is going to take time, especially if the Myanmar government doesn‟t make the sensational concessions that captivate international media that allow western politicians to publicly justify a policy reversal. However, that is not to say that the international community can‟t take some preparatory initiatives in the meantime.

THE WAY FORWARD

The new government led by President Thein Sein has now concluded its first six months in power and all stakeholders eagerly await developments. Although the presidential clique is reform minded, after over fifty years of direct and indirect military rule the same might not be said of the political establishment as a whole, of course. However, a new space has been created whereby flexible and imaginative players can hope to have a positive influence on events. There are now more openings for policy advocacy than at any time over the previous twenty years.

The international community can get behind the positive trends in the country by supporting and strengthening civil society development. This can be achieved through an array of programming outside the scope of this paper. However, at this juncture there is the opportunity to achieve a more immediate breakthrough. All the ingredients are there but it needs a facilitator. There are reform-minded serving and retired military officers in top positions of State power. There are others who are more cautious in their outlook but who are open "to doing the right thing". There are members of the Biz-15 of very high business acumen – much the equal of the "Lords of the Rim"[32] – and who want to amass fortunes comparable to their counterparts in the region. And more and more Biz-15 members will join the cause as the new direction becomes established. They in turn will influence their political patrons. And there is the multitude of SME entrepreneurs who survive in one of the most hostile business environments on earth who are just waiting for someone to fire the starting gun. And there is the extra-parliamentary opposition leader, Daw Aung San Suu Kyi, in talks with the government and declaring that she will do what is in the best interests of the Myanmar people. Her potential role in Myanmar politics is predicated on her leveraging her ability to get sanctions lifted much more rapidly than would otherwise be the case. She can do this because her worldwide fame as a pro-democracy icon grants her instant media attention that permits her to appeal over the heads of western politicians and directly to their constituents. Few western politicians would want to incur her wrath.

But the cost of Myanmar politics has hitherto been high in human development terms. If stakeholders can be brought together around a study which has the potential to illuminate the future economic development path for the country, perhaps for decades, then perhaps some good will have been done. And this paper would have made a small contribution to the way forward.

[32] A reference to Sterling Seagrave‟s 1995 study of the billionaires of the Asia Pacific region.

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Appendix I: Richest South East Asian People Ranked by Net Worth in 2010

Rank	Name	Age	Country	Worth (USD)	Residence
1	Robert Kuok	86	Malaysia	12 Billion	Hong Kong
2	Robert Budi Hartono	69	Indonesia	11 Billion	Indonesia
3	Ananda Krishnan	72	Malaysia	7.2 Billion	Malaysia
4	Susilo Wonowidjojo	54	Indonesia	8.0 Billion	Indonesia
5	Ng family	NA	Singapore	7.8 Billion	Singapore
6	Dhanin Chearavanont	71	Thailand	7.0 Billion	Thailand
7	Eka Tjipta Widjaja	87	Indonesia	6.0 Billion	Indonesia
8	Khoo family	NA	Singapore	5.9 Billion	Singapore
9	Henry Sy	85	Philippines	5.0 Billion	Philippines
10	Lee Shin Cheng	71	Malaysia	4.6 Billion	Malaysia
11	Chaleo Yoovidhya	78	Thailand	4.2 Billion	Thailand
12	Charoen Sirivadhanabhakdi	66	Thailand	4.15 Billion	Thailand
13	Lee Kim Hua	81	Malaysia	3.9 Billion	Malaysia
14	Quek Leng Chan	69	Malaysia	3.85 Billion	Malaysia
15	Teh Hong Piow	80	Malaysia	3.8 Billion	Malaysia
16	Arun Pudur	33	Malaysia	3.65 Billion	Malaysia
17	Wee Cho Yaw	81	Singapore	3.6 Billion	Singapore
18	Kuok Khoon Hong	61	Singapore	3.5 Billion	Singapore
19	Richard Chandler	52	Singapore	3.4 Billion	Singapore
20	Kwee Brothers	NA	Singapore	3.3 Billion	Singapore
21	Martua Sitorus	80	Indonesia	3.2 Billion	Indonesia
22	Anthoni Salim	61	Indonesia	3.0 Billion	Indonesia
23	Chirathivat family	NA	Thailand	2.9 Billion	Thailand
24	Sri Prakash Lohia	58	Indonesia	2.65 Billion	Indonesia
25	Low Tuck Kwong	62	Indonesia	2.6 Billion	Indonesia
26	Yeoh Tiong Lay	80	Malaysia	2.5 Billion	Malaysia
27	Peter Sondakh	58	Indonesia	2.4 Billion	Indonesia
28	Putera Sampoerna	63	Indonesia	2.3 Billion	Indonesia
29	Aburizal Bakrie	64	Indonesia	2.1 Billion	Indonesia
29	Lucio Tan	71	Philippines	2.1 Billion	Philippines

Source: Wikipedia