

MYANMAR: WILL FOREVER FLOW THE AYEYARWADY?

by Khin Maung Kyi

INTRODUCTION

When Myanmar (then known as Burma) attained its independence in 1948, international agencies identified it as one of the most promising regional candidates for economic take off. Its modern technical and university education system, high rate of literacy, well trained civil service and a cadre of educated middle class, basic infrastructure, and a well run legal system were considered as good ingredients for Myanmar's expected take off. In the 1950s, Myanmar's gross domestic product (GDP) was growing consistently at an annual average rate of over 4 per cent, in contrast with the chequered performance of its neighbours. In the early 1960s, the country was poised for labour intensive industrialization with a number of textile and consumer product firms manufacturing export quality goods. Then came the *putsch* and the socialist revolution, followed by stagnation and decline. Twenty six years passed before Myanmar finally erupted and the change to market economy was forcibly brought in. Myanmar is now in the throes of the struggle for modernization and change. With the military still holding on to the reins of power on the one hand and the contending democratic opposition and the ethnic groups with diverse claims and interests on the other, Myanmar has not come out of its pains of growing up, to meet the challenges of the outside world.

This paper will review significant developments and changes in 1993 and re examine the complex of situations influencing its sluggish economic performance and the equally slow rate of political transformation. Myanmar's problems and prospects for long term development and modernization are also analysed.

THE ECONOMY IN GRIDLOCK

Performance of the Economy in the Year 1992/93

While most of the wearisome indicators such as budget deficit, money supply, inflation, adverse balance of trade remain on the rising trend, improvement in the rate of GDP growth provides a

ray of hope for a possible arrest of the downward slide of the economy.

The provisional growth rate of GDP in 1992/93 over the previous year 1991/92 was 10.9 per cent, a marked improvement over the average growth rate of 1.5 per cent over the previous four years. As shown in Table 1, this growth rate of 10.9 per cent principally comes from 15 per cent growth in agriculture, 13.7 per cent growth in industry, and 10 per cent growth in trade, all forming a large percentage of the total makeup of GDP. The expansion of the total acreage of paddy, especially summer paddy, accounts for the growth in agriculture. The revenues of state economic organizations rose by 30 per cent, probably through the realignment of prices and also through some increment in output. The increase in trade by 10.3 per cent is probably the ultimate result of improvement in agricultural production, which generates all other activities in chain. The sustainability of this rate of growth is very doubtful since the growth rate is calculated on a very low base year and other fundamentals have not changed. Furthermore, these are provisional figures for 1992/93 and the practice of scaling down previous figures in the final estimates has been very common in the past. In addition, unless there is sustained growth in the coming few years it cannot be presumed that it is a break from the stagnant past.

Potential foreign investors exploring possibilities have increased and deals have been struck on hotel, oil and gas projects. But long term industrial investments are not forthcoming yet. The total amount of foreign investment promised or initialled in 1992/93, according to provisional figures, amounted to US\$900 million, compared with the US\$4,076 million received by the compatriot socialist market economy of Vietnam in 1993. In Myanmar, the largest foreign investor happened to be its immediate neighbour, Thailand, with 19.3 per cent of total foreign direct investment in Myanmar.

TABLE 1
Myanmar: Growth Rates of the Economy and Its Sectors (In percentages)

	1980	1982	1984	1986	1988	1989	1990	1991	1992
Sector	-82*	-84*	-86*	-88*	-89	-90	-91	-92	-93
GDP	7.2	5.0	4.4	-2.6	-11.4	3.7	2.8	-1.0	10.0

Goods	8.8	5.4	4.1	-2.9	-13.3	6.5	2.6	-1.9	13.2
Agri- culture	10.7	5.9	2.8	-3.0	-13.2	5.2	2.0	-3.9	15.2
Forestry	3.8	1.0	5.5	-4.3	-1.6	28.4	8.3	-2.6	5.9
Manufac- turing	7.5	4.3	5.2	-5.0	-15.9	11.3	0.1	-4.1	13.7
Construc- tion	11.6	5.6	5.4	-5.1	-23.4	32.7	35.8	17.1	3.8
Services	7.1	5.2	5.2	3.1	-3.3	-7.5	4.2	4.4	3.7
Trade	3.4	3.8	4.2	-6.5	-12.0	5.3	2.4	-2.6	10.3

* Average rate for two years

Source: "Reports to the Pyi Thu Hluttaw" and "Review of the Financial Economic and Social Indicators"

It should be noted that the US\$900 million only represents the total amount signed in the contracts or the memorandums of agreement and does not indicate the actual amount of inflow to date or the level of activities being carried out. The largest foreign investments fall in the areas of extraction of natural resources, such as gas exploration, timber extraction, selling of fishing rights, and also of development of the tourist industry such as the construction of hotels.

The construction boom in urban areas is quite noticeable. Some of the up-country cities on the border trade route show marked signs of prosperity. Mandalay's city business centre is largely taken over by the Overseas Chinese and Chinese immigrants. Monywa, linked to the Indian border trade, is thriving on trade with India. Varieties of cheap consumer goods are swamping the market, while teak, timber, and agricultural produce are being moved across the border to China.

The productivity of various sectors of the economy remains stagnant. The state industrial sector is facing the possibility of a slow and lingering death with the shortage of raw materials, spare parts, managerial know-how, and fresh capital. Small industries are springing up but are very localized, facing stiff competition from cheap consumer goods from China.

The basic fundamentals have not changed. As illustrated in Table 2, the best achievements in 1993 do not reach the level of 1985/86, the best year before the social upheaval in 1988. The reported increase in rice production still needs to be carefully

looked into, as export figures for rice for the year did not improve and yet the price of rice has gone up to 80 kyat per pyi, much higher than the level in 1991. A recent market report indicates that Chinese rice is being imported and sold in Mandalay and other parts of the upcountry. More surprisingly, it is also reported that rice imported from Bangladesh is sold in border towns in Arakan state.

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TABLE 2
Myanmar: Important Indicators, 1985/86 and 1992/93 (At constant prices)

Indicator	1985/86	1992/93
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In million kyat		
GDP	55,989.3	55,170.1
Agricultural output	22,243.5	21,541.6
Social and administrative services	5,561.4	4,973.1
Consumption	49,531.9	44,264.7
Investment	8,649.5	9,549.5
In kyat		
GDP per capita	1,509.0	1,303.0
Consumption per capita	1,298.0	1,046.0
Investment per capita	233.0	226.0
Net output per worker	3,701.0	3,350.0

Source: "Review of the Financial Economic and Social Indicators"

The prices of basic consumer goods are still rising. In spite of the 25 per cent increase in salaries in the early part of 1992, the urban wage or salary earners are being increasingly squeezed. The unintended consequence of the rapid rate of inflation is that moonlighting by government employees has become very common. Worse still, for government officials who provide services or grant permits to the public, asking for or taking payments for services rendered in their normal course of duty is done with nonchalance and impunity.

It is likely that the seeming prosperity of certain commercial sections of the community is taking place at the expense of the lower stratum. As the total productivity of the economy does not improve, trade takes the form of exporting some of the food items such as fish, prawn, beans and pulses, which the average or low-income earners consume as a mainstay in their diet. In its stead, non-essential consumer items such as electronic and luxury goods, which the wealthier section of the population can afford, are imported. This deliberate policy of deficit spending and the resultant price increases falls heavily on lower-income groups, whose daily essentials have been rising steeply in price in the last five years. Unless productivity can be increased, this disparity between the commercialized group and the great majority of both urban and rural income groups will widen.

Comparative Performance in the Last Five Years

The switch to market economy, practically, began in 1989, an aftermath of social unrest in 1988, and this new experience will have passed the first five years by the end of 1993. It is appropriate at this juncture to review the performance of these five years and draw the likely trends to the future.

During the five-year period, the military leadership, the State Law and Order Restoration Council (SLORC), have tried hard to improve the economic lot of the people. Though these efforts were at times characterized by political expediency, short-term perspective, and half-way measures, the departure from the socialist economic past is unmistakable and the commitment to market economy is irrevocable. The following are the main thrusts of economic activities the new Myanmar Government has pursued during the past five years.

1. Opening up of the economy to the international market, through legalization of private enterprise, encouragement of foreign investments, and introduction of foreign investment law.
2. The construction of infrastructure projects especially roads, bridges, and schools. Also, the reconstruction and renovation of historical monuments.

3. Very recently, a drive for agricultural productivity through the encouragement of second or summer cropping.

However, the actual performance in respect of the total economy is, to say the least, discouraging though a slight ray of hope appeared in the year 1992/93. The following are the results of the five years under the new economic management.

The aggregate performance of the economy and its various sectors hardly moved. The average GDP growth rate for the five years including the best year of 1992/93 during this period remains as a sluggish 1 per cent per year. Sector-wise, the average growth rates of the agriculture, forestry, and manufacturing sectors stand at 1.06 per cent, 7.68 per cent, and 1.02 per cent, respectively, indicating that forestry was the only industry with a higher growth rate, possibly because of the larger number of concessions granted and the higher level of exploitation.

Construction showed a growth rate of 12.2 per cent for the period. This is due partly to the government's emphasis on the construction of roads, bridges, schools, and some other infrastructure projects but principally to the growth of private-sector construction activities quite visible in urban areas such as Yangon, Mandalay, and some large trading towns.

The services sector and the trade sector show abysmal growth rates of 0.3 per cent and 0.7 per cent, respectively. These observations are made on the basis of Table 1, which also show the growth rates of early years of this decade in two-year averages. Unmistakably, growth in all sectors has been declining, with 1992/93 being the only exception. When compared with the average yearly growth rates for the previous decade (Table 3), the last decade, 1981-90, showed a real decline in performance.

Table 4 shows the financial indicators of Myanmar from the years 1986/87 to 1992/93. It clearly illustrates the effects of the fiscal and monetary practices of the government. The budget deficits have been rapidly climbing since 1987/88 though the percentage increases have declined in the last two years, 1991/92 and 1992/93. Currency in circulation, on the other hand, has increased very steeply, at the annual average rate of 45.4 per cent almost consistently in the last five years, from 1988/89 to 1992/93.

In absolute terms the total amount of budget deficit over the last five years, from 1988/89 to 1992/93, was 55.6 billion kyat, principally covered by the increase in the currency in circulation, that is, 40.7 billion kyat. The shortfall was probably financed by bank loans or other financial instruments.

TABLE 3
Myanmar: Average Growth Rates (Base year = 1985)

Sector	1971-80	1981-90	1993/93
GDP	4.7	-0.1	1.00
Agriculture	4.5	-0.3	1.06
Industry	5.8	-0.2	1.02
Services	4.6	0.2	0.30

Source: Calculation based on "Reports to the Pyi Thy Hluttaw" and "Review of the Financial Economic and Social Indicators".

TABLE 4
Myanmar: Annual Rate of Change in Percentage of Financial and Performance Indices. 1987/88 to 1992/93

Year	Total Budget Deficit	Money Supply	Consumer Price Index	Exports
1987/88	54.5	-44.9	-13.2	-33.1
1988/89	82.5	49.9	16.8	30.5
1989/90	23.3	55.6	27.2	29.7
1990/91	24.2	45.9	17.6	4.0
1991/92	15.0	34.9	32.3	-1.0
1992/93	2.7	40.7	21.9	13.0

Since under the new financial management system, state-owned enterprises could borrow money from banks independent of

budgetary allocations, the inflationary pressure is greater than increases in money supply suggest.

The consumer price index (CPI) in Yangon, a measure of inflationary pressure, is rising at an average rate of 21.4 per cent per year. This should be considered a conservative figure, not reflective of actual happenings at the average consumer's level. It should be noted that the CPI may include the subsidized prices of rice distributed to government servants. The price of rice, an important indicator of basic prices in Myanmar, has increased by 6.8 times between 1987 and 1992. In fact, during October 1993 the price of rice went up to 80 kyat per pyi, 17.5 times the price in 1987. On the whole, prices of other commodities such as beans and pulses, and groundnut oil, the other staple items of the Myanmar diet, had increased approximately 2.6 to 3.2 times between 1987 and 1992. (See also Table 5)

The huge increase in the price of rice almost created a problem of crisis proportions. Rice is a staple food for the great majority of the people. It also forms a basic raw material to food-producing industries such as animal feed and fish-breeding industries. Recent press reports indicate that the government has been paying serious attention to this problem.

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TABLE 5
Yangon: Prices of Selected Consumer Goods (In kyat per viss)

Commodity	1985	1987	1989	1990	1991	1992
Rice ngasein* 31.13	4.5	4.55	19.42	11.16	15.91	
Rice emahta* 32.99	4.87	5.38	21.00	13.96	17.90	
Gram (split) 35.89	12.30	11.21	28.77	36.49	38.60	
Pegyi 35.38	7.80	11.50	22.20	26.56	34.79	
Sadawpe 58.88	14.82	20.50	34.03	38.32	55.51	
Groundnut oil 172.00	42.86	65.00	59.89	75.88	146.56	

Sesame oil	41.69	62.00	56.90	67.74	137.62
159.12					

* Rice is measured in pyi (small basket)

Source: "Reports to the Pyi Thu Hluttaw" and "Reviews of the Financial Economic and Social Indicators"

Another important set of indicators is the balance of trade and the quantum of exports during this period. The balance of trade shows increasing deficits throughout the five-year period, with an average deficit of 22.4 billion kyat in the last three years, from 1990/91 to 1992/93. In spite of various efforts to promote exports through the encouragement of private enterprise, exports remained stagnant at about the 2.9 billion kyat level from 1989/90 to 1991/92. Except for forest products, hardwood, beans and pulses, the quantum of exports in other items did not change appreciably. The rice export is limited to a fraction of what had been achieved in the past. Rice export in 1992/93 amounted to 207.7 thousand metric tons, not reaching even the level of ex- port in 1987/88, that is, 303.3 thousand metric tons.

Table 6 illustrates the state of agricultural production during the five-year period under the present government. The table compares sown acreage and yields of all the important crops between the years 1986/87 and 1992/93. It should be noted that although 1992/93 was the best year in agricultural performance during this period, yields for all crops except one single crop, *Pedesein* (a variety of beans), have declined compared with the year 1986. All other years between the two landmark years, not shown here, have consistently declined throughout this period.

TABLE 6

Myanmar: Comparative Sown Acreage and Yield of Main Agricultural Crops.

1986/87 to 1992/93

		Sown Acreage (thousand acres)		Yield* (per acre)	
Crop	Basket Size	1986/87	1992/93	1986/87	1992/93

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Paddy	46lb	11,968	12,603	58.72	57.10
Wheat	72lb	293	341	21.44	12.95
Maize	55lb	442	369	29.10	24.36
Sorgham	62lb	545	496	16.43	11.36
Matpe	72lb	237	518	13.98	11.17
Pedesein	72lb	143	443	7.48	8.12
Butter Bean	69lb	159	92	18.60	14.18
Soya bean	71lb	78	93	11.03	10.29
Gram	69lb	498	451	11.32	9.94
Pesingon	72lb	64	71	10.09	7.76
Groundnut	25lb	1,394	1,251	37.15	32.33
Sesamum	54lb	2,848	3,422	4.12	4.07
Sunflower	32lb	615	477	30.28	20.35
Cotton	viss	471	426	123.49	111.94
Jute	viss	126	137	278.64	202.35

* Cotton and Jute yields are measured in viss per acre. The rest are in basket per acre. Equivalent pounds per basket are shown for each crop.

Source: "Reports to the *Pyi Thu Hluttaw*" and "Reviews of the Financial Economic and Social Indicators"

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Between the two periods, the sown acreage in paddy and other crops has increased by 5.3 per cent and 11.8 per cent respectively. Since the sown acreage approximately indicates the response or interest shown by the farmers to economic stimuli for a particular crop, the higher rate of increase in sown acreage in crops other than rice suggests more responsiveness to non-rice farm products. Another interesting observation is that the proportions of sown acreage among various crops other than rice have changed, which again should be taken as a response to the expectations of market price. The sown acreage in *Matpe*, *Pedesein*, and *Pesingon* have substantially increased. *Matpe* and *Pedesein* are major export items among beans and pulses and *Pesingon* too is an export item probably sold overland to India. On the other hand, one redeeming factor is the rise by 6.1 per cent in the paddy output in 1992/93 over the level of 1986/87. This again was mainly due to the increase in acreage since the yield in 1992/93 is still lower than that in 1986/87. Changes in the output of other crops are likewise due to the shift in acreage rather than change in productivity.

On the whole, in spite of some improvement in the year 1992/93, agricultural production is considered as declining or to say the least, as stagnant. This condition could be partially explained by the fact that the quantum of important inputs such as fertilizers and other agricultural inputs made available to farmers has also declined. The total amount of fertilizer utilized for all crops in 1986/87 was 381,000 tons while in 1992/93 this amount declined to 116,000 tons. The decline in supply of inputs has been consistent throughout this period. Other inputs such as agricultural loans, have increased in kyat amounts but the rate of inflation would have nullified the effects of these increases.

Though these factors contributed to the decline or the stagnant conditions of agriculture, the more fundamental problem is that Myanmar's agriculture, within the existing technology and available land, seems to have reached the production plateau. Modern biotechnology has not become part of agricultural research. Seed development and plant breeding is far behind countries such as Thailand. How much of high-yielding seeds distributed are pure enough to be effective is not known. The irrigation ratio, that is the ratio of net sown area to irrigated area, has remained at 12.5 per cent for the last twenty years. Support facilities such as efficient marketing, ready supply of inputs, market information, access to loans and credit are still limited though the market economy has begun to make some inroads.

All these indicators suggest that production and exports have not responded to market forces as effectively as expected. No substantial change in production, productivity, or surplus for export have taken place in agriculture. The external trade that takes place is confined only to limited amounts of available surplus. It is common knowledge these days that some foreign businessmen go to Myanmar with high hopes of procuring abundant agricultural produce, only to learn to their disappointment that the local businessmen cannot supply the quantity required or conform to the quality standards specified. Moreover, the available surplus cannot be procured, graded, or shipped in time. Quality control is lacking or non-existent. Transport and storage facilities are inadequate. The lack of infrastructure and support is another stumbling block responsible for the slow growth of the export sector.

Problems and Prospects for Future Development

Five years is a reasonable length of time to put in place the basic social framework for facilitating the functioning of a market economy. This has not been achieved in Myanmar over the last five years. Investment laws, rather hurriedly passed in the early stage, were followed by the formation of a few private banks and state-sponsored joint-venture corporations but long-term foreign direct investment in manufacturing or agribusiness areas has not come in. Institutional development measures such as the establishment of a civil service with a fair degree of efficiency and responsiveness, the legal administration system to dispense impartial justice, and development and training of manpower for the next phase of growth were neglected or sidelined. Some roads were built and school buildings constructed, but they were relatively inconsequential in the context of a major need for overhauling and drastic upgrading of the existing system.

Out of the total construction budget of the central government for the last four years, 62.7 per cent was spent on constructing buildings including schools, offices, industrial buildings, dwellings, and so forth. New road construction and renovation and improvement took up 21 per cent and 7.9 per cent, respectively. However, the average physical miles of new roads constructed per year in the last five years amounted to only 103 miles while the average miles of new roads constructed per year since 1961/62 was 603 miles.

With regard to measures to stabilize the functioning of the economy such as the introduction of prudent fiscal and monetary management, performance is woefully short of what is required. On the whole the development of infrastructure and reconstruction of institutions are yet to begin earnestly.

However, Myanmar investment laws and other government rules provide a reasonably attractive package for foreign investors. It is not the lack of incentives but the absence of a basic price mechanism and a social framework that most likely dissuades foreign investors from coming in.

Myanmar's entry to the market was very cautious and hesitant, almost to the point of ineffectuality. Holding on to the highly unrealistic exchange rate of 6 kyat to one U.S. dollar undermines other efforts the government is pursuing to introduce market economy. Importers would have to buy back whatever is available in the market to export so that they can get hard currency. The foreign exchange certificate recently introduced to facilitate the currency market is a poor

substitute as it is costly, cumbersome, and still serves only those who bring in dollars for spending in Myanmar. There is no market for those who wish to buy dollars with kyat for transfers abroad. The repatriation of capital, interest, and dividends are possible only with the permission of the authorities. Under the present exchange rate, any deal that does not earn direct dollar revenue will be very unprofitable in terms of foreign currency. The capital brought in is undervalued at the official exchange rate while profits made will not be allowed to be repatriated at the same official exchange rate. Under this restriction, a potential investor will be discouraged from going into a venture involving a large amount of fixed capital. If a sizeable portion of the product is sold locally it would be more difficult to get the profits out of the country. Only short-term extraction of natural resources such as timber extractions, sea or coastal fishing, or procurement of local produce for export will be favoured.

Apart from exchange control, other controls on the market are still operative. The farmers, particularly rice farmers, have to surrender part of their produce at the very low fixed price. In fact farmers are still subsidizing the urbanized or government employees. Any significant rise in prices in the open market will invite intervention or chastising from high military officials. The local commanders still have the liberty to control the movement of goods in and out of the regions. The control of foreign trade or border trade has been quite extensive. With frequent changes in rules and restrictions and numerous rules to follow, opportunities for corruption are many, resulting in high transaction cost for business.

Another feature that would impede further development of the economy is the government's emphasis on short-term results or expediency in almost all its endeavours. Most important measures taken by the government seem to be quick fixes to relieve some pressing problems at hand. The foreign investment law was introduced rather hurriedly with an overriding desire to help improve the precarious imbalance of foreign exchange. The long-term importance of technological transfer was not recognized and the relevant conditions to that effect were not laid down in the law. In addition, how foreign investments would fit into the long-term industrial development was unclear as there was no clear vision for future development.

The whole pattern of government expenditure suggests that these expenditures are made to address some immediate need to avoid political discontent rather than to increase the

productive level of the nation. Increasing wages and benefits, without an increase in productivity, just to pacify the disquiet of a certain section of the people or to reward some group to secure their loyalty only leads to sharing the existing stock of goods at the expense of the majority. The construction of roads and bridges has long-term benefits but it can be counter-productive if used as a pork barrel for a certain constituency. Border trade was introduced to alleviate the extreme circumstances created by economic isolation from other countries. The terms of trade are unfavourable to Myanmar both ways because it lacks a bargaining position. There is nothing wrong with the logic of cross-border trade as long as the trade takes place in a competitive setting, with such prerequisites as decontrol of foreign exchange, foreign trade banking, and proper trading facilities including quality control.

Timber concessions and the selling of fishing rights are glaring examples of short-term thinking without regard to long-term consequences. How much over-exploitation the concession owners have done cannot be estimated yet. According to Myanmar's trade statistics in 1991/92, approximately 481.3 thousand metric tons of timber was exported. But the real amount may be considerably higher. It should also be noted that Thai deep-sea fishing has always been so efficient and ruthless that by the late 1970s fishing resources were nearly exhausted in the Gulf of Thailand itself. The environmental damage and resource depletion that may have been done by Myanmar's concessions is not known yet.

A major weakness is that the government does not seem to have a conception as to how the economy will merge with markets of the region and the world. Although it is supposed to be only a caretaker or a transitional government, the fact remains that it has stayed in power for five years and intends to have a major role in the future. Hence there is no good reason for the lack of longer-term economic thinking. On the other hand, it is possible that, weary of the socialist planning of the past, the military leadership takes it that the market economy is a form of a *laissez-faire*, a hands-off or a free-for-all policy. But this would be erroneous. All East Asian economies that have developed through the market system have had the calculated and enlightened hand of the government. The economies are developed through the build-up of selective industries that are able to compete in the international market.

The policy of allowing remote regions of the country to be linked with neighbouring economies could have both positive and

negative consequences. Unless these regional developments are tied up with the core development of Myanmar's economy, and these regions themselves establish their own competitive advantage consonant with their own potentials and in conjunction with the pattern of development of the whole of Myanmar, these regions will unwittingly become the hinterland of other countries instead of developing as full partners in regional growth.

Another major problem that will slow down the long-term growth of the economy is the depletion of trained and educated manpower and the deterioration of the educational system. The Myanmar leaders still seem to place much store on the supposedly rich natural resources of the country. However, with the population having increased to 50 million in the 1990s from 16 million in 1940, the man-resource ratio has declined. Even with some introduction of modern technology and some improvement in production since the 1940s, the level of rice production now barely meets the needs of the population. Moreover it should be realized that countries gain competitive advantage not through the richness of natural resources, but through the development of technology and the skills of their work-force. All countries that have developed rapidly in the last two decades followed the route of technological development and the upliftment of skills. The need for skilled manpower will become more pressing as future industries become more and more technology-based and skill-intensive. The idea of inviting labour-intensive industries to be relocated in labour-abundant countries is a tempting option for countries in the early stage of development. This option is a fleeting one since these industries are moving to more labour-abundant countries as the original host countries reach a certain level of development and labour become more expensive. The training of skilled technicians and engineers takes a long time to bring about results, and so far the government has paid scant attention to this need.

The last, though not the least, will be the political stability of the country. Ultimately private investors and donors from international agencies will come forward only if a conducive and stable political climate prevails. The seeming quietness or the acquiescence under extreme social and physical control should not be equated with stability under normal circumstances.

Will Forever Flow the Ayeyarwady?

In Myanmar, in over forty years of post-war political history, momentous events seem to have been precipitated by political rather than economic imperatives: the split of the pre-independent national coalition in 1947, the outbreak of multiple insurgencies after independence, the breakup of the ruling national front in 1958 and the subsequent *coup d'etat* leading to the establishment of the one-party socialist state. When foreign capitalist influences waned after independence, Myanmar did not have any deep-seated economic conflicts. The land nationalization act of 1950 clearly removed any possible remaining contentious social divisions between land-owners and peasants. The failure of the communist rebellion also suggests the absence of an underlying deep economic cleavage in the society. The splits, take-overs, and breakups that characterized the political process were more the outcome of factionalism, personality clashes, and the inherent inability of the Myanmar to work on a give-and-take, conciliatory, or consensual basis among themselves. At this juncture, in the most critical stage of Myanmar's move towards a modern state, finding an amenable political solution acceptable to all major actors has become the central theme again.

Recent Political Events

If events during 1993 can be taken at face value, the ruling authorities can congratulate themselves for their tenacity to hold on and for the turn of events in their favour.

First, the national convention convened for drawing up the constitution, which began early in 1993, has only a minority of elected representatives while groups more amenable to the wishes of the ruling group constitute the rest. Moreover, the military authorities have stipulated a set of six-point guidelines, which among others clearly state the dominant role of the military in the new state system.

In the initial stage, even among these selected groups of delegates a consensus on what topics or headings should be included in the deliberations could not be reached. Since the basic principles of the proposed constitution were not first agreed upon, some topics concerning issues and matters perceived as threatening to their own special interests were disputed by the respective groups of delegates.

What emerged from the sessions of the convention by late 1993 was that the new state structure will embody the following principal characteristics:

1. A republic with an executive president, elected by an electoral college, as the head of state. The presidential candidate must be capable of handling high-level military affairs.
2. The state system will be a Union constituting seven regions and seven states with equal status. Separate executive, judicial, and legislative powers to be shared among the "Union, regions, states, and self-administered areas".
3. A bicameral Union Parliament and separate parliaments for each region and state.
4. Complete autonomy for the military.
5. Nomination by the Commander-in-Chief of military officers to the Union Parliament and all other elected assemblies down to the district level. Also assignment of military officers to executive positions in the administrative hierarchy down to the district level.
6. The statutory right for the Supreme Commander to assume state power in a national emergency, defined as and when disturbances and violence are used to usurp state power, or when there is danger of disintegration of the Union and national solidarity as well as the loss of national sovereignty.

The last three points and the executive presidency were not endorsed by the National League for Democracy (NLD) and the Shan National League for Democracy (SNLD), which together won over 80 per cent of the seats in the 1990 election. They voiced the view that though the important contribution of the military to the stability of the forthcoming state system must be duly acknowledged, in a genuine democracy the elected Parliament should be the supreme state authority. All other groups representing workers, peasants, intelligentsia, civil servants, and selected nationalities, chosen by the ruling authorities went along with SLORC guidelines and came up with principles similar to those described above. In a subsequent plenary session, a synthesis in the form of the aforementioned

principles emerged which will be further elaborated and finalized.

Secondly, a formula for dealing with the ethnic insurrections that have been going on in the name of self-determination for over four decades in Myanmar's peripheral regions has been worked out by the SLORC. It was first used with ex-communist Wa and Kokang ethnic groups and entailed a cease-fire, conversion of the rebel military wing into a local militia, and co-option of rebel leaders as local indigenous leaders. In fact a temporary *de facto* autonomy is granted to these groups, whose members are allowed to reside and do business anywhere in Myanmar.

Apart from Kokang, Wa, and several minor armed ethnic groups, the government has recently reached a cease-fire agreement with the Kachin Independence Organization (KIO) and is likely to conclude a pact along similar lines. This may well have been prompted by China's desire to promote communications and trade links with Myanmar via the Kachin state. As China accelerates its development, Myanmar has increasingly become an important gateway to the sea for southwestern Chinese provinces. Border trade with China is growing very rapidly and as such all these interests have reinforced China's desire to foster an orderly and peaceful atmosphere in the Myanmar-China border area.

The anti-SLORC alliance of armed ethnic groups and other dissidents known as the Democratic Alliance of Burma (DAB) has been much weakened by the KIO's direct deal with the government outside the collective framework previously agreed upon among its members. Earlier, the DAB had laid down the following pre-conditions for any dialogue with the government:

1. The Alliance will only enter into any discussion with the government as a group.
2. All political prisoners must be released before any discussion with the government.
3. Any negotiation or talks will take place in a neutral place outside Myanmar.

It therefore seems that the Karen National Union is now left holding the defunct DAB. Under pressure from both sides of the Myanmar-Thai border where they had been ensconced for decades the Karens finally seem to have relented. They have

expressed willingness to enter into negotiations with the Myanmar Government for political autonomy as part of a collective settlement.

This leaves the non-ethnic democratic opposition groups, the National Coalition Government of the Union of Burma (NCGUB) and students at the border with an uncertain future. The NCGUB, though favourably looked upon by Western and West European governments, did not make much headway in their cause and are likely to be marginalized once armed ethnic conflict with the SLORC ceases.

Thirdly, on the international front, the SLORC has probably scored a favourable stand-off. Some improvements during the year, such as the release of political prisoners and the holding of the constitutional convention elicited some positive expectations even on the part of the Western governments generally antagonistic to the military regime. The waning of the American resolve to push human rights issues and the general disengagement of the United States from the predominant role in international peace-keeping operations also further lessens the possibility of strong sanctions from the Western community.

Emerging Patterns

Strategies are not always explicitly and deliberately devised. Many often emanate from an incremental learning process. Probably in the beginning, when the military leaders took power they just wanted to stave off social chaos as well as the sweeping tide of a people's power revolution. Fear of an imminent disintegration of the armed forces was probably the prime motive behind their action. They were also compelled to promise the holding of multi-party elections as the overwhelming desire of the people could not be ignored. However, as their grip on the situation became stronger, the resolve to ensure the military's continuing role in defining the parameters of power in the future state also strengthened. After successful travails against dissidents and detractors, the original position of safeguarding corporate and individual interests has evolved into one of extending the military's direct participation into the future national political process and governance.

It is now fairly clear that the military have set out to determine the future power configuration by seeking a format that would legitimize their participation while accommodating to some extent the popular demand for democracy. This can be

inferred from the ways in which the national convention has been carried out and the manner in which the ethnic issue was tackled.

Major elements of the emerging strategy can be identified thus:

1. The military will be a dominant and self-perpetuating institution not accountable to the elected or civilian authority.
2. Representative democracy will largely operate in the limited spheres of interest articulation and legislative affirmation of executive decision-making.
3. The economy will be left mainly to the private sector but the military may be involved as a corporate entity as well as individually. Ex-members of and those connected to the military establishment are expected to play an active and significant role in private business. Business practices of the Thai and Indonesian military establishment will probably serve as relevant examples. Such opportunities are expected to contribute towards cohesion and corporate loyalty.

The strategy seems to assume that the border areas, which enjoy a semi-autonomous status, will prosper economically and become integrated within the Myanmar state gradually; while opposition in the Myanmar heartland will wither away as the economy progresses. Groups that still remain intransigent will be "handled" militarily or through persuasion.

The military leadership is probably also making the assumption that with the opening of the economy to international investors and businesses, Myanmar as a whole will prosper, as for other open economies in the region. With more, though limited, participation of elected representatives in public affairs, the economically satisfied and better-off population will eventually not want to pursue the democratic ideal for its own sake. As such, the democratic opposition movement as well as its renowned leader will be marginalized.

Whether such an optimistic scenario materializes will depend upon the following conditions: First, the rate of economic growth will have to be consistently high for a fairly long period, say at least ten years. Second. the fruits of economic progress must be more equitably shared among different

strata of the population. Third, economic and political developments in neighbouring countries as well as developments in the international economy should not impinge too adversely on Myanmar.

Problems and Limits of the Emerging Strategy

As regards conditions for the rapid growth of the economy, the importance of appropriate physical infrastructure cannot be overstated. The existing stock of physical infrastructure is so limited and dilapidated that large-scale international official development assistance (ODA) will be needed. Likewise, technological development and training will require an equally large dose of investment. Retraining adult workers technically and training and educating the youth need time to take effect. Without these improvements, large inflow of private entrepreneurial resources may not materialize.

What Myanmar needs by way of business capital is a large amount of private investment for value-added and growth industries which will tie up capital for a longer period. Such large-scale long-term investment, in turn, will need a stable and open political atmosphere and Myanmar's access to markets in the industrialized world. All these cannot materialize without the goodwill generated by satisfying some of the minimal demands for human rights and representative government. Without substantial improvement in these fields, the flow of assistance and consequently the flow of capital will only be a trickle and Myanmar will not be able to attain a high rate of growth.

The next problem identified is concerned with how the military as an all-encompassing and self-perpetuating institution could overcome systemic failures inherent in the new arrangement and roles assumed under the new supra-organizational doctrine. Myanmar's military grew out of the patriotic struggle against imperialism, both West and East. Its image of self-sacrificing young nationalists in rag-tag uniforms undergoing military training to fight for freedom has lingered on. The term, *Tatmadaw*, Royal Army, was bestowed with fondness and admiration. On the other hand, the image of the wheeling-and-dealing businessman and of official jostling for a larger and larger share of the economic pie does not square well with the traditional ideal of the selfless soldier-patriot. This business role is also in conflict with the military's primary role, namely, professionalism. The greatest danger is that the business or self-seeking role could sow dissensions within the

rank and file of the military establishment itself. If accumulating personal wealth is seen as the goal, even if it is a hidden one, of those in leadership positions, the conflict of interests among themselves could lead to rift and instability. This discord could grow as the democratic opposition weakens or the threat of the contending forces subsides. On the other hand, the military's role as a group with vested economic interests is double-edged in its effects. Its very success in garnering a share in the economic pie will further isolate the military from the general population or become a source of envy for other social groups. Also, the opportunities for corruption will increase under the new arrangement in which the military maintains control over all spheres of state power. The separation of powers is formalized but the military will participate or influence all three branches of government. The decisive power resting with the military may provide stability and continuity but its side-effects could be disastrous.

Another important question is how would Myanmar's military fare in its new dominant but mixed role as a collective decision-maker in the new political set-up. Myanmar's military has had no experience of running the country under relatively pluralistic or permissive circumstances. It has been used to operating as a stern disciplinarian or a top-down decision-maker. Going by the experience of successful East Asian countries, power-sharing among different elites, relatively free flow of information, rational economic decision-making, an efficient bureaucracy, and an impartial and effective legal system are deemed to be basic ingredients of all-round development. It has been repeatedly observed that the wide degree of freedom granted to civil servants and technocrats or insulating them from political pressures in making rational economic choices and effectively implementing them contributed in no small measure to the success of progressive economic policies.

However, in Myanmar since 1962 the role of top civil servants whose experience could be very useful even under the new circumstances, had been down-graded and many of them replaced by loyal cadres who subscribed to the new socialist order. The continuity of the judicial tradition has also been disrupted because only elected representatives could serve as judges under the socialist regime. All this is in sharp contrast with the situation in Indonesia where the military rulers co-opted intellectuals, economists, and other professionals into the ruling group from the outset. In fact, the so-called Berkeley Mafia, a group of able economists, reputedly engineered

the Indonesian modernization-cum-development process. It is difficult to envisage the Myanmar military to radically change its mindset, given its history of "absolutism" or the tradition of "we alone can do" doctrine.

How efficiently can the system be run under the new political set-up of market economy? In successful East Asian states the government usually restricts itself to providing basic services and maintaining law and order and stability. The direction of the economy is guided according to long-term objectives but the operation of the economy is left to the private sector with a minimum of interference from the government. The government in this setting provides effective and efficient service to all including the business community. The reorganization of the bloated bureaucracy, keeping costs down, and operating according to accepted principles of law are considered as requisites for a viable market economy. In fact, the success of one of the best-performing market economies, Singapore, may be attributed in no small measure to these qualities of good government. However, the system likely to emerge in Myanmar will probably be plagued by a number of both external and systematic weaknesses that are counter-productive to the emergence of efficient government organizations.

The first will be the problem of legitimacy on the part of the power-holders, which will make it difficult for them to take unpopular but necessary action, such as the retrenchment of surplus workers. Legitimacy here means not the legal authority which is most likely to be affirmed in a referendum, but moral and emotional acceptance and voluntary compliance on the part of the population regarding the mandate to rule. Lack of wholesale popular support and acceptance will make it difficult for the government to act "lean and mean". We have noted that so far the government has not dealt with the problem of redundancy in the government or the corporatization or privatization of state economic enterprises, which will involve shedding surplus labour. Successful developmental experiences of the newly industrialized East Asian countries show that governments often have to take necessary but unpopular measures for long-term national interest. In such circumstances political legitimacy or strong public support of the government is crucial. To catch up with other economies. Myanmar will have to demand public sacrifice or undertake measures adversely affecting the interests of powerful constituencies. Only a popular government with a strong and genuine mandate or a leader with overwhelming support from the masses will be able to accomplish long-term national objectives.

A second potential weakness is in the new system itself, which seems to emphasize social and political control rather than openness and responsiveness. Military participation in the administration will not be conducive to the development of an independent and efficient civil service, given the habit of the Myanmar military to want to do things its own way. As it is, since the abolition of the old administrative system in the 1960s the administration has functioned only at the beck and call of the power-holders and their agents. Administrative impartiality, the strict rule of law, or the reliability and predictability of administrative actions have lost their relevance. This overwhelming control will not further the re-emergence of an efficient, impartial, and consistent administrative system that is surely needed for an open market economy. Moreover inefficiency due to rent-seeking, high transaction costs, and favouritism could be another systematic weakness that will adversely effect the functioning of the market economy.

In the present state of the economy within the context of the changing world order, an emulation of the Indonesian model dating back to the 1960s is hardly innovative. First, the Cold War confrontation between the super-powers no longer exists, so that it is inappropriate to expect ready support from the great powers for the planned Myanmar system. Everywhere, the military's role is changing and even in developing countries it is moving into a more strategic function rather than continuing as a social controller. Secondly, conditions leading to the introduction of the new system in the two countries are very different. The Indonesian military took power to remedy the social chaos and economic ruin caused by years of mis-rule, whereas in Myanmar's case the military took over to re-establish its authority after a brief period of social upheaval against the long-standing military-socialist regime. Thus a cleavage between the military and the people has occurred unintentionally or unwittingly. Thirdly, in Indonesia the political process for consultation and consensus as well as the mechanism to imbibe them had existed in the form of a national culture. As such, the military conveniently fitted into the setting as a stabilizing force. Unlike in Myanmar, there have been continuity and concord within the state-society nexus. In Myanmar, the polity's demand is for a new political system which every citizen expects to be responsive and representative. Fourthly, the Myanmar people had gone through a long process of different political experiences, and at this juncture they aspire for a new social order which is responsive and representative. It should be noted that the Myanmar polity had experienced five pre-war national elections,

choosing their representatives to assume ever-increasing political powers from 1920 to 1940. Furthermore, after independence there had been five general elections (excluding those under the one-party socialist system), which allowed the choice of representatives in a relatively free and fair atmosphere. The Myanmar people have been exposed to the rule of law, the Western legal system, and democratic values for a long period of time. As such, they are more than ready for representative government at this stage though they will surely recognize that the military could be a pillar for the stability of the democratic state.

With the interplay of such factors in the new set-up, fast economic growth is doubtful. The government's lack of bargaining power and the cash-strapped situation could even lead to economic decisions that may have far-reaching consequences in the long run. The promotion and development of Myanmar's indigenous entrepreneurs and the development of high-value-added industry or labour-intensive and skill-intensive industries will be delayed or neglected. The slow rate of growth coupled with inequitable distribution favouring privileged groups may create a social divide never experienced before in the past. As such, the emerging pattern could resemble the Latin-American or Philippine road to stagnation and social inequity than the East Asian model of prosperity for all.

The most serious matter will be the eventual outcome of the informal granting of semi-autonomous status to the armed ethnic groups in their own territories. In the earlier years, when the neighbouring countries themselves were still economically under-developed, it was the Myanmar heartland, that is, the Ayeyarwady valley, not the periphery, that served as the economic dynamo of the country. In fact, the Ayeyarwady valley was the centre of economic activities. One reason past insurrections in the peripheral states did not succeed was their economic insignificance and geographical isolation. The situation today is different: with the neighbouring countries developing very fast and with the development of regional groupings or growth areas, the peripheries of Myanmar can now thrive economically and politically, confederated to a larger market.

Thus, the present policy of postponing the solution of the Union problem is tantamount to playing with a time bomb. We have to assume that the minority groups too know that the present arrangement is transitional and that they would be eventually "handled" by the central government. In the meantime, because of

border trade, the complementary nature of regional economies, and if the progress of development in Myanmar proper faltered, these regions may grow faster than the Myanmar heartland and become rapidly tied up with the economies of neighbouring countries. The stronger the economic ties between these states and neighbouring countries, the more intractable the problem of ethnic autonomy will be. Will Myanmar's centre be able to "handle" the periphery when it becomes integrated with powerful neighbours?

Conclusion

What attitude the Myanmar military takes towards the problem of development will ultimately influence what strategies they follow. There is the danger that immediate or short-term considerations will take precedence over long-term needs. From the military's point of view, the threat of Myanmar's democratic opposition to the predominant position of the incumbents looms very large. However, in the long run the interests of democratic groups and those of the military will converge or overlap to a great extent. In the short run, the whole political situation appears to be a zero-sum game, whereby one side gains at the equivalent expense of the other. Nevertheless, in the long view, national development is a non-zero-sum situation which benefits all: the economic pie becoming much larger and all having their fair shares.

In fact, impending social and economic changes and attendant threats and opportunities should form the basis of an evolving Myanmar strategy for the future, subsuming short-term sectional interests. In the next twenty to twenty-five years, the following changes can be expected.

First, the Southeast Asian nations will continue to grow at a sufficiently rapid pace along with all other East Asian economies to join the ranks of the NICs. Consequently, region-wide development will take place. Geographical proximity will have an important bearing on development.

Second, while Japan will rejuvenate and maintain its advanced industrial economy, China will emerge as a very powerful industrial power. Both Japan and China will have direct interest in Southeast Asia for its natural resources, as a market for their products, and also as staging areas for some of their transferred industries.

Third, problems relating to the sharing of common natural resources and globalization such as sharing water and fishing rights, exploration of ocean floors, migratory pressures, market access, and transportation are likely to become bones of contention. In this context, Myanmar occupies a very delicate position sandwiched between two giant neighbours, India and China. Myanmar's strategic geography in relation to China also will become more important as China develops. The land-locked southwestern parts of China could have a shorter route to the sea through Myanmar than through Chinese seaports. This also will be thousands of miles shorter than the usual sea route through the Straits of Malacca and the South China Sea. Unwittingly, Myanmar will become a very important variable in the development calculus of southwest China. In addition, with the most favourable land-man ratio within the region, Myanmar could also be a tempting target for spillover migration from its more populous neighbours.

Within this overall context, Myanmar has to carve out its distinctive economic role and national existence for the future. It will have to hitch onto the rising tide of growth in the region and make the best out of its comparative advantage based on its natural resources, human resources and capabilities and its own unique geographic position. Apart from opportunities, serious threats to the very existence of the Myanmar state must also be recognized. Disintegration of the Union through *de facto* integration of peripheral regions with economically dominant neighbours is very real. Through no fault of its own, Myanmar's independent existence can be swept away in an intra- or inter-regional conflict. The remark by an astute observer of the Myanmar scene forty years ago that it should not be surprising if Myanmar accidentally or inadvertently becomes part of China in the next hundred years is still pertinent. Myanmar has to steer its way very nimbly through these uncertain waters and forge its own destiny amidst rapid external changes.

In this new mission, national consensus, reconciliation, and an early agreement among all contending forces for the future course of action is a must for both national survival and renewal. All parties must be convinced that their interests can be served by working together, not against each other. Just as there is a need for a national leader who can marshal overwhelming support to carry out national reforms in a non-contentious way, there will be an even greater role for the military in moulding Myanmar's long-term strategy for national development. Myanmar needs a modernized military, professionally capable of defending its vital interests in the twenty-first

century. It must also be impressed upon all parties that no Myanmar with a balanced frame of mind needs ever question the importance of the military as a stabilizing factor in Myanmar politics. What the ordinary citizen wants is the rule of law and a genuinely representative government with ultimate authority descending from the people. Minorities, on the other hand, are also tired of armed conflict, uncertain status, and impoverished conditions. They are asking for a dignified and definite place in the new Myanmar community of equal and enlightened members. This is the most opportune moment for national reconciliation and reconstruction.

However, this may yet be a barren hope, especially when one contending party is on the seemingly unstoppable ascendancy to power. Myanmar's traditions of *Apyok taik yei* (fight to the finish) could be too strong to be reversed by reason and foresight. We have to bear in mind that things are not what they seem to be in Myanmar. The most elaborate social edifice ever introduced in Myanmar under the socialist regime fell through when the people's long-term interests were not served. Myanmar is prone to alternating between cycles of docile acquiescence and social eruptions. Myanmar's polity is unlike that of the Thais or the Indonesians in the 1960s. The same formula may not work. It should be realized that when the peripheral regions are gone and forests are denuded ruthlessly, the Ayeyarwady may literally dry up, with what remains of Myanmar degenerating to a sub-Sahara stasis. It has been the overwhelming desire of Myanmar citizens for decency, dignity, and self-expression in the matter of national policy. We hope that the scenario painted earlier about Myanmar's road to disaster is never actualized.

There is an urgent need for a national leader who is able to comprehend all these implications and has taken Myanmar's interest to heart: one who commands overwhelming respect and admiration of the whole military as well as the society at large. Only such a leader can bring all parties together to establish a common national destiny and an inspiring mission acceptable to all. Will Myanmar ever reclaim its rightful place in the community of nations, burying all narrow sectional interests? More emphatically, will the Ayeyarwady flow forever?

This thoughtful text by Khin Maung Kyi, published in "Southeast Asian Affairs" 1994, has become a classic among those concerned for the long-term political and economic future of Burma.

Khin Maung Kyi is Senior Fellow at the Department of Business Policy, National University of Singapore. He was formerly Professor at Rangoon Institute of Economics, University of Pertanian, Malaysia, and Associate Professor at the National University of Singapore.