ASEDPNO. 60

# INDUSTRIAL DEVELOPMENT IN MYANMAR: PROSPECTS AND CHALLENGES

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ISBN 4-258-55060-4 C303.'

# INTRODUCTION

by
Toshihiro Kudo

Myanmar is still a predominantly agricultural country. The agricultural sector employs more than 60 per cent of the labor force and contributes about 50 per cent of GDP. Myanmar did not undergo meaningful changes in industrial structure in the last forty years. On the contrary, its neighbors have progressed far ahead during this period and had joined the "East Asian Miraculous" circle.[1] They have changed the industrial structure of the economy; the agriculture component in GDP has been deliberately scaled down while simultaneously increasing the contributions of industrial development to GDP.

Industrialization is an essential element of the whole development of a country. Among the newly independent Third World countries after the World War II, there was a craving for economic growth through industrialization. Economic development had often been equated with the progress of industrial sector. Independent Myanmar also shared the similar aspiration for a modem industrial country.

However, economic development as well as industrialization in Myanmar was suddenly held hostage by the Burmese Way to Socialism, which was introduced by Ne Win's Revolutionary Council in 1962. Casting a side-glance at its neighbors' endeavors toward economic development and industrialization, Myanmar had closed its door to the rest of the world for a quarter of a century. In so doing, it had missed precious opportunities to develop into a modem industrialized country for decades.

Myanmar was released from the grips of the 26-year-long socialism in 1988. As soon as the present government took over power, they abandoned the Burmese Way to Socialism, opened its door to the world, and embarked on the laborious task of transition from centrally planned economy to a market-oriented one. Myanmar had strived to take the second chance to develop into an industrialized economy throughout the 1990s.

[1] See World Bank, ***The East Asian Miracle: Economic Growth and Public Policy*** (Oxford: Oxford University Press, 1993).

More than a decade has passed since the task of transition started. It is high time to look back at the progress of the past and envisage the future challenges of economic development in general and industrialization in particular. The aim of this book is, therefore, to examine Myanmar's industrial policy, performance and structural changes during its transitional period of the 1990s. In addition to a macroscopic overview, detailed description and analysis are presented on important sub-sectors including textile and garment industry, wood-based industry, machinery industry, and food processing industry.

Due to serious lack of publicized data on industries in Myanmar, we had to be dependent on our own field surveys as well as discussions from business circles. For that reason, some explanations in this publication may be lacking in statistical evidence. Nevertheless, considering the extreme paucity of information on industrial sectors in Myanmar, the editor hopes, this book may well serve as a basis for further discussion.

The structure and summary of each chapter are presented as follows.

***Chapter 1*** [Transformation and Structural Changes in the 1990s] outlines a series of liberalization programs implemented under the present government (SLORC/SPDC), and assesses the impact on industrial changes and performance. References are also made to previous governments' policies including socialist one when relevant. Based on such analysis, this chapter draws policy implications, to both the government and private sector. This chapter functions as an introductory chapter by providing an overview of policy changes and their impact on industrial structures in the 1990s.

***Chapter 2*** [Economic Reforms and Business Organization: Property Rights Approach] explains the influence of Myanmar economic reforms (changes in property rights and its structure) upon the behavior of economic organizations and their performance from the property rights approach. The property rights theory argues that there is a strong relationship between property-rights structure and performance of economic actors.

Myanmar has, like other countries, experienced different political and economic systems throughout its history. Under different political and economic systems, different property-rights structures exist. The different structures lead to different economic behavior of economic actors and influence their performance. In accordance with the property rights structure in the socialist era, the managers of the State Economic Enterprises (SEE) have no clear responsibility for their decisions and no effective compensation programs for their performance. This kind of property rights lowered the incentive and motivation of the managers and created agency problems. Though Myanmar government has modified the legal and organizational bases of the SEE to improve their performance, it is observed that this reform has been least successful in the state sector. The main reason is that the reforms of SEE make property rights relations more complicated than before and encourage opportunistic behavior of agents (managers), and another reason can be pointed out to the inefficient allocation of decision process among agents within the organization.

The ownership of private business was also complicated and ambiguous as the private ownership was strongly truncated by the state under socialism. In accordance with the economic reforms, property rights are more widely assigned (by the state) to the individuals or the private businesses. As a result, the improvement of the performance of private businesses can obviously be observed during the transitional period. The wider scope of private property rights leads to increased participation of private sector in various economic sectors and results in a significant growth of private sector. It can be considered as one of the main factors for the recent economic growth. However, some private property rights are still constricted by the state and complicated property rights will continue to be the most important obstacles to the growth of private businesses into the near future.

***Chapter 3*** [The Emerging Myanmar Entrepreneurs in the 1990s] examines the growth of entrepreneurship in Myanmar in the 1990s. Successful entrepreneurs contribute to the growth and development of the economies by establishing new enterprises, providing leadership and management, and using innovative and creative ideas. There is no doubt that new business established by entrepreneurs create more employment opportunities and new technological innovations, and help achieve high economic growth. The development of entrepreneurship, however, depends on mainly on the economic, social and political atmosphere of the nation concerned. History has proved that nations that support the growth of entrepreneurship by eliminating the barriers to the rise of private business enterprises have developed and prospered.

Myanmar has tried to mold her economy into a market-oriented one since 1988. It is now necessary to assess the growth of entrepreneurship in Myanmar, in the context of the progress of private sector. This chapter presents some of the dominant entrepreneurs of Yngon and other entrepreneurs of outstanding industries during the 1990s. Common characteristics of entrepreneurs are found in both cases but with different degree and spectrum. Consequently success in conducting business seems to be differed.

Since the outstanding industries i.e. food, textile and garment, wood-based and motor vehicle and repairs, hold the major portion in our industry sector and the size of the firms being smaller, special consideration should be given for promotion of these industries. These firms seem to have more barriers in conducting business. Thus, by way of giving entrepreneurial development training to upgrade the level of entrepreneurship in these firms may be one of the fastest ways to be on the right track of industrial development in Myanmar.

Indeed, the contributor of this chapter practices her recommendations and ideas in Myanmar. She is the professor and head of Department of Management Studies at Institute of Economics (Yangon), which provides the only MBA course in the country.

***Chapter 4*** [Textile and Garment Industry: Emerging Export Industry] looks at one of the most vibrant industry in Myanmar, Textile and Garment. In many developing countries the garment industry is a major contributor to the nation's economy in terms of employment and generating much needed foreign exchange and supporting industry for local consumption. Although Myanmar back in the late 1950 was regarded as the fashion shopping paradise the advent of the Socialist system saw this leading industry vanish. It was only in the early 1990s when the government introduced an open market economy system that saw the re-emergence of a garment export industry.

The reason that this industry came into being was due to the country underutilized allocated quota from the EU and US and Myanmar's comparatively low labor costs and easy start-up. The industry was first started up with the foreign firms who are major manufacturer in the region. These foreign firms drew interest from major buyers who are eager to capitalize on Myanmar quota. With more buyers looking into Myanmar, local entrepreneurs were able to set up small, medium and even large firms to cater for the niche high volume, high labor intensive products. The inertia was so great that in a matter of years local firms constituted 78% of the garment export firms in Myanmar with foreign firms only constituting 4%. There is a clear distinction between the abilities of foreign and local firms with foreign firms being better equipped, managed and supported by their large international network. Local firms were only able to look after low-end income, high labor intensive orders while foreign firms where looking after the higher end income orders.

Unfortunately as soon as the industry was ready to take off, Made in Myanmar products were starting to be boycotted by the major importing countries like the US and EU and the consumer resistance only grew stronger. The foreign companies were able to survive through its international network but local firms faced more difficulties in securing orders. To make matters worse the business environment for garment to import raw materials and export finished products became more bureaucratic and time consuming. The current situation for the garment industry is not favorable and its long term prospective looks dull with more problems than solutions.

All garment firms have the same sort of difficulties but the local firms' difficulties are harsher than the foreign and JV firms. The list is long and arduous starting from simple things such as regular power, difficulty in getting orders, staff turnover to lack of raw materials. Though Myanmar labor rate is one of the lowest in the world when comparing it's competitiveness with the rest of the region Myanmar end cost are similar when it could be much lower if there were supporting industries and more local raw materials. Myanmar in the early 1950s was well known for it's cotton industry though this industry was not developed more in the socialist era and local demand has to be supported by imports. There are good signs that production will increase in both quality and quantity, which will be enough for local demands, export and the chance for large textile mills to be set up which will lead to Myanmar being more competitive.

The next five years for Myanmar export industry will be it's most important with the removal of the quota system in 2004 and AFTA in 2005. If Myanmar industry does not solve the current problems it has it will not be able to compete because neighboring countries have better supporting industries and are more competitive. The only solution for Myanmar to export garment industry is for the industry itself to unite and take advantage of the government new five-year policy plan for industrialization. The objectives of the industry to work and motivate the government are quite clear and achievable and the industry must unite to ensure that the Myanmar export garment industry is able to compete in the worlds garment industry.

***Chapter 5*** [Wood-based Industry: From Import-Substitution to Export-Oriented] examines the Wood-based Industry in detail. Wood-based Industry in Myanmar is a promising industry with challenges. It is discernible that the Wood-based Industry is export-oriented industry. The high reliance on primary processing over the past decades indicates Wood-based Industry in Myanmar has only limited success in developing skilled, technological and capital intensive industries, such as secondary processing industries. Regarding the development of Wood-based Industry, most of industries are primary processing industries. The needs for development of secondary processing industry can be figured such as policy and strategy formulation, technology, human resource development, standard and quality control, transportation, finance and investment, trade and market, environment awareness. In recent condition, technology, trade and marketing of value-added product must be emphasized. The national entrepreneurs of Wood-based Industry have a difficulty in availability of low- priced finance besides technology and market. Given the poor state of Myanmar's internal capital markets, future access to small-package amounts of foreign capital will be essential for the achievement of growth targets. In the private sector, other factors conditioning growth of Wood-based Industry are availability of raw material, modem wood working machines, sound management and market penetration. All of scholars admitted that the strategy of forest export should be value-added product instead of log export. The private sector seems to be an engine of this sector. Even we have adopted a market-oriented economy, part of our economy is still planned and government involvement and expenditure in the forestry sector play a role in influencing development in the Wood-based Industry.

***Chapter 6*** [Machinery Industry: From Repair Workshop to Supporting Industry] deals with the machinery industry. Machinery industry started in Myanmar with support mainly from Japan in the formation of Heavy Industry Corporation (HIC) in 1962. After 1988, HIC was changed to Myanma Heavy Industries (MHI) and having received a cumulative sum of US$1.25b in grants and technical assistance. In 1990, MHI formed a joint venture company with Daewoo Electric Industrial Co. Ltd. of Republic of Korea. In 1998, MHI was reorganized into four industries and one directorate to promote the machinery industry together with local and foreign companies (Japan and Thailand).

Initial participation by private enterprises was limited to small jobs such as machine servicing, overhauling, repair work and spare parts. A handful ventured into the cloning /reproduction of foreign machines and tools. However with the passing of Private Industrial Enterprises Law in 1990, Promotion of Cottage Industrial Law in 1991, establishment of Myanma Industrial Development Committee (MIDC) and the development of industrial zones, private enterprise activities gained momentum. In 1998 it has 5,589 establishments (15.7 per cent of total manufacturing sector), employing 25,631 people (13.8 per cent of total manufacturing labor force).

Private enterprises employ an average of 5 workers each compared to the very high concentration of employment within the State sector. This divergent structure achieved little in terms of vertical integration because the more expensive, high quality machinery from Japan, West Germany and USA was dispersed to the State sector. Private enterprises had recourse only to the much cheaper versions of such machinery from China, Taiwan, Korean and ASEAN countries. With this lack of matrix linkage, the informal method of technology & design transferred from foreign firms played a more crucial role in the advancement of machinery industry among private enterprises. Little was spent as R & D expenditure.

Problems related to the further development of the machinery industry are not limited to this industry alone but are manifested throughout the manufacturing sector as a whole. Critical bottlenecks are lack of power supply, financing, foreign currency, iron and steel as raw materials. Other problem areas are human resource development of which inadequate supply of qualified technician and skilled worker, incapability to improve marketing capacity and deficiency in accounting & industrial management are more pronounced. Another emerging issue is competition within the machinery industry in terms of both quality and price. Other competition factors listed are after sales services and product range available.

External competition against both the emerging private enterprises and the established State sector comes from China, ASEAN countries, Japan and EU whose products are more superior in quality. Myanmar is still at its embryonic stage for the development of the machinery industry. Much has to be done by both the State and private enterprises to integrate their activities for overall industrial development.

***Chapter*** *7* [Food Processing Industry: Prospects and Problems] examines food processing industry. The continued high growth rate of the food processing industry in the Union of Myanmar is critically dependent on agriculture for its ready supply of raw materials. With the introduction of quality control steps to produce food items, prices of locally processed foodstuff are now similar to imported commodities. In addition to price competition, the local food items were able to meet seasonal requirements and demand for variety.

This was done through the upgrading of machinery and equipment owned by Chinese family based food-processing operations. In 1998, volume of processed food (K400b or US$1.23b at US$1 = K325) had actually doubled compared to the earlier 12 years. This was the result of 29,245 enterprises (55% of registered entities) engaged in food and beverages. Food processing industry is dominated by the private sector (98.53%).

However the industry has become heavily dependent on imported raw materials and machinery. The main constraint in furthering production is the irregular supply of electrical power and its recent 10-fold increase in tariff charged. The food processing industry will be more sustainable if it could value add local agricultural products, through the upgrading of plant and machinery for mass production, and the institution of a primary set of quality and management standards to match foreign methods.

The main engine of expansion will be its extremely cheap labor, continued access to foreign technology and lower transportation cost, which are the inherent advantages of a local food processing industry. The other advantage is its quick response to consumer preferences and its ability to provide longer shelf life (freshness) compared to imported food items. This can be achieved by placing greater emphasis on the importance of establishing adequate marketing and distribution channels.

***Chapter 8*** [Dual Technology in Industrial Development: The Role of the State] examines the problem of dual technology in developing economies. His message is simple and clear: Do not waste scarce capital. Myanmar needs to conserve scarce capital and maximize abundant labor while adopting new technology. Shortage of capital relative to labor means that wastage of capital must be avoided at all costs in both private (protected by tariff) and the public manufacturing sectors (low capacity utilization).

Intervention by the State is needed to conserve capital and save foreign exchange in order to leap frog into industrial development (upgrading of agro-processing such as rice, edible oil and sugar mills in the food and beverages) from 9% to 30% of GDR This is achieved through improvements in related laws, establishment of Myanmar Industrial Development Committee (MEDC) and development of industrial zones. Added efforts are necessary to ensure regular and stable supplies of electricity, raw material, labor, transport and financial assistance. The State should actively seek out promising SMIs, especially those with export potential, provide them with technical and financial assistance, in efforts to increase its base for foreign exchange earnings.

Chapter 1

# TRANSFORMATION AND STRUCTURAL CHANGES IN THE 1990s

By

Toshihiro Kudo

## 1. INTRODUCTION

This chapter depicts Myanmar's industrial policy, performance and structural changes in transition from a centrally planned economy to a market-oriented one in the 1990s. Since the military government took over power in 1988, it abandoned a socialist central-planned economic system and headed for a market-oriented one with a series of liberalization and deregulation measures implemented.

However, the impact of liberalization - of international trade, finance, regulations and licensing and ownership requirements - on industrial structure and performance in Myanmar have been poorly documented and analyzed. Whether the new government policies changed the industrial structure and organizational behavior and hence improved its performance or not, is a key issue for future industrial policy making.

This chapter tries to outline a series of liberalization programs implemented under the present government (SLORC/SPDC), and assess the impact on industrial changes and performance. References should also be made to previous governments' policies including socialist one when relevant. Based on such analysis, this chapter draws policy implications, if any, for both the government and private sector.

## 2. HISTORICAL CHANGES IN INDUSTRIAL POLICY

Industrialization is an essential element of the whole development of a country. Among the newly independent Third World countries after the World War II, there was a craving for economic growth through industrialization, i.e. from traditional agrarian economy to modem industrial one. Economic development had often been equated with industrialization. Independent Myanmar also shared the same aspiration for a modem industrial economy.

However, a glimpse at Table 1 clearly shows the underdeveloped situation of industrial sector in Myanmar, compared with those of neighboring countries. The country is rich in natural resources with a highly literate population, which are obviously a good sign for development prospects. Before World War II its economy was slightly larger than that of Thailand. Its exports reached $195 million, while Thailand's were only $76 million. Although Myanmar's economy was substantially devastated during the war period, most economic and development indicators show that it was not too far behind Thailand by 1950. Therefore, it was not at all unrealistic to be an optimist for Myanmar's economic prospects including rapid industrialization in the 1950s.

**Table 1 : Shares of Major Sectors in GDP**

(%)

| | Agriculture | | | Industry | | | Services | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1970 | 1980 | 1995 | 1970 | 1980 | 1995 | 1970 | 1980 | 1995 |
| Myanmar | 49.5 | 47.9 | 46.1 | 12.0 | 12.3 | 15.3 | 38.5 | 39.8 | 38.6 |
| Thailand | 30.2 | 20.2 | 10.9 | 25.7 | 30.1 | 42.2 | 44.1 | 49.7 | 46.9 |
| Indonesia | 35.0 | 24.4 | 15.9 | 28.0 | 41.3 | 42.2 | 37.0 | 34.3 | 41.9 |
| Philippines | 28.2 | 23.5 | 21.5 | 33.7 . | 40.5 | 35.5 | 38.1 | 36.0 | 43.0 |
| Malaysia | - | 22.9 | 13.9 | - | 35.8 | 47.1 | - | 41.3 | 39.0 |

Source: Asian Development Bank, *Asian Development Outlook, 1996 and 1997.*

Taking these historical facts as well as natural resources endowments in Myanmar into consideration, the main explanation for economic stagnation and dwarfed industrialization should lie in the government industrial policies that successive independent governments had adopted. Table 2 depicts a brief chronology of political economy of industrialization in Myanmar. It is clear that Myanmar governments had long clung to the control-oriented, or at least interventionist policy rather than utilizing market mechanism. (Table 2)

During the socialist period in particular, inward-looking growth strategy, nationalization (Burmanization) and import substitution had long been pursued. However, Myanmar's centrally planned economy, like other socialist countries, faced many obstacles and stagnant growth in not only industrial sector but also the whole economy. The socialist government relaxed some strict policies and introduced reforms of the State-owned Economic Enterprises along with prescription of commercial guidelines to improve their efficiency in the mid-1970s. Although its economy picked up shortly after

**Table 2 : A Brief Chronology of Political Economy of Industrialization in Myanmar**

| Period | Political System | Economic System | Industrial Strategy | Result |
|---|---|---|---|---|
| 1.1886-1948 | Colonialism | Laissez-faire Policy | Export-propelled "Agriculturization" | Foreign-dominated Industrial Sector<br>Poor-Spread Effect for Nation-Wide Industrial Development |
| 2.1948-1962 | Parliamentary Democracy | Moderate Economic Nationalism in the Framework of Market Mechanism | Raw Material-oriented Import Substitution Industrialization | Moderate Industrial Performance<br>Foreign-dominated Industrial Sector |
| 3.1962-1974 | Military Rule (Burmese Way to Socialism) | Command Economy, Radical Nationalism, Burmanization & Stem Isolation | Import Substitution Industrialization<br>Self-Reliant Line | Burmanization of Economy and Industry<br>Poor Economic and Industrial Performance |
| 4.1974-1988 | BSPP Rule (Burmese Way to Socialism) | Centralized Planning<br>Inward-Looking Policy with the exception of ODA Acceptance | Import Substitution Industrialization<br>Agro-based Industries<br>Inflows of ODA (mostly from Japan) | Poor Economic and Industrial Performance<br>Import-dependent Industries |
| 5.1988 to Present | Military Rule (SLORC/ SPDC) | Transition toward Market Economy | Agriculture-based & Export-oriented Industrialization<br>Inflows of Foreign Direct Investment | Economic Recovery<br>Gradual Increase in Foreign and Local Private Enterprises<br>Stalled Economic Reforms<br>Crony-Capitalization (?) |

Source: Based on Mya Than and Joseph L.H. Tan, "Introduction: Optimism for Myanmar's Economic Transition in the 1990s?" in Mya Than and Joseph L.H. Tan, eds., ***Myanmar Dilemmas and Options: The Challenge of Economic Transition in the 1990s*** (Singapore: ASEAN Economic Research Unit, Institute of Southeast Asian Studies, 1990), Appendix I, pp.14-15; and Maung Maung Lwin, "Industrialization of Myanmar and Economic Dynamism of Pacific Asia," ***Kaigai-Jijo Kenkyu (Studies on Foreign Affais),*** Vol.24 No.l (Kumamoto: Kaigai-Jijo Kenkyu-jo, Kumamoto Gakuen University, September 1996). The author does some changes. For example, the original division of the post-independence history is four, but the author demarcated the period between 1962 and 1988 into two eras. Some descriptions are also subject to author's changes.

such reforms, it could not be sustainable mainly due to the shortage of imported material goods. After 1983, the industrial production deteriorated again, and other economic difficulties such as high inflation, rising living costs and macroeconomic and monetary mismanagement including demonetizations in 1987 worsened the situation, which eventually led to the collapse of the socialist regime in 1988.

SLORC/SPDC officially gave up the establishment of a socialist economic system and started to promote a market-oriented economy. Two pillar laws were promulgated: the Foreign Investment Law (November 1988) and the State-owned Economic Enterprises Law (March 1989). The former resumed the intake of private foreign capital after 25 years' interval; the latter authorized private enterprises to be engaged in all but 12 stipulated industries. In addition to these, various reform measures were taken to promote the active participation of the private sector in the national economy. These include the decentralization of control of economic activities, the relaxation of price controls, the deregulation of export and import restrictions, the opening of border trade, the reduction of government subsidies, the announcement of full-fledged privatization of all State-owned Economic Enterprises, streamlining taxes and duties, the establishment of industrial zones, and the improvement of infrastructure (Table 3). Between 1988 and 1997, twenty-seven new business-related laws were promulgated including the above two. The military governments apparently committed themselves to the global trend *of* transition to market-oriented economy.

Nevertheless, can we be fully confident of the present government's commitment on transition to a genuine market economy, which guarantees level playing fields for every economic actor? This is a key question to consider the prospects for industrial development in Myanmar. However, before answering this question, let's have a look at impacts of economic reforms on industrial structure in the 1990s, with usage of some economic indicators. Without knowing the current situation, we would not be able to foretell future prospects in any way.

**Table 3 : Major Economic Reforms under the Military Rule**

| | |
|---|---|
| 1988 | * Introduction of Myanmar Investment Law |
| 1989 | * Decontrol of prices |
| | * Regularization of border trade |
| | * Introduction of State-owned Economic Enterprises Law delineating the scope of the state sector |
| | * Revocation of the 1965 law that established the socialist economic system |
| 1990 | * Introduction of Myanmar Tourism Law |
| | * Allowing 100 percent retention of exports earnings |
| | * Introduction of Private Industrial Enterprise Law |
| | * Introduction of the Central Bank of Myanmar Law |
| | * Introduction of Financial Institutions of Myanmar Law |
| | * Introduction of Myanmar Agricultural and Rural Development Law |

* Introduction of Commercial Tax Law

1991 * Initiation of industrial zones in Yangon
* Announcement of the Central Bank of Myanmar Rules and Regulations
* Introduction of Promotion of Cottage Industries Law
* Reestablishment of Myanmar Chamber of Commerce and Industry

1992 * Announcement to lease inefficient state-owned factories
* Announcement of denationalization of nationalized sawmills
* Announcement of the establishment of four private banks
* Introduction of Tariff Law
* Introduction of Savings Bank Law

1993 * Introduction of US$ denominated foreign exchange certificate (FEC)
* Introduction of Myanmar Insurance Law

1994 * Introduction of Myanmar Citizens Investment Law
* Licensing of representative offices of 11 foreign banks
* Introduction of Science and Technology Development Law

1995 * Announcement of the formation of Privatization Committee
* Announcement of permission to establish joint venture banks between local private banks and foreign banks (although not realized until now)
* Opening of the licensed foreign exchange center for FEC trading in Yangon

1996 * Permission given to local private banks to conduct foreign exchange business and to pay interest on foreign currency deposit
* Establishment of the Myanmar Securities Exchange Centre Co. Ltd., a joint venture between Japan's Daiwa Research Institute and the state-owned Myanma Economic Bank
* Introduction of law on development of computer knowledge
* Official rate of exchange for levying custom duties changed to K 100 per US$ accompanied by reduction of tariffs to a fraction of previous values

1997 * Announcement of paddy procurement through a tender bid system; but it was never implemented.

1998 * Announcement of leasing of fallow and virgin land for paddy and cash-crop cultivation or livestock breeding by private entrepreneurs including foreigners

2000 * Across the board increase of public sector salaries by 5-6 times to be in line with private sector wages

## 3. IMPACT OF ECONOMIC REFORMS ON THE INDUSTRIAL STRUCTURE

How did economic reforms including liberalization measures have an impact on industrial structure and performance? The impact and magnitude of economic reforms under the military governments have been thus far poorly documented and examined. Nevertheless, whether the new governments' policies have changed the industrial structure and organizational behavior, and hence improved its performance or not is a key issue for future industrial development in Myanmar.

One of major objectives of this volume is to answer this key question. While other chapters are also designed to answer the question, in this chapter the author will give readers an overview of transformation and changes in Myanmar's industrial sector throughout the 1990s by using some of official economic indicators.

### 3.1 Classification of Industries

When we try to examine structural changes in industries, we inevitably encounter the problem of industrial classification. In Myanmar, the Central Statistical Organization (CSO) has established the Burma Standard for Industrial Classification (BSIC) of economic activities in 1952 based on UN's International Standard for Industrial Classification (ISIC) of 1948. The BSIC also categorized industrial activities into three levels, that is Divisions (1 digit), Major Groups (2 digits) and Groups (3 digits). Each Division is as follows: 0 Agriculture, Forestry, Hunting and Fishery; 1 Mining and Quarrying; 2 & 3 Manufacturing; 4 Construction; 5 Electricity, Gas, Water and Sanitary Services; 6 Commerce; 7 Transport, Storage and Communication; 8 Services and 9 Activities Not Adequately Described. The Ministry of industry (1) seems to be revising the BSIC based on the ISIC of 1990. However, the new version of BSIC has not yet been utilized in any government reports.

Apart from the BSIC, the Ministry of National Planning and Economic Development has used another classification in compiling national income. This classification was revised and has been employed by the said Ministry for compiling an annual economic report called ***Review of the Financial, Economic and Social Conditions.*** According to this classification, all economic activities were classified into 14 sectors: Agriculture; Livestock and Fishery; Forestry; Energy; Mining; Processing and Manufacturing; Electric Power; Construction; Transportation; Communications; Financial

Institutions; Social and Administrative Services; Rentals and Other Services; and Trade.[1]

The Processing and Manufacturing sector is further divided into 13 commodity groups in the ***Review.*** Those are Food and Beverages; Clothing and Wearing Apparel; Construction Materials; Personal Goods; Household Goods; Printing and Publishing; Industrial Raw Materials; Mineral and Petroleum Products; Agriculture Equipment; Machinery and Equipment; Transport Vehicles; Electrical Goods and Miscellaneous.

### 3.2 GDP

Industrial structure can be defined in terms of the relative importance of individual industries, or groups of related industries, within an economy. One of the most frequent measures of an industry's importance is based on its production (value added or net output).

Table 4 shows the relative importance of different sectors in GDP. As mentioned above, 14-sector-classification is employed here. In addition to the problem of industrial classification, there is another issue whether we should use nominal GDP or real GDP when to see industrial structural changes. Nominal GDP is, of course, measured at current prices. If all prices doubled without any changes in quantities, then nominal GDP would double. Yet it would be misleading to say that the economy's ability to satisfy demands has doubled, because the quantity of eveiy good produced remains the same. Contrast to this, real GDP, which is the value of goods and services measured at constant prices of a base-year, would not be influenced by changes in prices. Since a society's ability to provide economic satisfaction for its members ultimately depends on the quantities of goods and services produced, real GDP, which summarizes the output of the economy measured at base-year prices, provides better measures of economic well-being than nominal GDP.

However, our main concern here is with changes in industrial structure, which presupposes changes in price structure as well. In this section, we will pay more attention to the relative importance of different sectors in nominal GDP, which also reflects changes in price structure.

The question of whether to use nominal GDP or real GDP to see structural

[1] Until FY1996 ***Review,*** 13 sectors were used for GDP statistics. Since FY1997 ***Review,*** "Energy" was added to become 14 sectors in full. However, the Ministry has stopped to issue ***Review*** thereafter.

**Table 4 : Relative Importance of Different Sectors in GDP**

| | 1985/86 (Nomkal-Rtbl | 1988/89 (Knioa)(GDP) | 1992/93 nominal GOP) | 1994/95 (nosriui! GDP) | 1996/97 (Pendiul GDP) | 1998/99 (Rovistonal) fmakulQDP) | (Real GDP)(NGDP) | CbmgciinSbar iNU3Med | (Real-Based) |
|---|---|---|---|---|---|---|---|---|---|
| Goods | 61.3% | 67.1% | 70.0% | 71.6% | 70.5% | 69.3% | 59.6% | 8.0 | -1.6 |
| Agriculture | 39.7% | 48.5% | 50.6% | 55.2% | 53.2% | 52.4% | 34.5% | 12.7 | -5.3 |
| Livestock & | 7.1% | 7.6% | 8.5% | 6.8% | 6.1% | 6.2% | 7.2% | -0.9 | 0.1 |
| Forestry | 1.4% | 1.2% | 1.5% | 1.0% | 0.8% | 0.5% | 1.0% | -0.8 | •0.4 |
| Energy | - | - | 0.2% | 0.1% | 0.1% | 0.1% | 0.2% | - | - |
| Mining | 1.0% | 0.7% | 0.4% | 0.4% | 0.5% | 0,4% | 1.6% | -0.5 | 0.6 |
| Processing and | 9.9% | 7.5% | 6.9% | 6.2% | 7.1% | 7.2% | 9.2% | -2.7 | -0.7 |
| Electric Power | 0.5% | 0.4% | 0.2% | 0.3% | 0.3% | 0.1% | 1.0% | -0.4 | 0.5 |
| Construction | 1.7% | 1.1% | 1.8% | 1.6% | 2.4% | 2.4% | 4.9% | 0.7 | 3.2 |
| Services | 14.8% | 12.2% | 7.4% | 6.9% | 6.8% | 6.8% | 19.3% | -8.1 | 4.5 |
| Transportation | 3.6% | 2.5% | 1.9% | 2.6% | 3.2% | 3.8% | 4.3% | 0.2 | 0.7 |
| Communications | 0.4% | 04% | 0.4% | 03% | 0.3% | 0.2% | 1.9% | -0.2 | 1.5 |
| Hnancial | 2.4% | 2.0% | 0.1% | 0.2% | 0.2% | 0.1% | 2.0% | -2.3 | -0.3 |
| SoSiarA | 4.6% | 3.9% | 2.7% | 2.1% | 1.4% | 0.9% | 6.8% | -3.6 | 2.2 |
| Rentals & Other Services | 3.9% | 3.3% | 2.3% | 1.8% | 1.8% | 1.7% | 4.3% | -2.2 | 0.4 |
| Trade | 23.9% | 20.8% | 22.6% | 21.5% | 22.6% | 23.9% | 21.1% | 0.0 | -2.9 |
| Gross Domestic Product | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 0.0 | 0.0 |

Notes: Real GDP is based on 1985/86 constant prices.
1998/99 provisional figures are as of July 1999.
Source: ***Review of the Financial, Economic and Social Conditions*** (various issues).

changes in an economy is particularly important with the case of Myanmar. We should notice that there is a large difference between nominal GDP and real GDP in shares of different sectors. Table 4 shows both of nominal GDP and real GDP in the base-year of 1985/86 and the latest year of 1998/99. While nominal GDP naturally equals real GDP in the base-year of 1985/86, there is a big difference between them in 1998/99. For example, while the agriculture sector occupies more than 50 percent of nominal GDP in 1998/99, it accounts for only about 35% of real GDP in the same year. Moreover, the agriculture sector decreased its relative importance in real GDP by 5.3 percentage-point between 1985/86 and 1998/99, whereas it increased its share in nominal GDP by 12.7 percentage-point during the same period. Similarly, the processing and manufacturing sector reduced its relative importance in real GDP marginally by 0.7 percentage-point, whereas it decreased its share in nominal GDP quite considerably by 2.7 percentage-point. According to the figures from nominal GDP, there occurs “agriculturalization” rather than “industrialization” during the last 13 years. On the other hand, according to the figures of real GDP, little change and transformation in industrial structure is observed.

Such differences between nominal GDP and real GDP are due to the differentiated rates of increase by the different sectors of GDP deflator. Figure 1 shows the indices of GDP deflator by different sectors, where the base-year of 1985/86 is set at 1. The GDP deflator compares the current price of a basket consisting of quantities of goods and services produced this year with the price of the same basket in the base-year. In other words, the GDP deflator measures the price of the typical unit of output relative to its price in the base-year.

It is often the case with transition economy from central-planned to market-oriented one that price structure undergoes a big change. As for Myanmar's case, the prices of agricultural produce and food, which had long been controlled at lower prices throughout the socialist period, jumped to the market prices by liberalization measures. The price hike of agricultural produce such as rice and vegetable is much higher than those of other sectors' products such as industrial goods, construction, transportation, and social and administrative services. The share of agriculture sector in nominal GDP has increased due to such effect of relative price hike, although its share in real GDP had decreased during the same period.

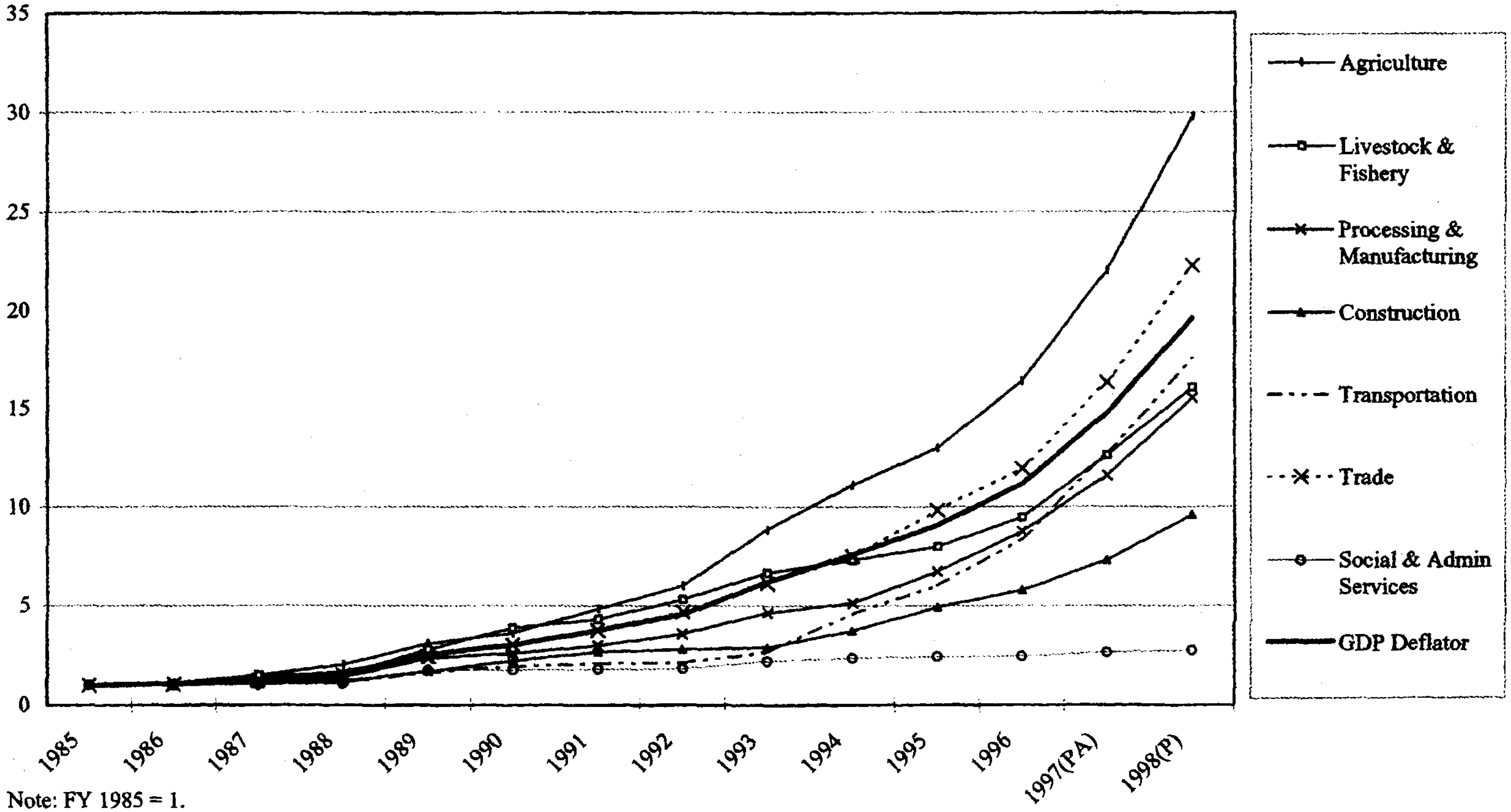
If it is further added, the 1985/86 base-year of real GDP of Myanmar is considerably outdated. We should note that an industrial landscape described by real GDP is based on the price structure of the heydays of the socialist era. As a conclusion, we should generally use nominal GDP to see the relative importance of different sectors in time series analysis. (Figure 1)

Bearing the discussion above in mind, let's see the table 4 for considering the structural change of the economy. When we look through the figures of nominal GDP, only the agricultural sector increased its share substantially. Most of other sectors lowered their shares or changed little. It may be said that the industrial structure of Myanmar has been static throughout the 1990s. The economy is still characterized by the predominant importance of agriculture sector.

On the other hand, there is certainly a perception among people that the Myanmar economy has undergone a visible change. High-rise buildings come up in major cities such as Yangon and Mandalay ; international hotels and shopping malls which are new to the mass, are constructed; streets are crowded with cars and a traffic jam has become an every morning and evening event.

Moreover, with series of economic reforms and transition to market-oriented economy, there was a steady economic development for the period

**Figure 1: GDP Deflator by Different Sectors**




Note: FY 1985 = 1.

Source: ***Review of the Financial, Economic and Social Conditions*** (various issues).

of the four-year plan (1992/93-95/96) with an average annual growth rate of 7.5%, which is certainly high in an agrarian economy such as Myanmar. The success of this plan was due to various factors: private sector development following the liberalization policy; inflow of FDI following the open-door policy; substantial increase of agricultural produce (especially rice) following the introduction of summer paddy; growth of exports following the decontrol of state monopoly of foreign trade; encouragement of tourism and construction mini-boom.

Nevertheless, according to the GDP statistics, it was only the agriculture sector that increased its relative importance in the whole economy. There was a growth in Myanmar economy, but it was an agriculture-led development without substantial industrial structural changes. Contrary to the general understanding of the public, it was not industrialization but agricuturalization that progressed in Myanmar in the 1990s.

Then, why did the agriculture sector raise its share in nominal GDP? First of all, the production of agriculture has increased. For example, the production of paddy, sown area of which occupies more than 40 % of total sown area, increased by 54 percent from 12,956 thousand tons in 1988/89 to 19,888 thousand tons in 1999/2000. The increase is remarkable, however such an increase is achievable with the annual average growth rate of about 4 percent. As shown by the decline in the share of agricultural sector in real GDP, the increases of quantity in other sectors must have surpassed that in agricultural sector.

Second and more importantly, the price hike of agricultural produce contributed to an increase in its relative importance in nominal GDP. As mentioned before, the prices of agricultural produce had increased more rapidly than the average consumer price index. In other words, the terms of trade of agricultural produce over industrial goods improved. In this way, it may be said that the economic welfare of farmers in rural area was more elevated than that of industrial workers in urban area in the 1990s.

This policy contrasts sharply with that of the socialist regime. During the socialist period, the prices of agricultural produce were consistently suppressed well below the market ones, which were de facto subsidies to the urban dwellers. Moreover, external trade was monopolized by the state and the socialist government poured much of export earnings from agricultural produce into import substitution industries mainly located in urban areas.

The military government suddenly abandoned such policies favorable for the urban population and concerns more about the well being of farmers in rural areas. Such a policy change was probably driven by the political and economic crisis in 1988 through the people's uprising against the then government. The military government must have understood the importance of improving the living standards of rural population, which consists of 75 % of national population. The agriculture-rural-favored attitude of the present government was also expressed in their repeated economic slogan, saying "Development of agriculture as the base and all-round development of other sectors of the economy as well".

We can see how rapid and large the prices of agricultural produce increased in Figure 1 and Table 4. The share of agriculture sector in nominal GDP jumped from 40% in 1985/86 to nearly 50% in 1988/89, further reaching its peak of 55% in 1994/95. It may be safely said that food and agricultural prices were adjusted to the market-clearing prices by this time. Since then the share of agriculture sector is on the downturn trend.. Without further reforms such as export liberalization of rice, there will be little prospects for further improvement of the terms of trade of agricultural produce. Then, industrial and services sectors may gradually increase their relative importance in nominal GDP hereafter.

### 3.3 Labor Force

Labor force statistics is another indicator, which is frequently used to see industrial structural changes. It is generally known as Petty-Clark's law that as economic development measured by per capita income progresses, the relative importance of the primary sector in both production and labor force falls and that of the secondary sector, and then the tertiary sector rise.

Table 5 shows changes in labor force distribution by industries. In 1998/99, the agriculture sector occupies more than 60% of total labor force, followed by trade (9.6%) and processing and manufacturing (9.3%). All other sectors occupy less than 5% of total labor force. The pattern of labor force clearly shows the agrarian nature of Myanmar economy. It also shows the very static situation of Myanmar's industrial structure. There are changes of less than one percentage-point in the share of each industry for the period between 1985/86 and 1998/99, which covers the period of transition to market economy. The dynamic structural changes are yet to be observed in Myanmar.

We can calculate each sector's relative productivity (or relative income)

**Table 5 : Estimated Employment in Various Sectors**

**(Unit / %)**

| | FY64 | FY74 | FY85 | FY88 | FY92 | FY94 | FY96 | FY98 | Qungn m Shan (FY85—FY98) |
|---|---|---|---|---|---|---|---|---|---|
| Primary Industry | 66.6 | 69.3 | 65.8 | 65.2 | 68.9 | 67.9 | 66.6 | 65.6 | -0.2 |
| Agriculture | 64.8 | 66.7 | 63.3 | 62.6 | 65.5 | 64.5 | 63.4 | 62.4 | -0,9 |
| Livestock & Fishery | 1.5 | 1.3 | 1.3 | 1.4 | 2-3 | 2.3 | 2.2 | 2.1 | 0.8 |
| Forestry | 0.3 | 1.3 | 1.2 | 1.2 | 1.1 | 1.1 | 1.0 | 1.0 | -0.2 |
| Secondary Industry | 9.0 | 9.3 | 10.8 | 10.9 | 9.6 | 10.8 | 11.7 | 12.4 | 1.6 |
| Energy & Mining | 0.5 | 0.5 | 0.6 | 0.5 | 0.5 | 0.6 | 0.7 | 0.8 | 0.2 |
| Processing and ManufacturtoH | 7.3 | 7.2 | 8.5 | 8.6 | 7.3 | 8.2 | 8.8 | 9.3 | 0.8 |
| Electric Power | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 |
| Construction | 1.1 | 1.5 | 1.6 | 1.7 | 1.7 | 1.9 | 2.1 | 2.1 | 0.5 |
| Tertiary Industry | 15.5 | 16.8 | 19.1 | 19.6 | 18.S | 19.7 | 20.2 | 20.5 | 1.4 |
| Transport and Communications | 3.0 | 3.5 | 3.3 | 3.3 | 2.5 | 2.5 | 2.6 | 2.8 | -0.5 |
| Social Services | 1.7 | 1.8 | 2.3 | 2.8 | 3.2 | 3.2 | 32 | 3.4 | 1.1 |
| Administrative and Other Services | 3.4 | 2.6 | 3.8 | 3.5 | 4.3 | 4.3 | 4.7 | 4.8 | 1.0 |
| Trade | 7.4 | 8.9 | 9.7 | 10.0 | 8.5 | 9,7 | 9.7 | 9.6 | -0.1 |
| Workers n.e.s | 8.9 | 4.6 | 4.2 | 4.3 | 2.9 | 1.6 | 1.5 | 1.4 | -2.8 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | t00.0 | - |

'(Source) Review of the Financial, Economic and Social Conditions (various issues).

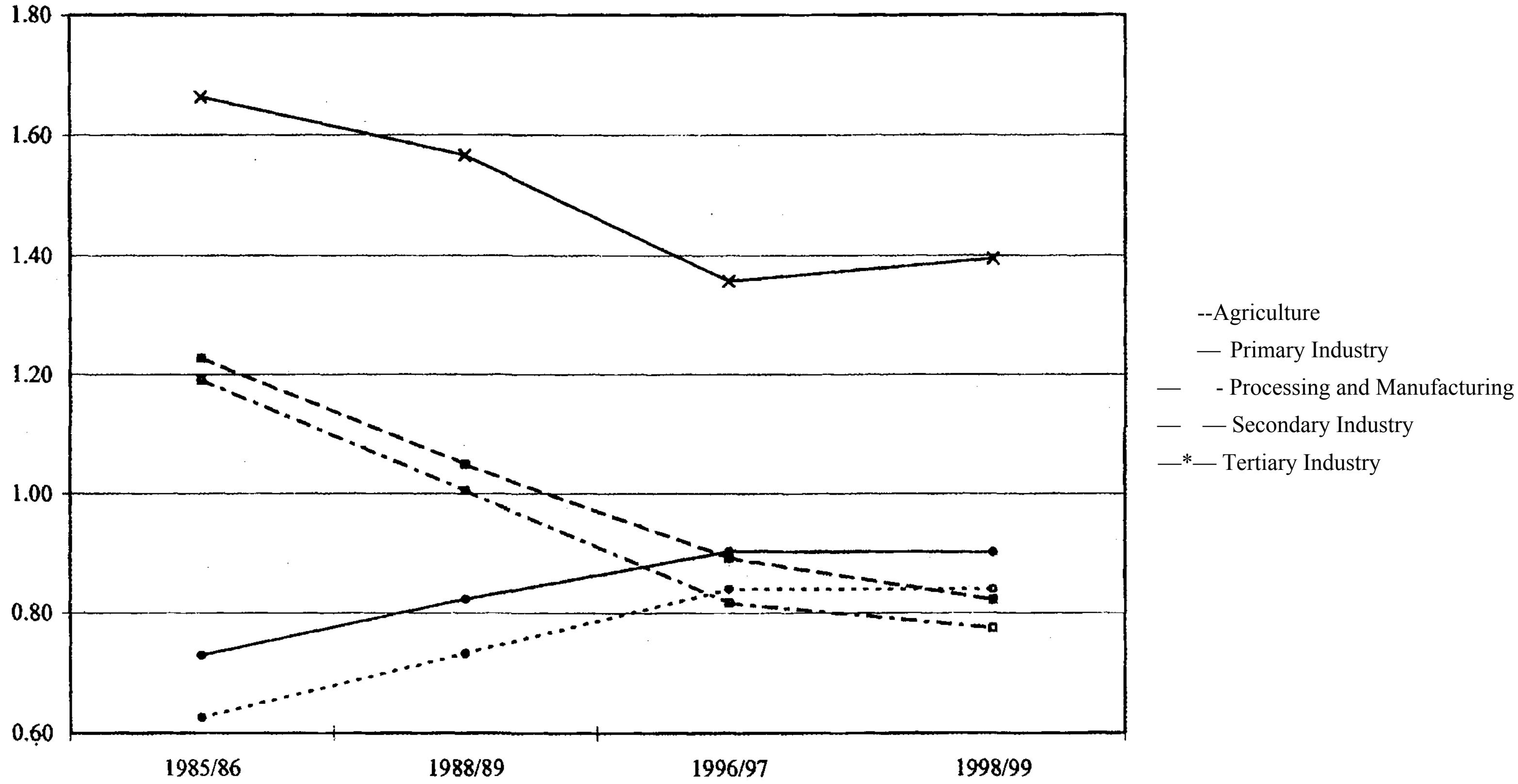
from Table 4 and 5. Relative productivity is the ratio of the labor productivity of an industry (Yi/Li, where Yi stands for income of industry i and Li stands for labor force of industry i) divided by the labor productivity of the whole economy (Y/L, where Y stands for national income and L stands for total labor force). In practice, relative productivity can be calculated as the ratio of the share in nominal GDP (Table 4) divided by the share of labor force (Table 5). This will be shown in an equation as below:

$$(Yi/Li) / (Y/L) = (Yi/Y) / (Li/L).$$

If the figure of relative productivity exceeds 1 in an industry, it means that the industry has better labor productivity than the average. Figure 2 shows relative productivity of major industries and groups of related industries.

While the primary industry including agriculture increased its relative productivity, the secondary industry including processing and manufacturing and the tertiary one decreased their relative productivity. The increase of productivity in the primary industry is mainly due to the improved terms of

**Figure 2 : Relative Productivity of Different Industries**




Note: The average labor productivity equals 1.00.
Source: Calculated from figures in Table 4 and 5.

trade of agricultural produce as explained before.

As contrast to the primary industry, the secondary industry decreased its relative productivity due to the worsened terms of trade of industrial goods over agricultural produce. In addition to this, changes in ownership structure in the secondaiy industry may have also affected the deterioration of its relative productivity. Such factors can be pointed out as the demise of some state-economic enterprises that usually enjoyed relatively high productivity, as well as new entries of small- and micro-sized private enterprises whose productivity is generally lower than that of state economic enterprises.

Another salient feature is the high standard of relative productivity of the tertiary industry, in spite of its downturn trend. This is mainly because of the highest level of labor productivity of trade sector, which composes more than 60 % of the tertiary industry. The relative productivity of trade sector was 2.45 in 1985/86, 2.25 in 1988/89, 2.33 in 1996/97, and 2.50 in 1998/99. In 1998/99, the trade sector occupied 24% of nominal GDP, whereas it composed only 10% in labor force.

The author does not have a clear answer for the question why the trade sector maintains such high labor productivity. One possible reason may be due to the deficiency of labor force statistics. The trade industry may include huge informal sector, which may not be well-recorded in labor force statistics. In any rate, full-fledged industrialization is not observed from either labor force pattern or the trend of relative productivity of each industry.

### 3.4 External Trade

Lastly, let us observe changes in exports and imports. External trade was monopolized by the state in the period of Socialist Programme Party. As soon as the present government seized the power in 1988, they took the open-door policy. In practice, foreign direct investment was allowed to flow into Myanmar after a 25-year-interval; border trade with major neighboring countries was legitimized; and private businesses were allowed to engage in foreign trade. The share of the private sector in exports reached 73 % and that in imports reached 70 % in FY 1999.[2]

According to the government statistics denominated in Kyat, the amount

[2] However, some of the major export items are still under the state monopoly. In principle, rice, teak, petroleum, natural gas and so on could be exported only by State Economic Enterprises (SEEs) and/or JVs with them.

of export grew at an average annual rate of 12.8% and that of import grew at that of 17.1 % for the period between FY 1989 and FY 1997. Indeed, you can feel the affluence of imported goods in daily life. When you go shopping at City Mart, biggest supermarket chains in Myanmar, you will encounter so many imported consumer goods, most of which had been beyond people's reach in the socialist period. According to UNDP's survey on socio-economic conditions of rural area, about 90 per cent of expenditure on non-food and durable-use items spent by the rural population in the sample villages are foreign-origin goods.[3] Imported goods seem to have penetrated into the rural markets as well as urban ones.

Contrary to such facts, external trade's share as of nominal GDP has fallen from 7.4% in FY 1988 to 1.5% in FY 1998 (Provisional Figure). This is mainly because official statistics of external trade is substantially understated due to grossly overvalued exchange rate as well as large amount of unrecorded border trade. Lt-Gen Khin Nyunt, Secretary 1 of SPDC, also admits the huge discrepancies in trade statistics between one recorded by Myanmar authorities and another by Thailand. On the other hand, external trade's share as of real GDP has increased from 12.5 % in FY 1988 to 17.9 % in FY 1998. The figures of real GDP seem to be more consistent with the flooding situation of imported goods into Myanmar.

Table 6 shows the development of exports by commodities. It indicates the predominance of primary products in Myanmar's exports. Export of agricultural produce occupied 55% in FY 1980, which was in the midst of the socialist period. However, it plunged into the record low of 8% in FY 1988, mainly due to the collapse of compulsory procurement system of agricultural produce by the state in the previous year. Under the present military government the share of agricultural produce in total export gradually recovered, reaching 46% in FY 1994. Since then, it has been again on the downturn trend due to the drastic decrease of rice export.

Among agricultural produces, beans and pulses are major export commodities, which have replaced the leading role of rice since FY 1990. While rice export occupied about 70% of total export of agricultural produce ir FY 1985, it plunged into only 2% in FY 1997. Contrary to rice, export of bear and pulses has steadily increased since FY 1990, occupying 70% of total export of agricultural produce in FY 1997. Such an increase was achieved by the price incentives of export markets, which were realized through trade liberalization. This is sharply contrasted to the sluggish record of rice export, which is still monopolized by the state-owned Myanma Agricul-

[3] UNDP, ***An Analysis of Socio-Economic Trends of Rural Myanmar,*** May, 1998.

Table 6: Exports

(Unit: Million Kyat / %)

| | FY80 | | FY85 | | FY88 | | FY89 | | FY90 | | FY91 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Amount | Share | Amount | Share | Amount | Share | Amount | Share | Amount | Share | Amount | Share |
| Agricultural Products | 1761 | 55.4% | 1126 | 43.9% | 128 | 5.9% | 432 | 15.3% | 942 | 31.9% | 1011 | 34.5% |
| Rice and Rice Products | 1355 | 42.7% | 763 | 29.7% | 54 | 2.5% | 266 | 9.4% | 172 | 5.8% | 251 | 8.6% |
| Beans and Pulses | 152 | 4.8% | 238 | 9.3% | 52 | 2.4% | 123 | 4.3% | 515 | 17.4% | 429 | 14.7% |
| Maize | 11 | 0.3% | 15 | 0.6% | 1 | 0.0% | 12 | 0.4% | 13 | 0.4% | 28 | 1.0% |
| Oilcakes | 46 | 1.4% | 32 | 1.2% | 6 | 0.3% | 15 | 0.5% | 11 | 0.4% | 8 | 0.3% |
| Raw Rubber | 82 | 2.6% | 56 | 2.2% | 13 | 0.6% | 8 | 0.3% | 3 | 0.1% | 34 | 1.2% |
| Raw Cotton | 4 | 0.1% | 18 | 0.7% | NA | NA | NA | NA | 0 | 0.0% | NA | NA |
| Raw Jute | 99 | 3.1% | NA | NA | NA | NA | 4 | 0.1% | NA | NA | 0 | 0.0% |
| Other Agricultural Products | 12 | 0.4% | 4 | 0.2% | 2 | 0.1% | 4 | 0.1% | 228 | 7.7% | 261 | 8.9% |
| Animal Products | 13 | 0.4% | 11 | 0.4% | 5 | 0.2% | 3 | 0.1% | 5 | 0.2% | 4 | 0.2% |
| Marine Products | 82 | 2.6% | 94 | 3.7% | 61 | 2.8% | 114 | 4.7% | 165 | 5.6% | 156 | 5.3% |
| Fish | 58 | 1.8% | 13 | 0.5% | 12 | 0.6% | 0 | 0.0% | 36 | 1.2% | 33 | 1.1% |
| Prawn | 24 | 0.8% | 76 | 3.0% | 46 | 2.1% | 107 | 3.8% | 114 | 3.9% | 119 | 4.1% |
| Other Marine Products | 0 | 0.0% | 5 | 0.2% | 3 | 0.1% | 27 | 1.0% | 15 | 0.5% | 4 | 0.1% |
| Timber | 793 | 25.0% | 1046 | 40.8% | 661 | 30.5% | 891 | 31.4% | 999 | 33.8% | 931 | 31.8% |
| Teak | 721 | 22.7% | 982 | 38.3% | 600 | 27.7% | 798 | 28.2% | 740 | 25.0% | 668 | 22.8% |
| Hardwood | 72 | 2.3% | 64 | 2.5% | 61 | 2.8% | 93 | 3.3% | 259 | 8.8% | 263 | 9.0% |
| Base Metal and Ores | 190 | 6.0% | 114 | 4.4% | 70 | 3.2% | 68 | 2.4% | 72 | 2.4% | 48 | 1.6% |
| Precious Minerals | 105 | 3.3% | 74 | 2.9% | 60 | 2.8% | 87 | 3.1% | 86 | 2.9% | 54 | 1.8% |
| Silver | 64 | 2.0% | 13 | 0.5% | 10 | 0.5% | 4 | 0.1% | 5 | 0.2% | 3 | 0.1% |
| Precious Stones and Pearls | 41 | 1.3% | 61 | 2.4% | 50 | 2.3% | 83 | 2.9% | 81 | 2.7% | 51 | 1.7% |
| Garment | 0 | 0.0% | 6 | 0.2% | 8 | 0.4% | 14 | 0.5% | 8 | 0.3% | 59 | 2.0% |
| Other Commodities | 232 | 7.3% | 95 | 3.7% | 1176 | 54.2% | 1205 | 42.5% | 676 | 22.9% | 663 | 22.7% |
| Total Domestic Exports | 3X76 | 100.0% | 2566 | 100.0% | 2169 | 100.0% | 2834 | 100.0% | 2953 | 100.0% | 2926 | 100.0% |

Source: Statistical Yearbook, 1998.

tural Produce Trading (MAPT).

Similarly, export of prawn raised its head from negligible share in the socialist period to the third biggest export item following beans and pulses and teak by FY 1997. These increases of exports of pulses and beans and prawn clearly show how powerful market mechanism is. Moreover, Myanmar's farmers, fishermen and traders are rational and efficient enough to respond to the export markets.

Nevertheless, it should be noted that the present government recently started to intervene in exporting and importing businesses. The government recently restored the compulsory procurement system regarding beans and pulses. Farmers who grow certain kinds of beans and pulses have to sell a portion of their produce to MAPT at a fixed price, which is usually set well below the market price. Likewise, export of sesame was recently re-monopolized by MAPT and some of military-related companies. In addition to these, a portion of foreign currency obtained from export of prawn must be surrendered to the Department of Fisheries of the Ministry of Livestock and Fisheries at a fixed exchange rate, which is often more favorable for the Department than the market rate.

It is not a coincidence that all these commodities of the government's targets for intervention are newly-emerging export items as explained before. The government and SEEs carefully watches markets and look for businesses that are profitable export earners. Then they began to intervene in those industries to squeeze foreign currency. It should be noted, however, that the export of such new commodities increased due to price incentives provided by the export markets. The enhanced government intervention will inevitably distort the markets and reduce price incentives for producers and traders. The government intervention could damage the prospects of export of new commodities.

While agricultural produce accounts for the major share of total export, it should be noted that some of processed and manufactured goods are also emerging as new export goods in the 1990s. Garment presents a good example. Garment export was negligible in F Y 1990, but it increased its share up to 7% by FY 1996, which is the fourth biggest export item in the Table 6. Most of garments are produced on CMP-basis (Cutting, Making, and Packing). Recently both foreign and local companies have vigorously invested in the garment industry. It is said in Myanmar that if you see a new factory, it must be a garment one. To be sure, CMP-based garment projects

[4] See Chapter 4 for details.

are the most vigorous sector in Myanmar's industry.[4]

Export of wood-based products such as plywood, flooring, plaque and furniture are also on the upturn trend, although most of them seem to have been classified in ***Teak*** and ***Hardwood*** in Table **6.**[5] Moreover, some of industrial goods may also be classified in ***Other Commodities,*** which occupied 30% of the whole export in FY 1997. Taking such ***invisible*** industrial goods into consideration, the share of industrial goods in total export could be steadily increasing throughout the 1990s.

Then let us briefly examine the trend of imports by commodity (See Table 7). Import commodities are broadly categorized into three groups, that is, capital goods, raw materials and spare parts, and consumption goods. Immediately after trade liberalization in 1988, the share of consumption goods increased from 12% in FY 1985 to 36% in FY 1988, and up to 46% in FY 1992. It is surprising that food recorded the highest growth rate among consumption goods.[6] Although Myanmar has been a food exporter, it still has to import dairy products, spices, seasoning powders, snacks, ready-made foods, and even edible oil as essentials.

On the other hand, the share of capital goods decreased from 57% in FY 1985 to 29% in FY 1991. It is often the case for the beginning stage of a transition from planned economy to market-oriented one that trade liberalization brings about an increase in import of consumption goods to supply pent-up demands, which had long been suppressed during the socialist period. The share of capital goods bottomed out in FY 1991. Since then it increased considerably, and reached 43% in FY 1997. This recovery reflects industrial development, increased inflows of foreign direct investment as well as strong economic growth for the said period.

However, there is a possibility that import structure may have been changed again from capital-goods-oriented to consumer-goods-oriented after the economic downturn in 1997. It should be noted that import structure would drastically change towards capital-goods-oriented only when a full-fledged industrialization begins in Myanmar.

[5] See Chapter 5 for details.
[6] Except for ***others***, which occupied about 30% of total imports for the period between FY 1988 and FY 1992.

## Table 7: Imports

(Unit: Million Kyat, %)

| | FY80 | | FY85 | | FY88 | | FY89 | | FY90 | | FY91 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Amount | Share | Amount | Share | Amount | Share | Amount | Share | Amount | Share | Amount | Share |
| Capital Goods | 2496 | 53.9% | 2741 | 57.1% | 1407 | 40.9% | 1072 | 31.6% | 1906 | 34.5% | 1571 | 29.4% |
| Building Materials | 394 | 8.5% | 505 | 10.5% | 286 | 8.3% | 250 | 7.4% | 500 | 9.0% | 415 | 7.8% |
| Machinery | 1877 | 40.5% | 1789 | 37.3% | 649 | 18.8% | 397 | 11.7% | 924 | 16.7% | 471 | 8.8% |
| Transport Equipment | 107 | 2.3% | 303 | 6.3% | 426 | 12.4% | 358 | 10.5% | 400 | 7.2% | 638 | 12.0% |
| Others | 119 | 2.6% | 144 | 3.0% | 47 | 1.4% | 68 | 2.0% | 82 | 1.5% | 47 | 0.9% |
| Intermediate Goods | 1863 | 40.2% | 1485 | 30.9% | 814 | 23.6% | 1025 | 30.2% | 1662 | 30.1% | 1523 | 28.5% |
| Raw Materials | 1327 | 28.6% | 982 | 20.4% | 452 | 13.1% | 586 | 17.3% | 1068 | 19.3% | 1035 | 19.4% |
| Fuels | NA | NA | 0 | 0.0% | NA | NA | NA | NA | 0 | 0.0% | 0 | 0.0% |
| Tools and Spares | 536 | 11.6% | 503 | 10.5% | 362 | 10.5% | 439 | 12.9% | 594 | 10.7% | 488 | 9.1% |
| Consumer Goods | 276 | 5.9% | 576 | 12.0% | 1223 | 35.5% | 1298 | 38.2% | 1956 | 35.4% | 2243 | 42.0% |
| Durables | 95 | 2.1% | 273 | 5.7% | 85 | 2.5% | 79 | 2.3% | 231 | 4.2% | 223 | 4.2% |
| Food | 54 | 1.2% | 64 | 1.3% | 12 | 0.3% | 29 | 0.8% | 109 | 2.0% | 168 | 3.2% |
| Textiles | 20 | 0.4% | 62 | 1.3% | 22 | 0.6% | 23 | 0.7% | 34 | 0.6% | 39 | 0.7% |
| Medicines | 74 | 1.6% | 122 | 2.5% | 43 | 1.3% | 75 | 2.2% | 95 | 1.7% | 121 | 2.3% |
| Others | 33 | 0.7% | 56 | 1.2% | 1060 | 30.8% | 1092 | 32.2% | 1488 | 26.9% | 1692 | 31.7% |
| Grand Total | 4635 | 100.0% | 4802 | 100.0% | 3443 | 100.0% | 3395 | 100.0% | 5523 | 100.0% | 5337 | 100.0% |

Source: Statistical Yearbook, 1998.

## Table 7: Imports (Contd.)

(Unit: Million Kyat, %)

| | FY92 | | FY93 | | FY94 | | FY95 | | FY96 | | FY97 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Amount | Share | Amount | Share | Amount | Share | Amount | Share | Amount | Share | Amount | Share |
| Capital Goods | 1750 | 32.6% | 2777 | 35.1% | 2914 | 35.0% | 3645 | 35.4% | 4714 | 40.0% | 6172 | 43.3% |
| Building Materials | 591 | 11.0% | 508 | 6.4% | 472 | 5.7% | 1067 | 10.4% | 1395 | 11.8% | 1749 | 12.3% |
| Machinery | 395 | 7.4% | 824 | 10.4% | 1100 | 13.2% | 798 | 7.7% | 1489 | 12.6% | 2537 | 17.8% |
| Transport Equipment | 723 | 13.5% | 1364 | 17.2% | 1251 | 15.0% | 1626 | 15.8% | 1681 | 14.3% | 1543 | 10.8% |
| Others | 41 | 0.8% | 82 | 1.0% | 91 | 1.1% | 153 | 1.5% | 149 | 1.3% | 344 | 2.4% |
| Intermediate Goods | 1128 | 21.0% | 2128 | 26.9% | 1854 | 22.3% | 2377 | 23.1% | 3046 | 25.9% | 3350 | 23.5% |
| Raw Materials | 764 | 14.2% | 1817 | 22.9% | 1547 | 18.6% | 2015 | 19.6% | 2645 | 22.5% | 2840 | 19.9% |
| Fuels | 0 | 0.0% | 3 | 0.0% | 4 | 0.0% | 4 | 0.0% | 6 | 0.1% | 2 | 0.0% |
| Tools and Spares | 364 | 6.8% | 308 | 3.9% | 304 | 3.6% | 358 | 3.5% | 395 | 3.4% | 508 | 3.6% |
| Consumer Goods | 2487 | 46.4% | 3018 | 38.1% | 3564 | 42.8% | 4280 | 41.5% | 4019 | 34.1% | 4735 | 33.2% |
| Durables | 231 | 4.3% | 238 | 3.0% | 340 | 4.1% | 735 | 7.1% | 744 | 6.3% | 616 | 4.3% |
| Food | 612 | 11.4% | 842 | 10.6% | 1189 | 14.3% | 1605 | 15.6% | 758 | 6.4% | 1514 | 10.6% |
| Textiles | 56 | 1.0% | 170 | 2.1% | 312 | 3.7% | 294 | 2.9% | 449 | 3.8% | 742 | 5.2% |
| Medicines | 14 | 0.3% | 24 | 0.3% | 17 | 0.2% | 20 | 0.2% | 151 | 1.3% | 186 | 1.3% |
| Others | 1575 | 29.3% | 1745 | 22.0% | 1706 | 20.5% | 1627 | 15.8% | 1918 | 16.3% | 1678 | 11.8% |
| Grand Total | 5365 | 100.0% | 7923 | 100.0% | 8332 | 100.0% | 10302 | 100.0% | 11779 | 100.0% | 14257 | 100.0% |

Source: Statistical Yearbook, 1998.

## 4. IMPACT OF ECONOMIC REFORMS ON OWNERSHIP PATTERN: EMERGENCE OF PRIVATE SECTOR

In order to see industrial structural changes, it is also important to examine changes in ownership pattern, especially in transition from centrally-planned economy where state sector is a major player, to market-oriented economy where private sector is expected to play a major role. Myanmar is also a transitional economy. In this section, the author will examine impacts of economic reforms on ownership pattern.

### 4.1 GDP

Economic reforms of the military government began with the open-door policy and the recognition of private businesses. The government announced its Foreign Investment Law in November 1988 and opened her doors to foreign investment after 25-year-interval. It also announced the State-owned Economic Enterprises Law in March 1989, in which the Law conferring powers for Establishing the Socialist Economic System, 1965 was repealed. In other words, the military government officially renounced the Burmese Way to Socialism by this law.

The State-owned Economic Enterprises Law stipulated the twelve economic enterprises that SEEs continue to monopolize.[7] By stipulating the twelve enterprises exclusive for SEEs, the government conversely allowed the private sector to enter the other fields. In other words, the industrial policy for the private sector's participation in national economy changed from "banned in principle" to "allowed in principle".

Under the industrial liberalization and open-door policy, the private sector has gained momentum. Table **8** shows the real GDP by industry and ownership. Thus far the author mainly used the figures of nominal GDP to see industrial structural changes. However, the figures by industry and ownership are available only in real GDP. Therefore, the author uses the figures

[7] Those are: (a) extraction of teak and sale of the same in the country and abroad; (b) cultivation and conservation of forest plantation; (c) exploration, extraction and sale of petroleum and natural gas and production of products of the same; (d) exploration and extraction of pearls, jade and precious stones and export of the same; (e) breeding and production of fish and prawns in fisheries which have been reserved for research by the Government; (f) Postal and Telecommunications Service; (g) Air Transport Service and Railway Transport Service; (h) Banking Service and Insurance Service; (i) Broadcasting Service and Television Service; (j) exploration and extraction of metals and export of the same; (k) Electricity Generating Services other than those permitted by law to private and co-operative electricity generating services; (1) manufacture of products relating to security and defence which the Government has, from time to time, prescribed by notification.

**Table 8 : Relative Importance of Different Sectors in Real GDP by Ownership**

| | 1986/87 | | | | 1998/99 | | | | (Changes in Shares of Private Sector | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share | State | Co-operative | Private | Share | State | Co-operative | Private | Changes | Major Factors for Changes |
| I Goods | 61.3% | 11.9 | 5.3 | 82.7 | 59.6% | 11.4 | 1.4 | 87.2 | 4.5 | |
| 1 Agriculture | 40.3% | 0.1 | 6.4 | 93.4 | 34.5% | 0.2 | 1.9 | 97.9 | 4.5 | Decontrol of trade of agricultural produce |
| 2 Livestock & Fishei | 7.3% | 1.3 | 2.6 | 96.2 | 7.2% | 0.3 | 1.1 | 98.6 | 2.5 | Development of private enterprises |
| 3 Forestry | 1.3% | 38.0 | 4.4 | 57.6 | 1.0% | 46.2 | 0.6 | 53.2 | -4.4 | Strengthened conservation of forests |
| Primary Industry | 49.0% | 1.3 | 5.8 | 92.9 | 42.7% | 1.3 | 1.8 | 97.0 | 4.1 | |
| 4 Energy | - | - | - | - | 0.2% | 99.9 | 0.1 | 0.0 | - | Entry ban by SEE Law |
| 5 Mining | 0.9% | 89.8 | 2.2 | 8.0 | 1.6% | 10.8 | 1.0 | 88.2 | 80.2 | Provision of mining concession |
| 6 Process & Manufacturing | 9.2% | 41.6 | 4.2 | 54.2 | 9.2% | 28.2 | 0.9 | 70.8 | 16.6 | Development of SMIs |
| 7 Electric Power | 0.5% | 100.0 | 0.0 | 0.0 | 1.0% | 99.9 | 0.1 | 0.0 | 0.0 | Entry ban by SEE Law |
| 8 Construction | 1.7% | 88.3 | 1.0 | 10.8 | 4.9% | 45.8 | 0.2 | 54.0 | 43.2 | Dvpmt of private firms & mini-boom |
| Secondary Industry | 12.4% | 54.0 | 3.4 | 42.6 | 16.9% | 36.9 | 0.7 | 62.4 | 19.9 | |
| II Services | 15.5% | 60.6 | 2.5 | 36.9 | 19.3% | 54.5 | ±6 | 43.0 | 6.1 | |
| 1 Transportation | 3.6% | 36.0 | 4.9 | 59.1 | 4.3% | 29.8 | 1.0 | 69.2 | 10.1 | Development of private enterprises |
| 2 Communications | 0.5% | 100.0 | 0.0 | 0.0 | 1.9% | 100.0 | 0.0 | 0.0 | 0.0 | Entry ban by SEE Law |
| 3 Financial Institutions | 2.6% | 98.9 | 1.1 | 0.0 | 2.0% | 54.8 | 14.4 | 30.7 | 30.7 | Lift of entry ban by LAW |
| 4 Social & Admin Services | 4.8% | 98.8 | 1.2 | 0.0 | 6.8% | 88.8 | 0.5 | 10.7 | 10.7 | New entry to social services |
| 5 Rentals & Other Services | 4.1% | 9.0 | 3.2 | 87.8 | 4.3% | 3.9 | 2.9 | 93.3 | 5.4 | Development of private enterprises |
| III Trade | 23.1% | 33.9 | 13.5 | 52.6 | 21.1% | 21.3 | 2.4 | 76.3 | 23.7 | Development of private enterprises |
| Tertiary Industry | 38.7% | 44.6 | 9.1 | 46.3 | 40.4% | 37.2 | 2.5 | 60.3 | 14.0 | |
| Gross Domestic Product | 100.6Vo | 24.6 | 6.8 | &.6 | 100.0% | 21.8 | 1.9 | 76.5 | 7.7 | |

Note: Real GDP based on 1985/86 constant prices.

Source: ***Statistical Yearbook*** (various issues); ***Review of the Financial, Economic and Social Conditions*** (various issues).

of real GDP for this section. (Table 8)

First of all, you may notice with a glance at the table that the private sector accounted for nearly 70% of the whole GDP even in FY 1986, which was in the midst of the socialist regime. This high ratio of the private sector as of GDP in Myanmar sharply contrasts with those of Central and Eastern European transitional economies, where the state played a major role in the economy during the socialist period.

The high participation of the private sector in Myanmar's economy was largely due to the fact that most of the agriculture sector, the biggest industry that accounted for 40% of real GDP in FY 1986, has long been categorized as the private sector in GDP statistics.

However, it should be noted that even though the private sector contributed more than 90% of agriculture sector both in the socialist period and at present, the private sector's reality is substantially different between two periods. The agriculture sector was not collectivized, and land holdings remained at the hands of small farmers throughout the socialist period. In this sense, it may not be wrong to categorize the agriculture sector as private one. Nevertheless, farmers were under strict state control in those days. They could not grow what they wanted, but they had to cultivate lands according to the government policy and planning. They could not sell freely their products to markets, but they had to sell most of their products to the state at lower prices, which were unilaterally fixed by the government, than market ones. Fanners could not enjoy a freedom of management in those days.

The government decontrolled the trade of main agricultural produce in November 1987, which had long been monopolized by the state under the socialist regime. Since then, fanners have become able to sell their products to markets after selling a portion of their products to the state. Now farmers are getting more responsive to the market; they positively react to the price incentives from the market. Now farmers enjoy a relatively larger freedom of management compared to the socialist era. In this way, even though the agricultural sector has been continuously categorized as "the private sector", the real situation is totally different between before and after 1988.

Secondly, contrast to agriculture, some sectors were largely occupied by state-owned enterprises even in FY 1998. Energy, Electric Power, Communications, and Social and Administration Services were almost monopolized by the state. The state controlled the substantial shares of Forestry, Construction and Financial Institutions as well. Many of such industries that were monopolized or dominated by the state are on the list of twelve industries exclusive for SEEs. But there exists an exceptional clause that with a view to the interest of the state private business enterprises may be allowed to enter the twelve industries in the form of joint-venture with SEEs or even in the form of pure private ownership.[8] Accordingly, many private companies including foreign ones invested in the twelve enterprises. Large-scale foreign investments in Yadana and Yetagon natural gas exploration provide good examples. On the other hand, although entry ban to the industries such as Forestry, Construction, Financial Institutions was lifted, there remain large-scale SEEs in those industries. This is why the shares of the state in those industries remain considerable.

Thirdly, the shares of the private sector increased in all industries except Forestry. In spite of remaining entry barriers and other restrictions, the private sector positively reacted to the industrial liberalization. The participation of the private sector increased particularly in Mining, Construction and Financial Institutions.

The government provided mining concessions to private enterprises in order to enhance production and to obtain revenue. The share of private sector in Mining rose from 8.0% in FY 1986 to 88.2% in FY 1998. As for Construction, private construction companies have mushroomed with construction mini-boom, which started in the early 1990s and burst by mid-1997. Some of business groups have been forged with such construction companies. Regarding the sector of Financial Institutions, although it was one of the twelve enterprises exclusive for SEEs, the establishment of private financial institutions was allowed by the Financial Institutions of Myanmar Law, enacted in July 1990. According to this Law, 20 private banks have been established since 1992.[9] The private sector's share in GDP rapidly increased from zero by 1991 to 30.7% in FY 1998. In terms of deposit outstanding, the private banks occupied 66% of total deposit as of the end of last year.

The shares of private sector are also increasing in the sector of Trade, the second biggest contributor to the GDP, and the sector of Processing and Manufacturing, the third largest one. All these figures point out the active participation of private sector in the national economy. As entry barriers

[8] Section 4 in the State-owned Economic Enterprises Law, 1989.
[9] However, foreign banks are not yet allowed to operate.

and restrictions imposed upon private businesses are lifted, the participation of private sector in economic activities would be further enhanced even in the industries that are still monopolized or controlled by predominant SEEs. Myanmar's private sector is active and efficient enough to respond to the government liberalization policies.[10]

## 4.2 Business Registration

As the private sector plays an enhanced role in national economy, business entities registered with the authorities concerned have also mushroomed. Table 9 shows the number of various kinds of business entities, data of which was collected from various sources such as the Directorate of Hotels and Tourism, the Directorate of Investment and Company Administration and the Directorate of Trade.

There must be overlapping and double counting in the Table 9. For example, Myanmar Companies Limited can be organized according to the Burma Companies Act (1913) and Partnership Firms can be established according to Partnership Act (1932). When these companies or partnerships are engaged in external trade, both of them must obtain export and import licenses from the Ministry of Commerce and they would be counted as exporters and importers as well. In the same way, when you run a hotel, you have to obtain a business license from the Ministry of Hotels and Tourism, i.e. it was counted as Hotel Business in the Table 9. When the hotel run a tourist business, it may be also registered as Tourist Enterprise. Tourist Enterprise and Tourist Transport Business may also be overlapped. Moreover, some of business entities may be just paper companies without doing any actual business. In this way, we have to be careful that there must be overlapping, double counting and empty figures of business entities in Table 9.

Bearing such shortcomings in mind, let us examine Table 9. First of all, there is a significant increase in business entities. The number of various business entities increased by 17 times from 1,776 in total as of the end of FY 1989 to 29,868 as of FY 1997. Of course, all of them cannot be truly ***new*** entries, but some of them already existed and just registered themselves to the authorities concerned according to newly promulgated laws. Nevertheless, it may be safely said that the private sector positively responded to market-oriented policy and started up their businesses.

[10] As for the availability of entrepreneurship in Myanmar, see Chapter 3.

**Table 9 : Number of Registered Exporters, Importers, Limited Companies, Partnerships and Joint-Venture Companies Limited**

| | FY89 | FY90 | FY91 | FY92 | FY93 | FY94 | FY95 | FY96 | FY97 |
|---|---|---|---|---|---|---|---|---|---|
| 1 Exporters | 770 | 1777 | 2102 | 4813 | 6032 | 4277 | 5510 | 7410 | 8931 |
| 2 Importers | 216 | 900 | 1503 | | | | | | |
| 3 Business Representatives | 183 | 480 | 768 | 947 | 1\|25 | 1509 | 1805 | 1981 | 2076 |
| 4 Myanmar Companies Limited | 174 | 816 | 1308 | 2269 | 3401 | 4784 | 6672 | 8814 | 10844 |
| 5 Partnership Firms | 376 | 565 | 727 | 850 | 949 | 1055 | 1108 | 1166 | 1214 |
| 6 Foreign Companies and Branches | 39 | 80 | 133 | 183 | 296 | 442 | 658 | 984 | 1184 |
| 7 Joint Venture Companies Ltd.* | 15 | 18 | 24 | 26 | 40 | 70 | 88 | 106 | 123 |
| (a) SEE and Private Entrepreneurs | 7 | 10 | 12 | 13 | 16 | 17 | 23 | 28 | 31 |
| (b) SEE and Foreign Companies | 8 | 8 | 12 | 13 | 24 | 53 | 65 | 78 | 92 |
| 8 JV Companies Ltd. formed under Foreign Investment Law | - | 14 | 18 | 23 | 32 | 44 | 53 | 66 | 78 |
| 9 Other Organizations | 3 | 5 | 27 | 29 | 31 | 31 | 32 | 33 | 35 |
| 10 Tourist Enterprises | - | - | - | 69 | 145 | 288 | 455 | 573 | 474 |
| 11 Tourist Transport Business | - | - | - | 71 | 287 | 825 | 1283 | 1562 | 1642 |
| 12 Hotel Business | - | - | - | 27 | 72 | 112 | 179 | 266 | 302 |
| 13 Lodging-House Business | - | - | - | 19 | 62 | 102 | 177 | 229 | 198 |
| 14 Tour Guide Business | - | - | - | 87 | 247 | 600 | 1407 | 2124 | 2767 |
| Total | 1776 | 4655 | 6610 | 9413 | 12819 | 14139 | 19427 | 25314 | 29868 |

Note: Total for FY1997 is 29,874 in the original ***Statistical Yearbook*** (1998).
'Excluding those under Foreign Investment Law.
Source: ***Statistical Yearbook*** (various issues).

Second, even though the number of various business entities shows a strong growth until 1996, since then the growth rate declined. The data has not been available after 1998, but the growth of the number of various business entities may have further declined due to economic slowdown.

Third, the so-called formalization of business entities is observed. The share of exporters and importers, which is generally regarded as easy forms of business entities, substantially declined from 55 % in FY 1989 to 30 % in FY 1997. In the same way, the share of partnerships, which is also regarded as easy form of business entities, declined from 21 % to 4 % in the same period. Contrary to these, Myanmar Companies Ltd., formal business entity, increased its share from 10 % in FY 1989 to 36 % in FY 1997. This may be called formalization of business entities.

Lastly, tourism-related businesses recorded a high growth rate. The aggregated share of tourism-related businesses covering from 10 to 14 in Table 9 increased from 3% in FY 1992 to 18% in FY 1997. However, the increased number of registered tourism-related businesses does not necessarily indicate the prosperity of tourism in Myanmar. For example, there are many tour guides who registered themselves with the authority concerned but could not find a job in tourism business due to stagniht tourism in this country. The number of overseas visitors jumped from 170,143 in FY 1995 to 310,298 in FY1996 due to the Visit Myanmar Year campaign, and recorded 345,829 in FY 1998. However, it is on the downturn with 309,418 in FY 1999 and 126,380 for the first six months of FY 2000. The number of tourism-related businesses may have declined since 1997.

### 4.3 Private Manufacturing Firms

Manufacturing sector is particularly important for full-fledged industrialization. In-depth sector-wise analysis in manufacturing sector will be presented in the later chapters in this volume. Here the author would like to provide a brief description of the sector.

Table 10 shows an ownership pattern by size of manufacturing measured by the number of employees. Most of manufacturing enterprises in Myanmar is micro-sized establishments with fewer than 10 workers, which account for 94% in FY 1998. Among them 98% is owned by private entrepreneurs. On the other hand, the state economic enterprises occupy 68% of large-scale factories, which however account for only one per cent of total establishments. Thus, the ownership structure of manufacturing sector in Myanmar is characterized as one with a small number of large-scale state

**Table 10 Factories and Establishments by Number of Workers**

| Number of Workers | State | | Co-operative | | Private | | Total | |
|---|---|---|---|---|---|---|---|---|
| Micro (Below 10) | 719 | 1% | 443 | 1% | 50844 | 98% | 52006 | 94% |
| Small (10-50) | 291 | 11% | 175 | 7% | 2134 | 82% | 2600 | 5% |
| Medium (51-100) | 257 | 55% | 57 | 12% | 150 | 32% | 464 | 1% |
| Large (Over 100) | 309 | 68% | 2 | 0% | 142 | 31% | 453 | 1% |
| Total | 1576 | 3% | 677 | 1% | 53270 | 96% | 55523 | 100% |
| MVA (% as of Total MVA) | 28% | | 1% | | 71% | | 100% | |

Note: The ratios of columns of State, Co-operative and Private are ones as of each row's number of factories and establishments. The ratio of column of Total is one as of total number of factories and establishments.
MVA stands for Manufacturing Value Added.
Source: ***Review of the Financial, Economic and Social Conditions*** (various issues)

economic enterprises producing 28% of total manufacturing value added (MVA), and with a large number of micro private establishments producing 71% of MVA.

Table 11 shows the development of private industries that registered with the Industrial Supervision and Inspection Department of Ministry of Industry (1). According to the Private Industrial Enterprise Law enacted in November 1990, any private industrial enterprises using three horsepower and above and/or ten wage-earning workers and above shall register themselves with the said Department. Then Procedures relating to the Private Industrial Enterprise Law was prescribed on the 1st February 1991. In the Procedures, the authorities concerned requested that existing private industrial enterprises should apply for registration within 120 days from 1st February 1991. If they applied for registration within 120 days, then they would be allowed to continue their production activities before receiving any directive from the Directorate. The number of registration jumped from 27 in FY 1990 to 23,848 in FY 1991 by 883 times. However, the growth of registered number stabilized in the following fiscal year: it increased by only 5.2%, recording 25,081 in FY 1992. It can be said that almost all private enterprises that should be registered according to the Law and Procedures and had intention to do so, had registered by the end of FY 1991. Thus, increases in the figure of registered industries after FY 1992 can mostly be regarded as new entries. (Table 11)

The number of registered private industries increased from 24,117 factories in 1992 to 35,597 in 1999, with an average annual growth rate of 5.7%.

## Table 11: Registered Private Industries by Product Groups

| No. | Description | 1992 | | | | | 1996 | | | | | 1997 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | No.ofEatbts | Employment | Av.No.of Employment | Share in No.of Estbts | Share in Employment | No.of Estbts | Employment | Av.No.of Employment | Share in No.of Estbts | Share in Employment | No.of Estbts | Employment | Av.No.of Employment | Share m No.ofEstbts | Share in Employment |
| 1 | Food Products | 13,406 | 60,537 | 4.5 | 56% | 54% | 22,106 | 92,922 | 4.2 | 63% | 54% | 22,517 | 111,747 | 5.0 | 63% | 58% |
| 2 | Tobacco Products | 130 | 868 | 6.7 | 1% | 1% | 149 | 1,726 | 11.6 | 0% | 1% | 145 | 1,704 | 11.8 | 0% | 1% |
| 3 | Textiles | 1,520 | 10,543 | 6.9 | 6% | 9% | 2,348 | 17,334 | 7.4 | 7% | 10% | 2353 | 17,512 | 7.4 | 7% | 9% |
| 4 | Wearing Apparel | 17 | 230 | 13.5 | 0.1% | 0% | 69 | 8,870 | 128.6 | 0% | 5% | 77 | 9,967 | 129.4 | 0% | 5% |
| 5 | Leather & Its Products | 153 | 645 | 4.8 | 1% | 1% | 231 | 1,232 | 5.3 | 1% | 1% | 236 | 1,319 | 5.6 | 1% | 1% |
| 6 | Wood, Wood Products | 2,571 | 13,797 | 5.4 | 11% | 12% | 2,647 | 16,011 | 6.0 | 8% | 9% | 2,673 | 16,250 | 6.1 | 7% | 8% |
| 7 | Paper & Paper Products | 231 | 973 | 4.2 | 1% | 1% | 250 | 1,133 | 4.5 | 1% | 1% | 252 | 1,160 | 4.6 | 1% | 1% |
| 8 | Publishing & Printing | 251 | 1,048 | 4.2 | 1% | 1% | 280 | 1,223 | 4.4 | 1% | 1% | 276 | 1,212 | 4.4 | 1% | 1% |
| 9 | Coke & Petrol Products | 1 | 3 | 3.0 | 0% | 0% | 5 | 40 | 8.0 | 0% | 0% | 3 | 20 | 6.7 | 0% | 0% |
| 10 | Chemicals & Its Products | 399 | 1,841 | 4.6 | 2% | 2% | 392 | 1,874 | 4.8 | 1% | 1% | 392 | 1,910 | 4.9 | 1% | 1% |
| It | Rubber & Plastics | 637 | 2,969 | 4.7 | 3% | 3% | 722 | 3,951 | 5.5 | 2% | 2% | 700 | 3,919 | 5.6 | 2% | 2% |
| 12 | Other Non-MetaJlic Miner*? Products | 226 | I,OS I | 4.8 | 1% | 1% | 270 | 1,867 | 6,9 | 1% | 1% | 279 | 1,971 | 7.1 | 1% | 1% |
| 13 | Basic Metals | 539 | 2,837 | 5.3 | 2% | 3% | 581 | 3356 | 5.8 | 2% | 2% | 590 | 3398 | 5.8 | 2% | 2% |
| 14 | Metal Products | 661 | 3,179 | 4.8 | 3% | 3% | 1,101 | 5,380 | 4.9 | 3% | 3% | 1,121 | 5,474 | 4.9 | 3% | 3% |
| 15 | Machinery & Equipment | 102 | 424 | 4.2 | 0% | 0% | 353 | 1,580 | 4.5 | i% | 1% | 386 | 1,798 | 4.7 | 1% | 1% |
| 16 | Electrical,Machinery & Apparatus | 293 | 777 | 2.7 | 1% | 1% | 272 | 911 | 3.3 | 1% | 1% | 270 | 935 | 3.5 | 1% | 0% |
| 17 | Radio,TV, Others MFG | 2 | 6 | 3.0 | 0% | 0% | 4 | 17 | 4.3 | 0% | 0% | 5 | 22 | 4.4 | 0% | 0% |
| 18 | Medical & Optical Instruments | 4 | 23 | 5.8 | 0% | 0% | 5 | 27 | 5.4 | 0% | 0% | 5 | 27 | 5.4 | 0% | 0% |
| 19 | Motor Vehicles & Trailers | 2,622 | 8,751 | 33 | 11% | 8% | 2,871 | 10,356 | 3.6 | 8% | 6% | 2,863 | 10,393 | 3.6 | 8% | 5% |
| 20 | Other Transport Equipment | 71 | 300 | 4.2 | 0% | 0% | 103 | 507 | 4.9 | 0% | 0% | 100 | 411 | 4.1 | 0% | 0% |
| 21 | Furniture | 301 | 1,396 | 4.6 | 1% | 1% | 432 | 2,105 | 4.9 | 1% | 1% | 442 | 2,209 | 5.0 | 1% | 1% |
| | Total | 24,117 | 112,228 | 4.7 | 100% | 100% | 35,191 | 172,422 | 4.9 | 100% | 100% | 35,683 | 193,358 | 5.4 | 100% | 100% |

Note: Av.No.of Employment stands for Average Number of Employment.
Figures for 1999 is as of end of September 1999.
Source:Ministry of Industry (1).

## Table 11: Registered Private Industries by Product Groups (Contd.)

| No. | Description | 1998 | | | | | 1999 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | No.ofEstbts | Employment | Av.No.of Employment | Share in No.ofEstbts | Share in Employment | No.of Estbts | Employment | Av.No. of Employment | Share in Naof Estbts | Share in Employment |
| 1 | Food Products | 22,522 | 98,937 | 4.4 | 62% | 53% | 22,152 | 93,957 | 4.2 | 62% | 51% |
| 2 | Tobacco Products | 146 | 1,913 | 13.1 | 0*/. | 1% | 146 | 1,913 | 13.1 | 0% | 1% |
| 3 | Textiles | 2337 | 17,500 | 7.5 | 6% | 9% | 2,093 | 18,158 | 8.7 | 6% | 10% |
| 4 | Wearing Apparel | 98 | 10,187 | 103.9 | 0% | 5% | 160 | 12,863 | 80.4 | 0% | 7% |
| 5 | Leather & *Us* Products | 294 | 1,500 | 5.1 | 1% | i% | 289 | 3,038 | 10.5 | 1% | 2% |
| 6 | Wood .Wood Products | 2,763 | 17,300 | 6,3 | 8% | 9% | 2,756 | 17,243 | 6.3 | 8% | 9% |
| 7 | Paper & Paper Products | 267 | 1,290 | 4.8 | 1% | IV. | 267 | 1,299 | 4.9 | 1% | 1% |
| 8 | Publishing *A* Printing | 285 | 1,268 | 4.4 | 1% | 1% | 285 | 1,268 | 4.4 | 1% | 1% |
| 9 | Coke *A* Petrol Products | 5 | 29 | 5.8 | 0% | 0% | 5 | 29 | 5.8 | 0% | 0% |
| 10 | Chemicals & Its Products | 415 | 2,140 | 5.2 | 1% | 1% | 411 | 2,157 | *52* | 1% | 1% |
| 11 | Rubber & Plastics | 739 | 4,804 | 6.5 | 2% | 3% | 733 | 4,493 | 6.1 | 2% | 2% |
| 12 | Other Non-Metailic Mineral Products | 283 | 2,130 | 7.5 | 1% | 1% | 282 | 2,104 | 7.5 | 1% | 1% |
| 13 | Basic Metals | 608 | 3,408 | 5.6 | 2% | 2% | 607 | 3,691 | 6.1 | 2% | 2% |
| 14 | Metal Products | 1,220 | 6,100 | 5.0 | 3% | 3% | 1,206 | 6,069 | 5.0 | 3% | 3% |
| 15 | Machinery & Equipment | 621 | 2,561 | 4.1 | 2% | 1% | 586 | 3,408 | 5.8 | 2% | 2% |
| 16 | EJectricaLMachinery A Apparatus | 257 | 907 | 3.5 | 1% | 0% | 255 | 900 | 3.5 | 1% | 0% |
| 17 | Radio,TV, Others MFG | 6 | 24 | 4.0 | 0% | *0%* | 8 | 22 | 2.8 | 0% | 0% |
| 18 | Madica] & Optical Instruments | 7 | 30 | 4.3 | 0% | 0% | 7 | 36 | 5.1 | 0% | 0% |
| 19 | Motor Vehicles *A* Trailers | 2,804 | 10,003 | 3.6 | 8% | 5% | 2,802 | 10,275 | 3.7 | 8% | 6% |
| 20 | Other Transport Equipment | 119 | 425 | 3.6 | 0% | 0% | 119 | 500 | 4.2 | 0% | 0% |
| 21 | Furniture | 507 | 2,775 | 5.5 | 1% | \% | 428 | 2,453 | 5.7 | 1% | 1% |
| | Total | 36,303 | 185,231 | 11 | 100% | 100% | 35,597 | 185,876 | *52* | 100% | 100% |

Note: Av.No.of Employment stands for Average Number of Employment
Figures for 1999 is as of end of September 1999.
Source: Ministry of Industry (1).

The growth of Garment (Wearing Apparel) was the highest with a growth rate of 37.8% per annum, which was followed by Machinery and Equipment with 28.4% per annum, Coke and Petro Products with 25.8% and Radio, TV Communication Equipment Manufacturing with 21.9%.

As registered industries increased, their employment also augmented. Here again, Garment Industry recorded the highest growth rate of 77.7% per annum. This was followed by Coke and Petro Products with 38.3%, Machinery and Equipment with 34.7%, Leather and Leather Products with 24.8% and Radio, TV, Communication Equipment Manufacturing with 20.4%.

The average number of workers of Garment Industry exceeded 80 workers per factory, whereas that of all manufacturing industries was just 5.2. As a result, the share in employment of Garment Industry increased from negligible per cent in 1992 to 7% in 1999. As mentioned before, the foreign and domestic companies vigorously invest in Garment Industry and the number of garment factories is estimated to reach 380 by now. It is surely one of the most vibrant industry in Myanmar.[11]

However, apart from the garment industry, the industrial structure shown by Table 11 has not been much changed. Myanmar's industry is still characterized with the extremely large share of agro-based consumer's goods industries and less importance of heavy industries.[12] The upgrading and diversification of industrial sector in Myanmar has not yet to be observed.

## 5. RECENT POLICY DEVELOPMENT: BACKLASH AGAINST LIBERALIZATION?

Although major economic indicators do not reveal drastic industrial structural changes, Myanmar's private sector has demonstrated its resilience, surviving the socialist period, and ability to participate in the national economy when market economy revived. Once equal chances are given to the private sector, it will actively penetrate to economic activities and to contribute to economic development. This is one of our findings in the previous sections.

[11] See Chapter 4 for details.

[12] Although Motor Vehicles and Trailers occupy 8% of total establishments, most ef them are considered to be small and medium repair workshops.

Nevertheless, recent policy trends turned increasingly inward and against market-mechanism, particularly after the Asian currency crisis in mid-***1991.*** The State Peace and Development Council (SPDC) has consciously adopted import substitution and self-reliant, or you may call it even ***survival*** policy. The government started to intervene in many economic activities, and strengthen the state control. The Trade Council, an extra-ministerial committee, is said to be responsible for such policy changes.

The Trade Council was formed in July 1997, with General Maung Aye, Vice-Chairman of the SPDC as Chairman, and with Minister for National Planning and Economic Development as Secretary. The Trade Council has laid down important policies not only on external trade but also on other economic affairs. These policies include export first (import against export earnings) policy; limit on non-essential imports; 10% export tax; advanced purchase of beans and pulses for export; advanced purchase of cotton; market-price-based taxation on imported vehicles; import restrictions of motor vehicles; monthly grant for palm oil import; lowered FEC limit on overseas bank transfer; strengthened revenue collection from MIC-approved projects; inspection of under-priced import invoices and so forth. A number of these may be motivated to capture foreign exchange earnings for the government budget.

Foreign companies are also getting to face more and more difficult business environment under such policy changes. Some foreign investors are said to request relaxation on economic controls to the authorities concerned. However, responses from the authorities to such requests are largely stereotyped and not with commitment. For example, the Myanmar Investment Commission often describes the Foreign Investment Law of 1988 as a most liberal and encouraging investment act, which admits 100 % foreign-owned investment and provides attractive tax incentives. Theoretically, it is even comparable to those of senior ASEAN members. However, as far as they use the existence of this law as excuse and do not listen to the voices of foreign investors, they will never address the deep-seated structural problems, which are real impediments to the inflow of foreign direct investments.

Moreover, the military holding companies, Myanmar Economic Corporation (MEC) and Myanmar Economic Holdings Ltd. (MEHL), which are extensively engaged in the manufacturing sector, are exerting increasing influence over business activities. The State-owned Economic Enterprises Law of 1989 was intentionally amended in 1997 to make it possible to establish a 100% militaiy-owned company. Military-related companies themselves are not necessarily harmful to economic development. However, it would become harmful if they were provided with special favorable treatments by the government, and damage the idea of level playing fields for every economic actor. Such arbitrary favoritism, if provided for the military holding companies, may send a bad signal to the business circle that the government could change even the rules of the game.

In addition to these military holding companies, the government has started to embrace so-called national entrepreneurs. It is said that they have been given preferential treatments in doing business.[13] Favoritism and corruption has been epidemic and become a serious problem in some developing economies. On the contrary, the successive governments of Myanmar have taken pride in being clean even since the socialist period. Nevertheless, it is also true that transitional economies from centrally-planned to market-oriented tend to suffer from the problems of favoritism and corruption, because they often lack legal and institutional foundations for functioning of free and fair market economy.

We should note that once such a business environment was created as personal connections to the authorities, rather than management skills and technical merits, are the most important factors for business success, then it would be difficult to provide sound economic incentives to entrepreneurs of ability, and hence they would lose their confidence on policy environment.[14] Then emerging enterprises and entrepreneurs as well as foreign potential investors may well divert their interests to other economies, or just chase for windfall profits through rent-seeking activities. In order to prevent Myanmar would head for so-called crony capitalism, it is important for the government to lay down a level playing field where all economic actors can play and compete with each other in a free and fair manner.

## 6. CONCLUDING REMARKS

This chapter outlined a series of liberalization programs implemented under the present government (SLORC/SPDC), and assessed the impact of them on industrial structural changes. Major economic indicators did not

[13] The Asiaweek reported as an account of a businessman, saying ‘To do business in Myanmar, you need to know how to play the game. Rule No.l: Get along with the junta—— Rule No.2: Only Rule No.l matters.” *{Asiaweek,* February 23,2001, p. 24.)

[14] See also U.S. Embassy, ***Country Commercial Guide,*** September 2000.

show significant structural changes in Myanmar's industries. The country still can be described as a predominantly agricultural economy.

Nevertheless, we observed the resilience and vitality of private sector in Myanmar. They positively and swiftly reacted to market-oriented policy of the government, and penetrated into fields where market economy revived. They are ready to play a more significant role in the national economy, once they are given opportunities. This situation contrasts with some of other transitional economies, where lack of entrepreneurship seriously hinders the private sector from playing enhanced role in economic development. On the contrary, Myanmar has a big advantage of having entrepreneurs of ability and vitality. They would make its transition toward market-oriented economy much easier and smoother. Players are ready.

Therefore, public policy does matter whether it can make the most of such players in economic development or not. Then the question comes back to the one in the section two: Can we be fully confident of the present government's commitment on transition to a genuine market economy, which guarantees level playing fields for every economic actor?

Here again, we should look back Myanmar's history on industrial policy. Every government to date since independence, either civilian or military, and either democratic or socialist, has approached the problem of the private sector with great concern and trepidation. Whenever they wanted to accommodate and integrate the energy of private enterprises into the national economy, the socialist philosophy, anti-capitalist attitude, control-prone disposition and xenophobia based on the bitter colonial experiences provided obstacles, with the redefinition of the role of the private sector being left vague and halfway.

The transition to market-oriented economy in the 1990s seems to be a historical exception. The various reform measures taken by the military government apparently show their strong commitment toward a full-fledged market economy. The author calls the present transformation of the economy the ***Third Wave,*** and assures himself that it has been the biggest wave of liberalization in Myanmar's industrial history.[15] Compared with the previous two waves, which the author thinks occurred in the latter half of the 1950s and in the mid-1970s, the present regime has committed itself much

[15] See Toshihiro Kudo, "Industrial Policy in Myanamr: Lessons from the Past" in ***Industrial Development and Reforms in Myanmar: ASEAN and Japanese Perspectives,*** (Bangkok, The Sasakawa Southeast Asia Cooperation Fund, 1999).

more clearly to market economic principles and the enhanced role of the private sector.

Nevertheless, the history still exhibits a reserve to be fully confident in government policy toward a market economy. Recent backtracking of economic reforms is certainly something to be worried. It would be necessary for the military government to commit itself again to such ideas as open markets, free competition, transparency, accountability, consistency, level playing field, freedom of information and rule of law, which are the foundations for a free and fair market-oriented economy. Without the government's commitment to those ideas, the private sector would never be confident on public polices, and as a result, the full-fledged investments would never be forthcoming.